# Management's Discussion and Analysis

Canadian Tire Corporation, Limited

Fourth Quarter and Full Year 2018

# 1.0 Preface

## 1.1 Definitions

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

The financial results for the Retail segment are delivered by the businesses operated by the Company under the Company’s retail banners, which include Canadian Tire, PartSource, Petroleum, Gas+, Mark’s, Mark’s Work Wearhouse, L’Équipeur, SportChek, Sports Experts, Atmosphere, Pro Hockey Life (“PHL”), National Sports, Sports Rousseau, and Hockey Experts.

In this document:

“Canadian Tire” refers to the general merchandise retail and services businesses carried on under the Canadian Tire, PartSource and PHL names and trademarks, and the retail petroleum business carried on by Petroleum.

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

“Consumer brands” refers to brands owned by the Company, which are managed by the consumer brands division of the Retail segment.

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

“Financial Services” refers to the business carried on by the Company’s Financial Services subsidiaries, namely Canadian Tire Bank (“CTB” or “the Bank”) and CTFS Bermuda Ltd. (“CTFS Bermuda”), a Bermuda reinsurance company.

“Helly Hansen” refers to the international wholesale and retail businesses that operate under the Helly Hansen and Musto brands.

“Jumpstart” refers to Canadian Tire Jumpstart Charities.

“Mark’s” refers to the retail and commercial wholesale businesses carried on by Mark’s Work Wearhouse Ltd., and “Mark’s stores” including stores operated under the Mark’s, Mark’s Work Wearhouse, and L’Équipeur names and trademarks.

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

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

“SportChek” refers to the retail business carried on by FGL Sports Ltd., including stores operated under the SportChek, Sports Experts, Atmosphere, National Sports, Sports Rousseau, and Hockey Experts names and trademarks.

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

This document contains trade names, trademarks, and service marks of CTC and other organizations, all of which are the property of their respective owners. Solely for convenience, the trade names, trademarks, and service marks referred to herein appear without the ® or TM symbol.

### 1.2 Forward-Looking Statements

This Management's Discussion and Analysis ("MD&A") contains statements that are forward looking and may constitute "forward-looking information" within the meaning of applicable securities legislation. Actual results or events may differ materially from those forecast and from statements of the Company's plans or aspirations that are made in this MD&A because of the risks and uncertainties associated with the Corporation's businesses and the general economic environment. The Company cannot provide any assurance that any forecast financial or operational performance, plans, or financial aspirations will actually be achieved or, if achieved, will result in an increase in the Company's share price. Refer to section 15.0 in this MD&A for a more detailed discussion of the Company's use of forward-looking statements.

### 1.3 Review and Approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on February 13, 2019.

### 1.4 Quarterly and Annual Comparisons in the MD&A

Unless otherwise indicated, all comparisons of results for Q4 2018 (13 weeks ended December 29, 2018) are compared against results for Q4 2017 (13 weeks ended December 30, 2017) and all comparisons of results for the full year 2018 (52 weeks ended December 29, 2018) are compared against results for the full year 2017 (52 weeks ended December 30, 2017).

### 1.5 Accounting Framework

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

### 1.6 Accounting Estimates and Assumptions

The preparation of consolidated financial statements that conform to IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Refer to section 11.1 in this MD&A for further information.

### 1.7 Key Operating Performance Measures and Additional GAAP and Non-GAAP Financial Measures

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

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

Revenue, as reported in the Company's consolidated financial statements, comprises primarily the sale of goods to Dealers and to franchisees of Mark's and SportChek, the sale of gasoline through Petroleum retailers, the sale of goods to retail customers by stores that are corporately-owned under the Mark's, PartSource, and SportChek banners,

the Company's cost and margin sharing arrangement with the Dealers, the sale of services through the Home Services business, the sale of goods to customers through business-to-business operations including Helly Hansen wholesale operations and through the Company's online sales channels, as well as revenue generated from interest, service charges, interchange and other fees, and from insurance products sold to credit card holders in the Financial Services segment, and rent paid by third-party tenants in the CT REIT segment.

The Company also evaluates its performance based on the effective utilization of its assets. A common metric used to evaluate the performance of core retail assets is average sales per square foot. Comparison of sales per square foot over several periods will identify whether existing assets are more productive by the retail businesses' introduction of new store layouts and merchandising strategies. In addition, Management believes that return on invested capital ("ROIC"), analyzed on a rolling 12-month basis, reflects how well the Company allocates capital toward profitable retail investments. Retail ROIC can be compared to CTC's cost of capital to determine whether invested capital was used effectively. Refer to section 11.3.1 for additional information on Retail ROIC.

Management calculates and analyzes certain measures to assess the size, profitability, and quality of Financial Services' total-managed portfolio of receivables. Growth in the total-managed portfolio of receivables is measured by growth in the average number of accounts and growth in the average account balance. A key profitability measure the Company tracks is the return on the average total-managed portfolio (also referred to as "return on receivables" or "ROR"). Refer to section 11.3.1 for a description of ROR.

Aspirations with respect to retail sales and Retail ROIC have been included in our financial aspirations for three years ending in 2020. Refer to section 5.1 in this MD&A for the financial aspirations, assumptions, and related risks.

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

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

### 1.8 Rounding and Percentages

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

## 2.0 Company and Industry Overview

### 2.1 Overview of the Business

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

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

- shipments to Dealers of Canadian Tire and franchisees of SportChek and Mark's;
- royalties on sales made by franchisees of SportChek and Mark's;
- sales of goods to retail customers of corporately owned stores and wholesale revenue from sales to business customers;

- franchise rent and Dealer property licence fees;
- the Company's cost and margin sharing arrangement with the Dealers;
- sales of gasoline and convenience items at gas bars;
- interest income and service charges on credit card loans receivable;
- merchant and interchange fees on credit card transactions;
- revenue from insurance products sold to credit card holders; and
- rental revenue from third-party tenants leasing space at properties owned by the Company.

Detailed information on the organization and business of the Company can be found in the Company's 2018 Annual Information Form, Section 2 "Description of the Business". The following provides a brief overview of the Company's three reportable operating segments for financial reporting purposes: Retail, CT REIT, and Financial Services.

### 2.1.1 Retail Segment

The Company's retail business results are delivered through the Company's retail banners: Canadian Tire, PartSource, Petroleum, Mark's, and the various SportChek banners; and the newly acquired Helly Hansen business.

**Canadian Tire** is one of Canada's most shopped general merchandise retailers. For over 95 years, Canadian Tire has been Canadians' store for life in Canada. Canadian Tire, best known for the iconic red triangle affixed to every Canadian Tire storefront, offers products and services in the Automotive, Playing, Fixing, Living, Gardening and Seasonal categories. Canadian Tire also operates the specialty automotive hard parts banner PartSource and the specialty hockey banner PHL. Canadian Tire aspires to be "Canada's store" and one of the Canadian consumers' most recognized and trusted brands. As part of its evolution, Canadian Tire now offers many of its products and services for purchase online through its website at www.canadiantire.ca, with in-store pick up and deliver-to-home service for online orders across the entire store network. In addition to Canadian Tire's commitment to strengthening its eCommerce platform, the Company is focused on finding ways to use technology to service and connect with customers.

The 503 Canadian Tire stores across Canada, including approximately 5,620 automotive service bays, are run by independent business owners, known as Dealers. Dealers buy merchandise primarily from CTC and sell it to consumers in Canadian Tire stores or online. The Company supports the Dealers with category business management, sourcing, supply chain management, marketing, financial, and information technology services. Each Dealer owns the fixtures, equipment and inventory of the Canadian Tire store he or she operates and is responsible for the store staff and operating expenses of that store. Each Dealer agrees to comply with the policies, marketing plans, and operating standards prescribed by Canadian Tire, including purchasing merchandise primarily from Canadian Tire and offering merchandise for sale at prices not exceeding those set by Canadian Tire. The Company's arrangement with its Dealers is governed by contracts that came into effect in June 2013, and generally expire on December 31, 2024. Each contract includes guidelines for gross margin and cost sharing, simplified processes to achieve efficiencies and reduce costs, and guidelines to improve Dealer mobility within the network.

**Petroleum** is one of Canada's largest independent retailers of gasoline, with a network of 297 retailer-operated gas bars, including 297 convenience stores and 87 car washes. Petroleum operates under the Canadian Tire and Gas + banners. The majority of Petroleum sites are co-located with a Canadian Tire store as a strategy to drive traffic to the Company's core retail banner stores. The service centres feature a gas bar and an associated convenience store.

**Mark's** provides Canadians with apparel and footwear for everyday work and living by focusing its core business on developing durable and high-quality items that keep Canadians warmer, drier, safer and more comfortable. In addition to its 386 stores nationwide, Mark's offers products for sale through its website at www.marks.com or www.lequipeur.com. Mark's operates under the banners Mark's, Mark's Work Wearhouse and, in Quebec, L'Équipeur. Mark's also conducts a business-to-business operation under its Commercial division selling a variety of its assortment to small and large businesses with a focus on industrial employee needs.

**SportChek** is a national retailer of sporting goods and active wear in Canada focused on helping customers achieve their healthy, active lifestyle. SportChek offers, both in-store and online, a comprehensive assortment of brand-name and Consumer brands products under various banners, with the largest being SportChek, Sports Experts and Atmosphere (others include National Sports, Hockey Experts and Sports Rousseau) offering a full assortment of products through their websites at www.sportchek.ca, www.sportsexperts.ca, www.nationalsports.com and www.atmosphere.ca.

**Consumer brands** is a division of the retail segment which focuses on expanding the retail banners' Consumer brands portfolio, expertise in product development and design, and creating unique and exclusive products. In addition, this division also has responsibility for the identification and acquisition of brands that would be a logical complement or extension to CTC's existing portfolio. Consumer brands include, but are not limited to, Paderno, WOODS, NOMA, CANVAS, Master Chef, Premier, MOTOMASTER, MasterCraft, Denver Hayes, Helly Hansen and Musto.

**Helly Hansen**, acquired in the third quarter of 2018, serves to strengthen the Company's foothold in sportswear and workwear and provides a platform for future growth opportunities internationally. Helly Hansen produces workwear, urban and sports-specific clothing for skiers and sailors. It also produces a wide range of shoes, including casual footwear, winter boots, and shoes for sailing, and other watersports under the Helly Hansen, Helly Hansen Workwear and Musto brands.

**Other foreign operations** supporting the Retail segment include offices in the Hong Kong, Shanghai, Shenzhen, and Vietnam and third-party sourcing service providers in India and Mexico, as well as a dedicated quality check/ assurance and sourcing team in Bangladesh. These offices provide access to foreign manufacturers and import sourcing support for Canadian Tire. Each of Canadian Tire, SportChek, Mark's and Helly Hansen use their own internal resources and third-party logistics providers to manage supply chain technology and the movement of foreign-sourced goods from suppliers to distribution centres ("DCs") and stores. The Company also has a subsidiary that has wholesale operations based in the United States ("U.S."), including warehouse facilities in the state of Washington.

### 2.1.2 CT REIT Segment

CT REIT has a geographically-diversified portfolio of properties which comprises 342 properties located across Canada totaling approximately 26.5 million square feet of gross leasable area. The property portfolio includes single tenant retail properties, multi-tenant retail properties, some of which are anchored by a Canadian Tire store, DCs, a mixed-use commercial property, and properties under development. CT REIT's primary business involves owning, developing, and leasing income-producing commercial properties. CTC holds a 76.2% effective interest in CT REIT.

### 2.1.3 Financial Services Segment

Financial Services issues Canadian Tire's Triangle branded credit cards and insurance. Financial Services supports the Retail business by providing payment settlement services to Canadian Tire, SportChek and Mark's stores as well as at the Petroleum outlets. In addition, Financial Services offers financing options to credit card customers on certain purchases at the various retail banners, and provides the opportunity to earn My Canadian Tire Money at an accelerated rate through purchases on the cards. CTC holds an 80 percent interest in the Financial Services business. The Financial Services business includes Glacier Credit Card Trust - a trust established to help fund the receivables portfolio through the purchase of co-ownership interests used to secure debt sold publically. The credit card portfolio is, in part, funded through various deposit products including high-interest savings accounts ("HIS"), tax-free savings accounts ("TFSA"), and guaranteed investment certificates ("GIC") obtained directly and through third-party brokers.

### 2.2 Competitive Landscape

The Company anticipates that it will face increased competition from new entrants as well as new opportunities from industry consolidation. These challenges and opportunities include but are not limited to:

- U.S. or international retailers that do not have brick-and-mortar stores in Canada but are capturing sales from Canadian customers through eCommerce sites such as Amazon and those belonging to various apparel retailers;
- U.S.-based retailers already in Canada (including Walmart, Costco, Home Depot, Cabela's, Bass Pro Shops, Lowe's, and Nordstrom) that are in the process of expansion or are expected to further expand their store networks in Canada;
- new retailers that may enter Canada;
- vendor-direct online and outlet-store sales channels, including, for example, those operated by global outdoor brands such as Under Armour, Nike, Columbia, Northface, and Arcteryx may pose competition for the Company's consumer brands both domestically and internationally;
- non-traditional market entrants and new technologies such as mobile payments which impact the competitive landscape and credit card industry; and
- retailers partnering with a competing financial institution or negotiating special arrangements with one of the credit card issuers.

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

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

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

For further information on competitive conditions impacting the Company, refer to Section 2 "Description of the Business" of the Company's 2018 Annual Information Form.

## 3.0 Core Capabilities

Management has identified several core capabilities that differentiate the Company, and its businesses and operations, from those of its competitors and add value for its customers. Further information on these capabilities can be found in the Company's 2018 Annual Information Form, Section 2 "Description of the Business" and Section 3 "General Development of the Business".

### Portfolio of Brands and New and Innovative Products

- CTC is committed to being the #1 retail brand in Canada, preparing Canadians for the "Jobs and Joys for Life in Canada".
- The Company's Consumer Brands division, launched in 2016, strengthens the existing consumer brands portfolio by creating new and innovative products that appeal to consumers while actively pursuing acquisitions that will provide long-term growth for the Company.
- The Company's strength in introducing new and innovative product assortments and categories has resulted in brands that have earned a level of credibility that is on par with national brands, sought after by consumers across the country. Examples of these brands include WOODS, Premier, Paderno, Vermont Castings, Golfgreen, NOMA, WindRiver, Dakota, CANVAS, Master Chef, MAXIMUM, FRANK, MOTOMASTER, Denver Hayes, and MasterCraft.
- The Company successfully balances a portfolio of strong national and consumer brands.

### Marketing Expertise

- The Company's centralized marketing function allows CTC to create a "One Company serving One Customer" marketing strategy.
- CTC's breadth of marketing mediums builds brand awareness, customer awareness, and traffic to stores and online. These mediums include weekly promotional flyers in print and digital format across all its banners (Canadian Tire's flyer is one of Canada's most read flyers and is delivered to approximately 12 million households each week), catalogues, radio, television, digital and social media, newspaper and magazines.
- Canadian Tire's paper and digital catalogue known as the WOW Guide, uses innovative technology to bring on-line capabilities to a standard catalogue.
- CTC's brand promise is to become the 'solutions centre' for the "Jobs and Joys of a Life in Canada".
- The Company's commitment to sport provides an opportunity to broaden its reach among key consumer groups and increases the attractiveness of its brand and products to customers.

### Loyalty and Credit Card Program

- Introduced in 1958 as an innovative customer traffic-builder for Canadian Tire stores and gas bars, My Canadian Tire Money is one of Canada's most well-known loyalty programs.
- In 2018, the Company launched the Triangle Rewards program and associated Triangle-branded credit cards, transforming its loyalty program to become Enterprise-wide. The Triangle Rewards program establishes a platform for CTC to acquire and engage customers and promote cross-shopping across its banners. The Triangle rewards program now has over 10 million members and over 2 million active credit card holders.
- With Triangle Rewards, the Company laid the foundation to serve One Customer through the lens of One Company.
- The Triangle Rewards loyalty program provides the Company with valuable customer insights which are used to build more innovative and customer engaging retail strategies, product assortments and marketing programs.

### Dealer Network

- The Canadian Tire Dealer model is unique to the Company and has served both the Dealers and the Company well for more than 80 years by allowing both parties to successfully compete in an ever-changing retail environment.
- The Dealer model is a differentiator from other Canadian retailers and provides the Company with a unique ability to adapt and curate its assortment and experiences to be relevant in each market that Canadian Tire operates.

### Real Estate Expertise

- The Company's portfolio represents one of Canada's largest retail networks, comprising 1,700 locations and approximately 34 million retail square feet.
- The Company's expertise in real estate enables it to consistently identify properties that are ideally situated for future development or redevelopment and to secure high-traffic, sought-after locations for its retail outlets.
- The Company's strong in-house real estate team manages not only the entire retail network of owned and leased properties for all banners but also a significant portion of CT REIT's portfolio.

### Technology Expertise

- CTC is strategically focused on developing technological capabilities that will drive the omni-channel retail experience for its customers.
- Using digital capabilities, CTC is now focusing on areas to drive traffic in-stores and online, drive engagement and conversation to provide personalized experience, drive post-purchase experience with strong customer retention, and enhance digital and in-store experience.
- CTC continues to demonstrate its strength in the design and implementation of powerful analytical capabilities that assist its buying and logistics function and digital search capabilities.

### Global Supply Chain Network

- The supply chain manages the flow of information and products from sources around the globe through sophisticated control tower systems which provide end-to-end visibility of product location and status as well as capacity planning functionality that is used to manage the Company's distribution network, placement of inventory

and to optimize costs. The same functionality is shared with third-party service providers to provide advanced visibility to capacity requirements, secure timely product flow and competitive costing.

- CTC's newest DC, the Bolton Distribution Centre in Caledon, Ontario ("Bolton DC") represents the next wave of distribution automation and technology for the Company. Fixed conveyance and storage automation has been replaced with flexible automated guided vehicles with one of the largest fleets in any retail DC in the world. Tire handling robots streamline the inbound and outbound flow of tires, improving productivity and workplace health and safety. The flexible systems and processes in this DC are designed to be equally productive filling large store replenishment orders and individual customer online orders.
- Online order fulfillment is performed from stores and DCs, supported by leading edge Distributed Order Management (DOM) technology to facilitate timely, cost effective shipments.
- CTC's supply chain is committed to sustainability. Management works closely with the Company's transportation partners to minimize impact on the environment. In recent years, CTC successfully completed the certification of the world's first 60 foot domestic rail container. This container has the capacity to move 14 percent more product than a conventional 53 foot container by rail and road, with similar costs and minimal additional impact on the environment.

### Prudent Credit Risk Management

- Financial Services has more than 25 years experience using sophisticated industry-standard and proprietary credit-scoring models to manage credit card risk.

### World-class Customer Contact Centres

- The Company's commitment to creating lifelong relationships with its customers is reflected in the success of its customer contact centres which have earned five *Contact Centre of the Year* award titles and eleven *Customer Satisfaction* awards over the past decade.

## 4.0 Historical Performance Highlights

### 4.1 Selected Annual Consolidated Financial Trends

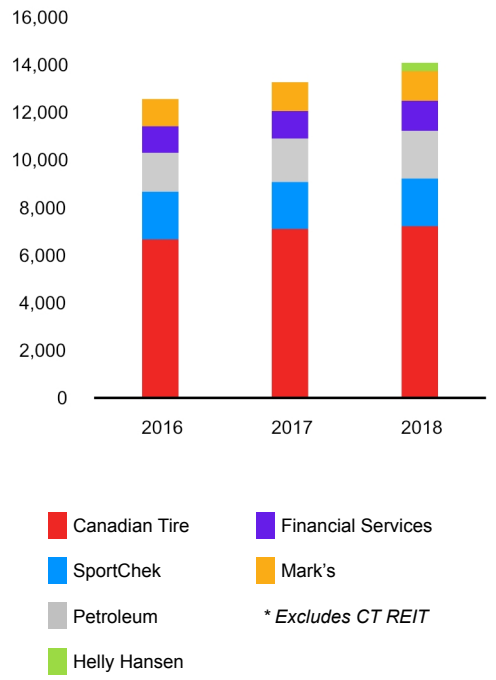
The following table provides selected annual consolidated financial and non-financial information for the last three fiscal periods. The financial information has been prepared in accordance with IFRS.

| (C$ in millions, except per share amounts and number of retail locations) | **2018** | 2017 | 2016 |
|---|---|---|---|
| Consolidated comparable sales growth[1] | **2.2%** | 2.7% | 4.7% |
| Revenue[2] | **$ 14,058.7** | $ 13,276.7 | $ 12,532.4 |
| Net income | **783.0** | 818.8 | 747.5 |
| Normalized[3] net income | **870.4** | 818.8 | 747.5 |
| Basic EPS | **10.67** | 10.70 | 9.25 |
| Diluted EPS | **10.64** | 10.67 | 9.22 |
| Normalized[3] diluted EPS | **11.95** | 10.67 | 9.22 |
| Total assets | **17,286.8** | 15,627.0 | 15,305.6 |
| Total non-current financial liabilities[4] | **7,597.1** | 6,311.8 | 6,027.3 |
| Financial Services gross average accounts receivables (total portfolio) | **6,093.0** | 5,263.9 | 4,911.9 |
| Number of retail locations | **1,700** | 1,702 | 1,702 |
| Cash dividends declared per share | **$ 3.7375** | $ 2.8500 | $ 2.3750 |
| Stock price (CTC.A)[5] | **142.08** | 163.90 | 139.27 |

[1] *Does not include Helly Hansen.*
[2] *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2 of the consolidated financial statements).*
[3] *Refer section 7.1.1 for details on normalized items*
[4] *Includes short and long-term deposits, long-term debt including the current portion, long-term derivative liabilities included in other long-term liabilities, and the redeemable financial instrument.*
[5] *Closing share price as of the date closest to the Company's fiscal year end.*

The three-year trend chart highlights changes in revenue by banner between 2016, 2017 and 2018.

**REVENUE BY BANNER/UNIT***
($ millions)

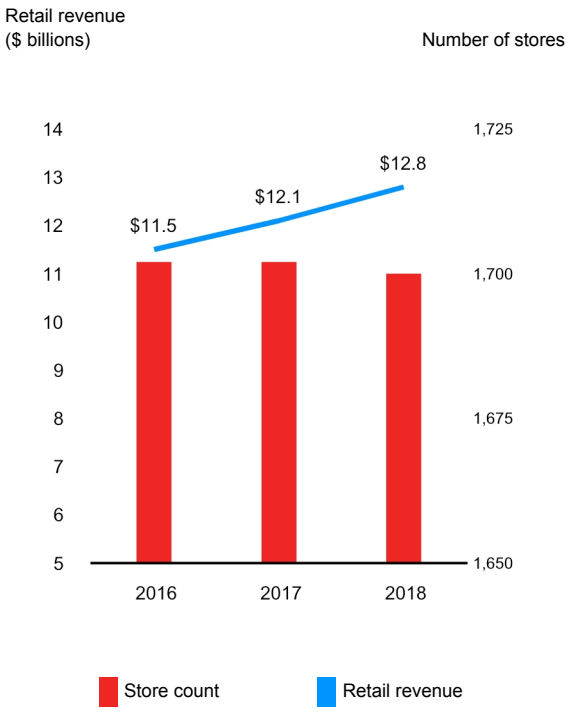



Consolidated revenue has increased steadily over the past three years, achieving a compound annual growth rate (CAGR) of 5.9 percent from 2016 to 2018. This performance reflects:

- Revenue growth across all retail banners, as customers reacted favourably to a strong product assortment and promotions;
- Increased revenue in the Financial Services segment, largely attributable to higher credit card charges resulting from increased GAAR;
- The acquisition of Helly Hansen in Q3 2018;
- Over the past three years, the Company has executed on its strategic initiatives to develop omni-channel retail capabilities, enhancing its online presence, search engine optimization, deliver-to-home, and in-store digital experience; and
- During 2018, the embodiment of CTC's One Company strategy culminated in the launch of the Triangle Rewards loyalty and credit card program.

Retail revenue has increased at a higher rate than store count over the past three years. SportChek continues to convert franchise locations to buying members and, along with Petroleum and PartSource, has closed several under-performing stores in recent years

**STORES AND RETAIL REVENUE**

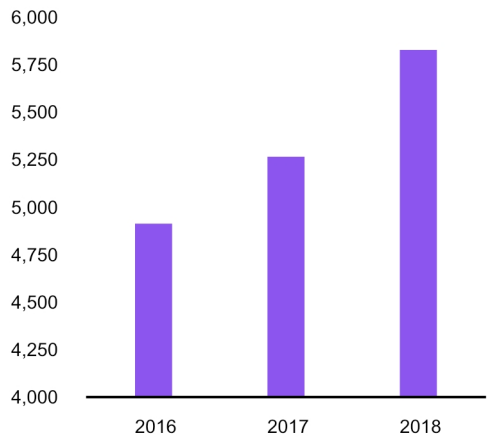


Financial Services GAAR for the total portfolio has increased over the past three years, representing CAGR of 8.9 percent since 2016.

Continued strong growth in the average number of active accounts reflects positive results from the Company's initiatives to stimulate receivables growth and the continued focus on integration initiatives with the retail businesses, including the launch of the Triangle Rewards program and associated credit cards in 2018.

Average account balances and average number of accounts increased since 2016 also due in part to enhanced in-store financing offers for Canadian Tire customers.

**FINANCIAL SERVICES GROSS AVERAGE ACCOUNTS RECEIVABLE**
($ millions)



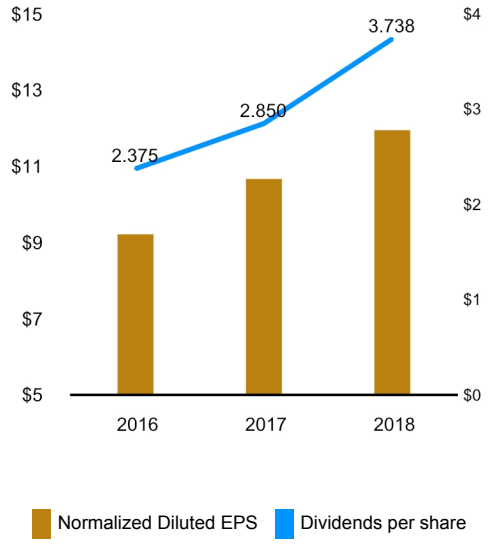

Normalized diluted EPS and dividends declared per share have increased steadily over the past three years, resulting in a normalized diluted EPS CAGR of 13.8 percent since 2016. This reflects:

- strong retail revenue and margin growth across all businesses;
- benefits of operational effectiveness initiatives; and
- the favourable impact of share repurchases;

partially offset by:

- an increase in selling, general, and administrative expenses due to the execution of planned investments in the Company's key initiatives.

**NORMALIZED DILUTED EPS AND DIVIDENDS PER SHARE**
($ per share) (Dividends $ per share)



# 5.0 2018 Financial Aspirations and Key Initiatives

Canadian Tire Corporation and its retail banners: Canadian Tire, PartSource, PHL, Gas+, SportChek, Sports Experts, Mark's, L'Equipeur, and Atmosphere, are among Canada's most recognized and trusted brands. CTC offers approximately 1,700 brick and mortar locations in Canada, some of the most visited digital retail properties in Canada, and a portfolio of world-class products and consumer brands that are sold both domestically and internationally. The Company's Retail business is supported and enhanced by its Financial Services business, its real estate capabilities and CT REIT, and by the impact CTC makes in local communities across Canada, and through Jumpstart.

CTC's vision is to become the #1 retail brand in Canada by 2022, as measured by its customers, shareholders, and employees. The Company's primary focus is serving customers and markets across Canada, while developing new customers internationally. CTC is committed to deepening relationships with its customers and acquiring new customers by strengthening its purpose of preparing Canadians for the "Jobs and Joys for Life in Canada". CTC operates core businesses in Living, Fixing, Playing, Driving, Apparel and Services, and will continue to evolve its unique marketplace of products, brands and experiences over time. In the third quarter of 2018, the Company acquired the international retail and wholesale businesses that own the Helly Hansen brand. Serving both Canadian and international consumers, Helly Hansen produces workwear, urban and sports-specific clothing, and footwear for skiers and sailors under the Helly Hansen, Helly Hansen Workwear and Musto brands. It also produces a wide range of shoes, including casual footwear, winter boots, and shoes for sailing, and other watersports. This acquisition will serve to strengthen the Company's foothold in sportswear and workwear in Canada.

While the role CTC plays in the lives of Canadians is its foundation, the Company is evolving customer experiences and the "how we do it" to stay relevant as the retail market and consumer preferences evolve. Historically, the Company's strategies and plans have been focused on individual retail banners. Looking ahead, CTC will operate as One Company, with strong individual banner brands and a shared platform of services and capabilities aligned to serve One CTC Customer. The Company believes each of its retail banners and brands will be stronger together, as part of a CTC marketplace focused on a common CTC customer. By sharing capabilities, platforms, tools, and data across CTC, all banners and brands will be enabled to deliver unique, personalized, and compelling experiences. The launch of Triangle Rewards, an enhanced enterprise-wide loyalty and credit card program, is one example of how CTC will engage existing customers, acquire new ones, and promote cross-shopping across its banners. The Triangle Rewards program strengthens the Company's marketplace approach and, ultimately, every customer relationship.

## 5.1 Three-Year (2018 to 2020) Financial Aspirations

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

The Company has established its financial aspirations for fiscal years 2018 to 2020. Achievement of these aspirations would contribute to the consistent increase of total shareholder return over the next three years.

The financial aspirations and a discussion of the underlying material assumptions and risks that might impact the achievement of the aspirations are outlined in the following table. In addition, achievement of the aspirations may be impacted by the risks identified in section 12.0.

| **1. Consolidated Comparable Sales Growth (excluding Petroleum) of 3+ percent annually** |
|---|
| Material assumptions:<br>• Individual business units contribute positively to Consolidated Comparable Sales Growth<br>• Sales growth driven by an innovative assortment and an optimized mix of owned and national brands<br>• Customers engaged through compelling loyalty and credit card programs<br>• Customer base will grow across all banners utilizing a 'One Company serving One Customer' strategy<br>• Continued focus on promotional and pricing optimization |
| Material risks:<br>• Pricing pressure driven by growing competition from new and existing market players<br>• Accelerated disruption from eCommerce competitors<br>• Decline in economic growth, consumer confidence, and household spending<br>• The introduction of unfavourable foreign-trade policies |
| **2. Average Annual Diluted EPS[1] Growth of 10+ percent over the three-year period** |
| Material assumptions:<br>• Realization of the Consolidated Comparable Sales Growth aspiration<br>• Successful rollout of operational efficiency programs and initiatives<br>• Continued GAAR growth and positive contribution to earnings by the Financial Services segment<br>• No major changes to the Company's financial leverage and capital allocation approach |
| Material risks:<br>• Risks associated with the Consolidated Comparable Sales Growth aspiration described above<br>• Short-term effect on EPS from the Company's capital-allocation initiatives, including the potential impact of organic and inorganic growth initiatives designed to create long-term growth<br>• Negative impacts due to unfavourable commodity prices, foreign exchange fluctuations, protectionist foreign policies and legislative changes<br>• Adverse economic or regulatory conditions which negatively impact GAAR growth and increases volatility of the impairment allowance for credit card receivables<br>• Lower or lesser contribution from operational efficiencies |
| **3. Retail ROIC of 10+ percent by 2020** |
| Material assumptions:<br>• Realization of Consolidated Comparable Sales Growth and average annual Diluted EPS growth aspirations<br>• Prudent management of working capital<br>• Disciplined approach to selecting growth projects and initiatives which yield improved asset productivity<br>• Effective management of the Company's capital allocation priorities |
| Material risks:<br>• Lower than anticipated earnings growth; refer to risks associated with the Average Annual Diluted EPS Growth aspiration described above<br>• Short-term effects from the Company's capital-allocation initiatives, including the potential impact of organic and inorganic growth initiatives designed to create long-term growth |

The Company's performance in 2018 on the financial aspirations outlined above is summarized in the table below:

| **Financial Measure** | **2018 Performance** | **Achieved/ on-Track in 2018** |
|---|---|---|
| Consolidated Comparable Sales Growth (excluding Petroleum) of +3 percent annually | 2.2% | Not achieved |
| Average Annual Diluted EPS[1] Growth of 10+ percent over the three-year period | 12.0% | On Track |
| Retail ROIC[2] of 10+ percent by 2020 | 9.2% | On Track |

[1] *Based on normalized results*
[2] *Retail ROIC is calculated on a rolling 12-month basis based on normalized earnings. Refer to section 11.3.1 in this MD&A for additional information.*

The Company did not achieve its aspiration for +3 percent sales growth in 2018 due in part to the unseasonable weather in April and December. The Company remains committed to +3 percent consolidated comparable sales growth on an annual basis. The Company is on track to meeting its EPS and ROIC financial aspirations for three years ending 2020. Refer to section 7.0 Financial Performance of this MD&A for details on Company's financial performance in 2018.

## 5.2 2018 Key Initiatives

*The following includes forward-looking information and readers are cautioned that actual results may vary.*

The Company categorizes its 2018 initiatives under five areas of focus and believes that successfully executing each by operating as One Company with a view towards serving the needs of a common customer over a lifetime in Canada, will allow it to achieve both its financial aspirations (section 5.1), and its goal to become the #1 retail brand in Canada by 2022. The Company's strategy to succeed in its brand and product portfolio, its customer experience and financial discipline are supported by its strategies with respect to talent and platforms.

The following is a summary of the Company's strategic initiatives for 2018 along with Management's assessment:

| **Brand and Product Portfolio** |
|---|
| • As a brand and product-led Company, continue to introduce new, innovative, and improved product assortments and categories across the retail banners and Financial Services business, demonstrating the Company's commitment to preparing Canadians for the "Jobs and Joys for Life in Canada".<br>• Through the Consumer Brands division, strengthen the consumer brands portfolio organically and by selectively pursuing acquisitions to complement key categories. |

The Company is committed to being a "brand and product-led" organization providing customers with the best portfolio of world-class products and brands. Management believes that the strength and value of the Company's brands are directly correlated to the strength of its business results. Successful achievement of the initiatives within this area of focus will ensure that the Company's brands are supported and enhanced in the eyes of its customers and other key stakeholders and that the Company offers products that support Canadians throughout their lifetime.

Management continues to execute its plan to grow the consumer brands portfolio in Canada and achieve a competitive mix of owned and national brands. During 2018, the Company invested in product design and development capabilities to expand existing consumer brands, including WOODS, Paderno, NOMA, CANVAS, Maximum, MOTOMASTER, Denver Hayes, Shambhala, and Dakota, among others, and to develop the newly acquired Vermont Castings, Golfgreen and Sher-wood brands, adding thousands of new products, unique designs and features. In addition, the Company's acquisition of Helly Hansen adds a premium international brand to its Canadian portfolio and expands its business model to international markets. In 2018, the Company announced a partnership with Petco, a leading global pet speciality retailer, to exclusively offer a variety of products online and in stores, marking its entrance into the premium pet category. The Company also announced a partnership with Husky Energy, under its Triangle Rewards program, which broadens the reach of the Triangle Rewards program in western Canada.

As a retailer committed to delivering quality products for life in Canada, Canadian Tire continued to expand the Tested for Life in Canada program through 2018. The number of products tested is growing everyday through a panel of over 80,000 testers. Feedback received from real Canadians is helping Canadian Tire ensure we are delivering quality and value. In 2018, Canadian Tire grew its customer research panel to over 180,000 people. This in-house platform allows the Company to conduct hundreds of online surveys each year with a captive group of its customers across Mark's, SportChek and Canadian Tire. Feedback from this panel drives customer experience and product improvements, helping Canadians feel confident that they can count on the products and services they purchase across the Company's different banners.

In 2018, SportChek broadened its appeal to consumers through a variety of initiatives. Over 75% of the store network was converted to a category focused merchandising strategy which has allowed the banner SportChek to showcase the breadth of its assortment versus a focus on individual brands. The acquisition of Helly Hansen and the launch of the WOODS and Ripzone consumer brands in outerwear have expanded SportChek's offerings. The new brand positioning, "Find What Moves You" was launched in 2018 and is aimed at all individuals looking to lead an active, healthy lifestyle by turning intent into action. This year's campaign was launched using a multichannel approach that included TV spots, digital video, digital display, billboards, and outdoor advertising. During the year SportChek significantly advanced its new Digital Retail capabilities, which provides customer specific marketing and promotional offers. In 2019 it will continue to broaden its appeal with new assortments available from Helly Hansen, representing

urban and sports-specific clothing for skiers and sailors, an expanded kids assortment, and a wide range of casual and winter footwear. SportChek will make investments in new tools and technology to improve customer service and store productivity.

At Mark's, the reinvention of the brand through the "Well Worn" positioning in the second half of 2017 started to produce results through out 2018 in the form of net new customer growth. A curated assortment focused on durability, strength of character and "wearing it well" has been introduced, and "Well Worn" Shops were featured in all stores in the fourth quarter, in addition to the three pop-up locations that were opened in the prior year. During the year, Mark's also initiated the repositioning of its brand in Quebec, with the tag-line "Equipe pour tout" to align with the newly conceptualized store format, and has renovated 24 stores with the remaining 16 to be completed in 2019. Innovation continues to be an important part of Mark's DNA, focused on keeping Canadians warmer, drier, safer and more comfortable, launching several new innovative products throughout 2018.

| **Customer Experience** |
| --- |
| • Continue to enhance the customers' in-store and digital experience across banners, enabling them to shop how they want, when they want.<br>• Deliver on initiatives to continuously improve the customer experience, informed by direct customer feedback (Net Promoter Score). |

In Q3 2018, the Company completed its national roll-out of deliver-to-home capabilities at Canadian Tire. Now all major banners of the Company deliver to homes in Canada. Additionally, in Q4 2018, Canadian Tire launched several self-serve pick-up towers to facilitate a faster and easier click-and-collect experience for customers. The towers, which are a first of its kind in Canada, allow customers to order online and quickly pick up their orders in-store at a 16-foot self-serve kiosk. The towers are currently installed at five locations across the country in Vancouver, Calgary, Saskatoon and Toronto.

The Company is also testing new pickup options in the Ottawa area, including additional self-serve lockers and automated check-in terminals. Canadian Tire is committed to allowing the customer to shop how they want, when they want.

During 2018, to enhance the customer's in-store and digital experience, the Company significantly advanced its new digital retail capabilities. Using these capabilities, the Company is now focusing on areas to drive traffic in-store and online, drive engagement and conversation that provides personalized customer experience, drive post-purchase experience with strong customer retention, and enhance digital and in-store experience. SportChek has deployed tablets in the stores to unlock the full breadth of the assortment, having all styles and sizes accessible to customers regardless of the store they are shopping in. At Mark's, customer experience was enhanced through a curated assortment focused on hero categories and innovative products, a more inviting store ambiance and the new 'Well Worn' brand positioning.

Net Promoter Score has been established as the key measure of customer experience, across all banners for 2018. During the year, with the launch of the Triangle Rewards program, the Company tested and implemented many of the foundational CTC Marketplace components, and new marketing capabilities like Triangle days across banners, 1:1 marketing and promotional offers, and digital personalization.

| **Financial Discipline** |
| --- |
| • Roll out productivity initiatives designed to increase the sales and profitability of the retail store network and digital properties across all banners.<br>• Utilize a One-Company approach to identify and execute opportunities to improve efficiency in its core functions through process automation and simplification.<br>• Adhere to a disciplined and balanced approach to capital allocation. |

In 2018, a number of operating efficiency initiatives were conducted, with focus on improved demand-forecasting capabilities and linear productivity, using data analytics at the individual store level to drive sales and operational productivity. Considerable runway and further opportunity exists for these and similar initiatives going forward.

The Company also initiated an in-house program to train users from across the Company to create software bots to drive work efficiencies and effectiveness across the organization. The first wave of power users graduated through the online and classroom training portions of the power user program in October 2018 with content that was created and taught by an in-house team.

The Company's centralization initiatives allowed CTC to deliver on the "One Company serving One Customer" aspiration, through centrally-managed supply chain, marketing, information technology, and product and brand development functions.

The Company is committed to allocating capital through a balanced approach. In addition to the allocation of capital to the development of its bricks and mortar and online network, the Company announced, in November 2018, a 15.3 percent increase to the annual dividend from $3.60 to $4.15 per share. The Company also fulfilled its previously stated intention (announced November 2017) of repurchasing $550 million of its outstanding Class A Non-Voting shares and announced its intention to repurchase an additional $300 million to $400 million of its Class A Non-Voting shares by the end of 2019, in excess of the amount required for anti-dilutive purposes.

During the year the Company raised $1,434.2 million by issuing $650.0 million aggregate principal amount of unsecured medium-term notes, Glacier Credit Card Trust ("GCCT") issued $584.0 million of term notes and CT REIT issued $200.0 million aggregate principal amount of senior unsecured debentures, while maintaining its strong investment grade rating. In the fourth quarter of 2018, the Company reduced its interest in CT REIT from 85.5% to 76.2% and CT REIT completed a treasury unit offering, for gross proceeds of approximately $200.0 million and $65.0 million respectively.

| **Talent** |
| --- |
| • Evolve the Company's talent strategy with a focus on developing key talent and expertise in critical areas and on building core leadership capabilities required to execute its long-term strategy.<br>• Continue to enhance the Triangle Learning Academy to support the development of future leaders across the organization. |

Canadian Tire is committed to identifying, attracting and developing a pipeline of talent across all levels of the enterprise. In 2018, the Company made significant strides in moving its talent strategies in key areas such as Talent Assessment and Development, Learning and Employee Engagement.

During 2018, the Company developed or acquired talent across all levels of the organization to accelerate its capabilities in digital retailing, marketing, data analytics, merchandising, and leadership skills. Leaders across the enterprise attended executive education programs. Internal and external speaker forums were held to provide leaders with insights about the changing world of retail to provide leaders with additional context to execute against business initiatives.

In 2018, leaders from across the organization worked with the Talent team to define the key organizational roles to deliver its long term strategy, identify the capabilities and development required to execute these roles, and career paths to move internally across the organization to be successful in these key roles. A new assessment framework was adopted to identify, measure leader capabilities and future potential, and was rolled out to the senior leadership team. It also includes new assessment and development practices which have been quickly integrated into talent and succession planning practices.

In late 2017, the Company launched Triangle Learning Academy ("TLA") an integrated learning approach for its employees to prepare employees for the future of retail. Composed of online programming, learning seminars and workshops, experiential learning and "hands on" team challenges, TLA proved successful in engaging employees

in new learning and training programs. In 2018, TLA delivered over 50,000 learning experiences to employees. Plans in 2019 include expansion of the curriculum to employees and the rollout of the platform to corporate store employees.

| **Platforms** |
| --- |
| • Strengthen the Company's commitment to environmental sustainability, and community support through Jumpstart.<br>• Grow customer engagement through the launch of an enhanced enterprise-wide loyalty and associated credit card program.<br>• Advance business models, processes and technology platforms to support financial aspirations. |

In Q2 2018, the Company officially launched the Triangle Rewards program and associated credit cards. Triangle Rewards offers an enhanced value proposition to customers shopping across the CTC marketplace. It enables members to earn, and redeem electronic My Canadian Tire Money ("eCTM") across multiple CTC retail banners, including Canadian Tire, SportChek, Gas+ (earn only), and participating Atmosphere, Mark's, and L'equipeur stores. In addition, members can also earn eCTM at participating Husky gas stations, which was launched as a strategic partnership later in the year. As part of the Triangle Rewards program, CTB offers Triangle-branded credit cards through which cardholders can earn and redeem My Canadian Tire Money for use across CTC's retail banners and participating stores. Triangle Rewards is a key enabler to achieving sustained cross banner customer engagement and provides valuable insights to better understand customers' shopping habits and build retail strategies, assortments and marketing programs that prepare customers for the "Jobs and Joys of Life in Canada" and create lasting customer relationships. CTC uses customer insights from Triangle Rewards to connect with customers in a more personalized way with approximately seven million customers receiving targeted product and service offers each week. Since launch, CTC has experienced significant growth in new loyalty customer acquisition in both credit card and base loyalty accounts, contributing to a +40% increase in loyalty issuance.

Jumpstart is dedicated to helping kids overcome financial and accessibility barriers to sport and recreation in order to provide inclusive play for kids of all abilities. In 2018, Jumpstart helped approximately 280,000 kids in financial need, supported by a network of over 1,900 community partner organizations across Canada. In September 2017, Canadian Tire Corporation announced the Play Finds a Way movement, an unprecedented $50 million fundraising commitment over five years to Jumpstart Charities, to give Canadian kids with disabilities greater access to sport and play. One of the signature programs of Jumpstart's 'Play Finds A Way' movement is the inclusive playground project, which builds ground-breaking and gold standard playgrounds for inclusive play across Canada. Working closely with local municipalities and our Canadian Tire Dealer network, 2018 saw the opening of four universally accessible playgrounds ranging from 10,000 sq. ft. to 15,000 sq. ft. Cities include Calgary, Winnipeg, Toronto and Charlottetown, with Prince Albert scheduled to open in Spring 2019.

In 2018, the Company also reset its strategy, increased the number of its initiatives and developed targets for its Sustainability program. The Company continues to be recognized as a Sustainability leader through independent environmental, social and governance ratings. Refer to section 14.0 of this MD&A for our environmental footprint accomplishments.

Continued investments in technology platforms that support One Company initiatives including data and analytics remained an area of focus for the year.

## 6.0 2019 Key Initiatives

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

The Company established its financial aspirations for fiscal years 2018 to 2020, as mentioned in section 5.1 of this MD&A. Based on these, for 2019 (year two of the three year strategic plan), Management will focus on the following key initiatives:

**Brand and Product Portfolio**

- Continue to introduce new, innovative and improved product assortments and categories across the Retail banners and Financial Services business, demonstrating the Company's commitment to preparing Canadians for the "Jobs and Joys for Life in Canada".
- Strengthen the consumer brands portfolio organically and by selectively pursuing acquisitions to complement key categories.

**Customer Experience**

- Grow CTC Marketplace engagement with the continued evolution of the Triangle Rewards and associated credit card program.
- Deliver on initiatives to continuously enhance the customer experience both in-store and digitally, and begin to develop future store concept(s).

**Financial Discipline**

- Across all banners and support functions, continue to roll out productivity initiatives designed to increase the sales and profitability of the retail store network and digital properties.
- Utilize a One Company approach to identify and execute on opportunities to improve efficiency in our core functions through process automation, simplification and digital transformation.
- Adhere to a disciplined and balanced approach to capital allocation.

**Talent**

- Evolve the Company's talent strategy with a focus on developing key talent and expertise in critical areas and on building core leadership capabilities required to execute our long term strategy.
- Continue to enhance the Triangle Learning Academy to support the development of our future leaders across the organization.

**Platforms**

- Strengthen the Company's commitment to sustainability, and community support through Jumpstart.
- Advance our business models, processes and technology platforms to support financial aspirations, including our international business.
- Utilize direct customer feedback (Net Promoter Score) and data-driven insights to drive improvements to the customer experience across all of our businesses.

# 7.0 Financial Performance

## 7.1 Consolidated Financial Performance

### 7.1.1 Consolidated Financial Results

| (C$ in millions, except where noted) | **Q4 2018** | Q4 2017[1] | Change | **2018** | 2017[1] | Change |
|---|---|---|---|---|---|---|
| Retail sales[2] | **$ 4,637.7** | $ 4,599.3 | 0.8 % | **$ 15,494.7** | $ 14,980.7 | 3.4 % |
| Revenue | **$ 4,131.7** | $ 3,915.5 | 5.5 % | **$ 14,058.7** | $ 13,276.7 | 5.9 % |
| Gross margin dollars | **$ 1,418.0** | $ 1,345.4 | 5.4 % | **$ 4,711.3** | $ 4,480.2 | 5.2 % |
| Gross margin as a % of revenue | **34.3%** | 34.4% | (4) bps | **33.5%** | 33.7% | (23) bps |
| Other (income) | **$ (2.5)** | $ (0.3) | NM[3] | **$ (26.0)** | $ 0.2 | NM[3] |
| Selling, general and administrative expenses | **938.9** | 911.3 | 3.0 % | **3,467.6** | 3,254.9 | 6.5 % |
| Net finance costs | **44.7** | 30.1 | 48.6 % | **151.5** | 112.6 | 34.6 % |
| Change in fair value of redeemable financial instrument | **50.0** | — | NM[3] | **50.0** | — | NM[3] |
| Income before income taxes | **$ 386.9** | $ 404.3 | (4.3)% | **$ 1,068.2** | $ 1,112.5 | (4.0)% |
| Income taxes | **108.7** | 108.9 | (0.1)% | **285.2** | 293.7 | (2.9)% |
| Effective tax rate | **28.1%** | 26.9% | | **26.7%** | 26.4% | |
| Net income | **$ 278.2** | $ 295.4 | (5.8)% | **$ 783.0** | $ 818.8 | (4.4)% |
| Net income attributable to: | | | | | | |
| Shareholders of Canadian Tire Corporation | **$ 254.3** | $ 275.7 | (7.8)% | **$ 692.1** | $ 735.0 | (5.8)% |
| Non-controlling interests | **23.9** | 19.7 | 21.0 % | **90.9** | 83.8 | 8.6 % |
| | **$ 278.2** | $ 295.4 | (5.8)% | **$ 783.0** | $ 818.8 | (4.4)% |
| Basic EPS | **$ 4.00** | $ 4.12 | (2.9)% | **$ 10.67** | $ 10.70 | (0.3)% |
| Diluted EPS | **$ 3.99** | $ 4.10 | (2.7)% | **$ 10.64** | $ 10.67 | (0.3)% |
| Weighted average number of Common and Class A Non-Voting Shares outstanding: | | | | | | |
| Basic | **63,611,964** | 66,985,467 | NM[3] | **64,887,724** | 68,678,840 | NM[3] |
| Diluted | **63,707,558** | 67,188,141 | NM[3] | **65,062,581** | 68,871,847 | NM[3] |

[1] *Revenue, gross margin and selling, general and administrative expenses were restated as a result of IFRS 15 adjustments. Refer to Note 2 of the consolidated financial statements for additional information.*
[2] *Key operating performance measures. Refer to section 11.3.1 in this MD&A for additional information.*
[3] *Not meaningful.*

### Non-Controlling Interests

The following table outlines the net income attributable to the Company's non-controlling interests. For additional details, refer to Note 14 of the Company's 2018 consolidated financial statements.

| (C$ in millions) | **Q4 2018** | Q4 2017 | **2018** | 2017 |
|---|---|---|---|---|
| Financial Services<br>Non-controlling interest percentage 20.0% (2017 - 20.0%) | **$ 13.4** | $ 12.9 | **$ 56.6** | $ 56.0 |
| CT REIT<br>Non-controlling interest percentage 23.8% (2017 - 14.5%) | **9.8** | 5.6 | **30.2** | 23.1 |
| Retail segment subsidiary<br>Non-controlling interest percentage 50.0% (2017 - 50.0%) | **0.7** | 1.2 | **4.1** | 4.7 |
| Net income attributable to non-controlling interests | **$ 23.9** | $ 19.7 | **$ 90.9** | $ 83.8 |

## Normalizing Items

The results of operations include three normalizing items in the current year. These items include:

- One-time costs relating to the roll-out of the Triangle Rewards program and associated credit cards of $17.3 million recorded in Q2 2018;
- Costs incurred relating to the acquisition of Helly Hansen of $5.3 million in Q2 2018 and $22.4 million in Q3 2018; and
- A $50 million fair value adjustment to Scotiabank's interest in the Financial Services business (a 20% stake was sold for $500 million in 2014, it is now valued at $567 million). Refer to Note 32.1 in the annual consolidated financial statements for further details on the redeemable financial instrument provided to Scotiabank in conjunction with the sale and its accounting treatment.

The table below summarizes the pre-tax amount of the previously listed normalizing items that were included in results for the year ended December 29, 2018:

| (C$ in millions) | **Q4 2018** | Q4 2017 | **2018** | 2017 |
|---|---|---|---|---|
| Financial Statement line item: | | | | |
| Cost of producing revenue | | | | |
| Inventory cost of sales | **$ —** | $ — | **$ 5.0** | $ — |
| Selling, general and administrative expenses | | | | |
| Personnel expenses | **—** | — | **3.0** | — |
| Other | **—** | — | **37.0** | — |
| Change in fair value of redeemable financial instrument | **50.0** | — | **50.0** | — |
| | **$ 50.0** | $ — | **$ 95.0** | $ — |

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

## Selected Normalized Metrics - Consolidated

| (C$ in millions, except per share amount) | **Q4 2018** | Q4 2017 | Change | **2018** | 2017 | Change |
|---|---|---|---|---|---|---|
| Normalized cost of producing revenue | **$ 2,713.7** | $ 2,570.1 | 5.6% | **$ 9,342.4** | $ 8,796.5 | 6.2% |
| Normalized gross margin | **1,418.0** | 1,345.4 | 5.4% | **4,716.3** | 4,480.2 | 5.3% |
| Normalized gross margin rate | **34.3%** | 34.4% | (4) bps | **33.5%** | 33.7% | (20) bps |
| Normalized selling, general and administrative expenses | **938.9** | 911.3 | 3.0% | **3,427.6** | 3,255.0 | 5.3% |
| Normalized income before income taxes | **436.9** | 404.3 | 8.1% | **1,163.2** | 1,112.5 | 4.6% |
| Normalized net income | **328.2** | 295.4 | 11.1% | **870.4** | 818.8 | 6.3% |
| Normalized net income attributable to shareholders of Canadian Tire Corporation | **304.3** | 275.7 | 10.4% | **777.5** | 735.0 | 5.8% |
| Normalized diluted EPS | **$ 4.78** | $ 4.10 | 16.6% | **$ 11.95** | $ 10.67 | 12.0% |

## Consolidated Fourth-Quarter 2018 versus Fourth-Quarter 2017

## Earnings Summary

Reported diluted EPS was $3.99 in the quarter, a decrease of $0.11 per share, or 2.7 percent. Normalized diluted EPS in the quarter was $4.78, an increase of $0.68 per share or 16.6 percent, driven by the inclusion of Helly Hansen's operations in the Retail segment, growth in revenue in both retail and the financial services businesses, savings in depreciation expense due to a change from declining balance to straight-line methodology, and share repurchases pursuant to the Company's share buyback program.

### Retail Sales

Consolidated retail sales increased $38.4 million, or 0.8 percent, which includes a 0.3 percent decrease in Petroleum, primarily due to lower per litre gas prices. Excluding Petroleum, consolidated retail sales increased 1.0 percent, resulting from increased sales across all banners. Consolidated retail sales excludes Helly Hansen. Refer to section 7.2 for further information regarding Retail segment sales in the quarter.

### Revenue

Consolidated revenue increased $216.2 million, or 5.5 percent, which includes a $9.0 million decrease in Petroleum revenue primarily due to lower per litre gas prices. Excluding Petroleum, consolidated revenue increased 6.5 percent. Consolidated revenue increased primarily due to the recent acquisition of Helly Hansen, continued receivables growth resulting in higher revenue at Financial Services, and revenue growth at Retail banners. Refer to sections 7.2 and 7.4 for further information regarding revenue in the Retail and Financial Services segments.

### Gross Margin

Consolidated gross margin dollars increased $72.6 million, or 5.4 percent, driven by the growth in gross margin dollars in the Retail segment due to the inclusion of Helly Hansen and growth at Canadian Tire, partially offset by lower margin dollars at SportChek. Excluding Petroleum, gross margin rate decreased 16 bps primarily due to lower margin rate at the Financial services segment, as a result of the IFRS 9 implementation, and lower margin rate at SportChek, partially offset by the inclusion of Helly Hansen and growth in gross margin rate at Canadian Tire. Refer to sections 7.2 and 7.4 for further information regarding gross margin in the Retail and Financial Services segments.

### Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased $27.6 million, or 3.0 percent. The increase was primarily due to the inclusion of Helly Hansen and was partially offset by lower variable compensation expense, and lower depreciation expenses due to the change in methodology from declining balance to straight-line in the first quarter of 2018. Refer to sections 7.2 and 7.4 for further information regarding selling, general and administrative expenses in the Retail and Financial Services segments.

### Other Income

Other income increased mainly due to higher real estate gains partially offset by closure costs for a retail store and corporate office.

### Net Finance Costs

Consolidated net finance costs increased $14.6 million, or 48.6 percent, primarily due to higher interest expense on CTC and CT REIT related debt, and a lower amount of capitalized interest expense.

### Income Taxes

The effective tax rate increased to 28.1 percent from 26.9 percent in the prior year, primarily due to the non-deductibility of the change in fair value of the redeemable financial instrument, partially offset by lower non-deductible stock option expense and changes in tax rates in the period. Refer to Tax Matters in section 10.0 of this MD&A for further details.

## Consolidated Full Year 2018 versus Full Year 2017

### Earnings Summary

Diluted EPS was $10.64, a decrease of $0.03 per share, or 0.3 percent, over the prior year. Normalized diluted EPS of $11.95 increased 12.0 percent, driven by the acquisition of Helly Hansen, revenue growth across all businesses, margin rate expansion at Canadian Tire and Mark's, lower depreciation expense due to a change in methodology and, the favourable impact of share repurchases; partially offset by the investments in initiatives such as growing the Company's consumer brands and digital retail capabilities, and the impact of the adoption of the IFRS 9 allowance model at Financial Services.

### Retail Sales

Consolidated retail sales increased $514.0 million, or 3.4 percent, over the prior year. Excluding Petroleum, consolidated retail sales increased 2.2 percent reflecting higher sales at all banners. Refer to sections 7.2.1 for further information regarding Retail segment sales.

### Revenue

Consolidated revenue increased $782.0 million, or 5.9 percent. Excluding Petroleum, consolidated revenue increased 5.1 percent due to the recent acquisition of Helly Hansen, revenue growth across all Retail segment banners and higher revenue in the Financial Services segment. Refer to sections 7.2.1 and 7.4.2 for further information regarding Retail and Financial Services segment revenue.

### Gross Margin

Consolidated gross margin dollars increased $231.1 million, or 5.2 percent, due to the inclusion of Helly Hansen and revenue growth at the Retail banners. Excluding Petroleum, gross margin rate increased 9 bps or 13 bps on a normalized basis due to the inclusion of Helly Hansen, improved margin rate at Canadian Tire and Mark's, partially offset by a decline in margin rate at SportChek and the adoption of the IFRS 9 accounting standard at Financial Services, resulting in the upfront recognition of expected credit losses. Refer to sections 7.2.1 and 7.4.2 for further information regarding Retail and Financial Services segment gross margin.

### Other Income

Consolidated other income increased $26.2 million primarily due to higher real estate gains, partially offset by closure costs for a retail store and corporate office.

### Selling, General and Administrative Expenses

Consolidated selling, general, and administrative expenses increased $212.7 million, or 6.5 percent. Normalized selling, general and administrative expenses increased $172.6 million or 5.3 percent, compared to the prior year, primarily due to:

- the inclusion of Helly Hansen operating expenses;
- increased costs to support the execution of planned investments in the Company's key initiatives and focus areas such as brand and product development, digital retail and analytics capabilities;
- higher occupancy costs due to a change in the cost sharing arrangement with the Dealers and inflationary increases;
- higher acquisition costs in the Financial Services segment to support the Company's continued investment in GAAR growth;

partially offset by:

- decrease in variable compensation expense;
- lower depreciation expense resulting from the change in methodology from declining balance to straight-line in the first quarter of 2018. The decrease in depreciation as a percentage of revenue is within the previously disclosed range of approximately 40 to 50 bps.

### Income Taxes

The effective tax rate increased to 26.7 percent from 26.4 percent in the prior year. Refer to Tax Matters in section 10.0 of this MD&A for further details.

### 7.1.2 Consolidated Key Operating Performance Measures

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 11.3.1 in this MD&A for definitions and further information.

| (C$ in millions) | **Q4 2018** | Q4 2017[1] | Change | **2018** | 2017[1] | Change |
|---|---|---|---|---|---|---|
| Net income attributable to Shareholders of CTC | **$ 254.3** | $ 275.7 | (7.8)% | **$ 692.1** | $ 735.0 | (5.8)% |
| Normalized net income attributable to Shareholders of CTC | **304.3** | 275.7 | 10.4 % | **777.5** | 735.0 | 5.8 % |
| Normalized EBITDA[2] | **588.1** | 558.5 | 5.4 % | **1,742.7** | 1,693.8 | 2.9 % |
| Selling, general and administrative expenses (excluding depreciation and amortization) as a % of revenue[3] | **20.2%** | 20.2% | 1 bps | **21.7%** | 21.0% | 62 bps |
| Normalized selling, general and administrative expenses (excluding depreciation and amortization) as a % of revenue | **20.2%** | 20.2% | 1 bps | **21.4%** | 21.0% | 34 bps |
| Normalized EBITDA[2] as a % of revenue | **14.2%** | 14.3% | (2) bps | **12.4%** | 12.8% | (36) bps |

[1] *Selling, general and administrative expenses and Normalized EBITDA as a % of revenue were restated as a result of IFRS 15 adjustments. Refer to Note 2 of the consolidated financial statements for additional information.*

[2] *Normalized EBITDA is a non-GAAP measure; refer to section 11.3.2 in this MD&A for a reconciliation of normalized EBITDA to net income attributable to shareholders of Canadian Tire Corporation and additional information.*

[3] *Selling, general and administrative expenses exclude depreciation and amortization of $105.1 million in Q4 2018 (2017 - $122.3 million) and $421.8 million Q4 YTD (2017 - $461.9 million).*

### Selling, General and Administrative Expenses (Excluding Depreciation and Amortization) as a Percentage of Revenue

In the fourth quarter, selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue increased 1 bps compared to the prior year. Excluding Petroleum, this measure increased 21 bps. The increase was driven by the inclusion of the results of Helly Hansen, which has a higher expense ratio than the other banners, partially offset by lower variable compensation expense.

On a full-year basis, selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue increased by 62 bps compared to the prior year. On a normalized basis, this measure increased 34 bps compared to the prior year, primarily due to the acquisition of Helly Hansen and the planned increase in expenses aimed towards growing the Company's consumer brands, digital retail and analytical capabilities. Excluding Petroleum, on a normalized basis, this measure increased 57 bps.

### Normalized EBITDA as a Percentage of Revenue

In the fourth quarter, normalized EBITDA as a percentage of revenue, was relatively flat compared to the prior year. Excluding Petroleum, normalized EBITDA as a percentage of revenue increased 9 bps due to the growth in revenue out-pacing the growth in expenses.

On a full year basis, this measure decreased 36 bps. Excluding Petroleum, it decreased 24 bps, as the growth in revenue was offset by the planned increase in expenses aimed towards growing the Company's consumer brands, digital retail and analytical capabilities, and due to implementation of the IFRS 9 allowance model at Financial Services.

### 7.1.3 Seasonal Trend Analysis

Quarterly operating net income and revenue are affected by seasonality. The fourth quarter typically generates the greatest contribution to revenues and earnings, and the first quarter the least. In the first quarter, the Financial Services segment contributes the majority of consolidated earnings. The following table shows the consolidated financial performance of the Company by quarter for the last two years. The quarterly trend could be impacted by non-operational items.

| (C$ in millions, except per share amounts) | **Q4 2018** | Q3 2018 | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 |
|---|---|---|---|---|---|---|---|---|
| Revenue[1] | **$ 4,131.7** | $ 3,631.3 | $ 3,480.8 | $ 2,814.9 | $ 3,915.5 | $ 3,265.7 | $ 3,374.1 | $ 2,721.4 |
| Net income | **278.2** | 231.3 | 174.4 | 99.1 | 295.4 | 198.5 | 217.0 | 107.9 |
| Normalized net income | **328.2** | 252.1 | 191.0 | 99.1 | 295.4 | 198.5 | 217.0 | 107.9 |
| Diluted EPS | **3.99** | 3.15 | 2.38 | 1.18 | 4.10 | 2.59 | 2.81 | 1.24 |
| Normalized diluted EPS | **4.78** | 3.47 | 2.61 | 1.18 | 4.10 | 2.59 | 2.81 | 1.24 |

[1] *Revenue figures for all quarters in 2017 were restated as a result of IFRS 15 adjustments. Refer to Note 2 of the consolidated financial statements for additional information.*

## 7.2 Retail Segment Performance

### 7.2.1 Retail Segment Financial Results

| (C$ in millions) | **Q4 2018** | Q4 2017[1] | Change | **2018** | 2017[1] | Change |
|---|---|---|---|---|---|---|
| Retail sales[2] | **$ 4,637.7** | $ 4,599.3 | 0.8 % | **$ 15,494.7** | $ 14,980.7 | 3.4 % |
| Revenue | **$ 3,816.9** | $ 3,624.5 | 5.3 % | **$ 12,813.5** | $ 12,121.4 | 5.7 % |
| Gross margin dollars | **$ 1,237.7** | $ 1,161.6 | 6.6 % | **$ 3,948.4** | $ 3,729.3 | 5.9 % |
| Gross margin as a % of revenue | **32.4%** | 32.0% | 38 bps | **30.8%** | 30.8% | 5 bps |
| Other (income) | **$ (35.1)** | $ (29.8) | 17.9 % | **$ (157.1)** | $ (123.5) | 27.3 % |
| Selling, general and administrative expenses | **939.6** | 895.9 | 4.9 % | **3,439.8** | 3,188.8 | 7.9 % |
| Net finance costs (income) | **4.4** | (6.9) | (162.8)% | **(2.7)** | (26.7) | (89.8)% |
| Income before income taxes | **$ 328.8** | $ 302.4 | 8.7 % | **$ 668.4** | $ 690.7 | (3.2)% |

[1] *Revenue, gross margin and selling, general and administrative expenses were restated as a result of IFRS 15 adjustments. Refer to Note 2 of the consolidated financial statements for additional information.*
[2] *Retail sales is a key operating performance measure. Refer to section 11.3.1 in this MD&A for additional information.*

### Selected Normalized Metrics - Retail

| (C$ in millions) | **Q4 2018** | Q4 2017 | Change | **2018** | 2017 | Change |
|---|---|---|---|---|---|---|
| Normalized[1] gross margin dollars | **$ 1,237.7** | $ 1,161.6 | 6.6% | **$ 3,953.4** | $ 3,729.3 | 6.0% |
| Normalized[1] gross margin as a % of revenue | **32.4%** | 32.0% | 38 bps | **30.9%** | 30.8% | 9 bps |
| Normalized[1] selling, general and administrative expenses | **$ 939.6** | $ 895.9 | 4.9% | **$ 3,413.3** | $ 3,188.8 | 7.0% |
| Normalized[1] EBITDA | **$ 423.4** | $ 398.3 | 6.3% | **$ 1,057.5** | $ 1,046.1 | 1.1% |
| Normalized[1] income before income taxes | **$ 328.8** | $ 302.4 | 8.7% | **$ 699.9** | $ 690.7 | 1.3% |

[1] *Refer to section 7.1.1 for a description of normalized items.*

### 7.2.2 Retail Segment Key Operating Performance Measures

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 11.3.1 in this MD&A for definitions and further information on performance measures.

| (Year-over-year percentage change, C$ in millions, except as noted) | Q4 2018 | Q4 2017[1] | Change | 2018 | 2017[1] | Change |
|---|---|---|---|---|---|---|
| **Retail Segment - Total** | | | | | | |
| Retail sales growth | **0.8 %** | 4.9 % | | **3.4 %** | 4.2% | |
| Consolidated comparable sales growth[2] | **0.8 %** | 3.9 % | | **2.2 %** | 2.7% | |
| Revenue[3] | **$ 3,816.9** | $ 3,624.5 | 5.3 % | **$ 12,813.5** | $ 12,121.4 | 5.7 % |
| Retail ROIC[4] | **9.2 %** | 9.2 % | | **n/a** | n/a | |
| **Retail Segment breakdown** | | | | | | |
| **Canadian Tire** | | | | | | |
| Retail sales growth[5] | **0.6 %** | 3.8 % | | **2.4 %** | 3.5% | |
| Comparable sales growth[2, 5] | **0.2 %** | 3.5 % | | **2.1 %** | 2.7% | |
| Sales per square foot[6] (whole $) | **$ 424** | $ 412 | 2.9 % | **n/a** | n/a | |
| Revenue[3, 7] | **$ 2,121.7** | $ 2,090.3 | 1.5 % | **$ 7,209.0** | $ 7,090.7 | 1.7 % |
| **SportChek** | | | | | | |
| Retail sales growth[8] | **1.9 %** | 5.6% | | **1.1 %** | 2.2% | |
| Comparable sales growth[2, 8] | **2.5 %** | 5.9% | | **2.0 %** | 1.8% | |
| Sales per square foot[9] (whole $) | **$ 298** | $ 299 | (0.3)% | **n/a** | n/a | |
| Revenue[3] | **$ 602.5** | $ 592.4 | 1.7 % | **$ 1,993.4** | $ 1,978.1 | 0.8 % |
| **Mark's** | | | | | | |
| Retail sales growth[10] | **1.8 %** | 3.9 % | | **3.0 %** | 4.7% | |
| Comparable sales growth[2, 10] | **1.8 %** | 3.4 % | | **2.8 %** | 4.2% | |
| Sales per square foot[11] (whole $) | **$ 356** | $ 349 | 2.2 % | **n/a** | n/a | |
| Revenue[3, 12] | **$ 469.0** | $ 461.8 | 1.6 % | **$ 1,247.2** | $ 1,215.2 | 2.6 % |
| **Helly Hansen** | | | | | | |
| Revenue[3] | **$ 165.9** | n/a | | **$ 347.6** | n/a | |
| Revenue - Canada[3] | **$ 26.9** | n/a | | **$ 52.1** | n/a | |
| Revenue - Foreign | **$ 139.0** | n/a | | **$ 295.5** | n/a | |
| **Petroleum** | | | | | | |
| Gasoline volume growth in litres | **0.4 %** | (0.1)% | | **(0.4)%** | 0.3% | |
| Same-store gasoline volume growth in litres[2] | **0.3 %** | (0.1)% | | **— %** | 0.3% | |
| Retail sales growth | **(0.3)%** | 11.6 % | | **10.7 %** | 10.7% | |
| Revenue[3] | **$ 468.6** | $ 477.6 | (1.9)% | **$ 2,016.5** | $ 1,820.2 | 10.8 % |
| Gross margin dollars | **$ 43.7** | $ 50.0 | (12.5)% | **$ 182.0** | $ 181.6 | 0.3 % |

[1] *Certain figures were restated as a result of PHL stores moving from the SportChek banner to the Canadian Tire banner as well as IFRS 15 adjustments. Refer to Note 2 of the consolidated financial statements for additional information on IFRS 15 adjustments.*
[2] *Consolidated comparable sales growth excludes Petroleum. Refer to section 11.3.1 in this MD&A for additional information on comparable sales growth.*
[3] *Revenue reported for Canadian Tire, SportChek, Mark's, Petroleum, and Helly Hansen includes inter-segment revenue. Therefore, in aggregate, revenue for Canadian Tire, SportChek, Mark's, Petroleum, and Helly Hansen will not equal total revenue for the Retail segment.*
[4] *Retail ROIC is calculated on a rolling 12-month basis based on normalized earnings. Refer to section 11.3.1 in this MD&A for additional information.*
[5] *Retail sales growth includes sales from Canadian Tire stores, PartSource stores, PHL stores, and the labour portion of Canadian Tire's auto service sales.*
[6] *Sales per square foot figures are calculated on a rolling 12-month basis. Retail space does not include seasonal outdoor garden centres, auto service bays, or warehouse and administrative space.*
[7] *Revenue includes revenue from Canadian Tire, PartSource, PHL, and Franchise Trust.*
[8] *Retail sales growth includes sales from both corporate and franchise stores.*
[9] *Sales per square foot figures are calculated on a rolling 12-month basis, include both corporate and franchise stores and warehouse and administrative space.*
[10] *Retail sales growth includes retail sales from Mark's corporate and franchise stores but excludes ancillary revenue relating to alteration and embroidery services.*
[11] *Sales per square foot figures are calculated on a rolling 12-month basis, include sales from both corporate and franchise stores and exclude ancillary revenue. Sales per square foot do not include warehouse and administrative space.*
[12] *Revenue includes sale of goods to Mark's franchise stores, retail sales from Mark's corporate stores, Mark's wholesale revenue from its commercial division, and includes ancillary revenue relating to embroidery and alteration services.*

### 7.2.3 Retail Banner Network at a Glance

| Number of stores and retail square footage | 2018 | 2017 |
|---|---|---|
| **Consolidated store count** | | |
| Canadian Tire stores | | |
| Canadian Tire Retail | **503** | 501 |
| Other[1] | **105** | 106 |
| **Total Canadian Tire stores** | **608** | 607 |
| SportChek stores | | |
| SportChek | **194** | 194 |
| Sports Experts | **105** | 102 |
| Atmosphere | **66** | 68 |
| Other | **44** | 47 |
| **Total SportChek stores** | **409** | 411 |
| Mark's stores[2] | | |
| Mark's | **337** | 335 |
| L'Équipeur | **47** | 45 |
| Other | **2** | 6 |
| **Total Mark's stores** | **386** | 386 |
| **Canadian Tire gas bar locations** | **297** | 298 |
| **Total stores[3]** | **1,700** | 1,702 |
| **Consolidated retail square footage[4] (in millions)** | | |
| Canadian Tire | **22.5** | 22.3 |
| SportChek | **7.5** | 7.4 |
| Mark's | **3.6** | 3.6 |
| **Total retail square footage[4]** | **33.6** | 33.3 |

[1] *Other Canadian Tire banners include PartSource and PHL.*
[2] *Store count numbers reflect individual selling locations. Both Canadian Tire and Mark's totals include stores that are co-located.*
[3] *Store count does not include the retail locations acquired as part of the acquisition of the Canadian rights to the Paderno brand, and Helly Hansen.*
[4] *The retail square footage excludes Petroleum's convenience store rental space.*

## Retail Segment Fourth-Quarter 2018 versus Fourth-Quarter 2017

### Earnings Summary

Income before income taxes increased $26.4 million, or 8.7 percent due to the inclusion of Helly Hansen, growth in revenue at Canadian Tire, savings in depreciation expense resulting from the change in methodology from declining balance to straight-line in the first quarter of 2018 and gain on the sale of a property.

### Retail Sales

Despite unseasonably mild weather in December 2018, consolidated comparable sales grew 0.8 percent over and above a strong comparable quarter in 2017 which saw growth of 4.9 percent. Sales growth was driven primarily by non-seasonal categories such as Kitchen, Cleaning, Toys and Electronics, and the continued success of targeted promotional and pricing strategies. Consolidated retail sales excludes Helly Hansen.

Canadian Tire retail sales increased 0.6 percent while comparable sales increased 0.2 percent. The top-line performance was impacted by unseasonable weather in the month of December, a critical sales month for the banner. In 2017, Canadian Tire experienced stronger sales in winter weather categories such as batteries, wipers, snow melters and shovels, due to more seasonable weather conditions. Non-seasonal business lines in the Living division drove sales growth in the quarter, as did a thoughtfully curated product assortment, showcasing the banner's investments in innovation for owned and national brands such as Paderno, Dyson and Insta-pot.

SportChek retail sales, also impacted by the unseasonable weather in December, increased 1.9 percent and comparable sales increased 2.5 percent due to targeted pricing and promotions strategies in what was a highly promotional and competitive environment. Accessories, outerwear, and athletic apparel were the top performing categories and consumer brands penetration increased over the prior year driven by WOODS, and Helly Hansen. SportChek also benefited from a significant growth in eCommerce sales.

Retail sales at Mark's, similarly impacted by unseasonable weather in December, increased 1.8 percent and comparable sales increased 1.8 percent. The increase in retail sales was driven by denim, casual footwear, and workwear. Sales also benefited from customers' positive reaction to the "Equipe pour tout" rebranding strategy of the Mark's brand in Quebec.

Petroleum retail sales decreased 0.3 percent primarily due to a decrease in year-over-year per litre gas prices, partially offset by higher non-gas sales and higher gas volume.

### Revenue

Revenue increased $192.4 million or 5.3 percent, compared to the prior year. Excluding the impact of Petroleum which decreased 1.9 percent, retail segment revenue increased 6.4 percent. Revenue growth was primarily attributable to the acquisition of Helly Hansen and revenue growth at Canadian Tire from increased shipments to Dealers, and higher revenue earned from the Company's cost and margin sharing arrangement with the Dealers. Revenue growth at the other Retail banners reflected unseasonable weather in December, particularly compared to the prior year. In Q4 2017, retail revenue grew 9.0 percent over Q4 2016.

### Gross Margin

Gross margin dollars increased $76.1 million or 6.6 percent and gross margin rate increased 38 bps. Excluding Petroleum, the retail gross margin rate increased 34 bps mainly due to the acquisition of Helly Hansen, and margin rate expansion at Canadian Tire due to the Company's margin sharing arrangements with the Dealers and favourable product cost assortment. This was partially offset by lower margin rate at SportChek due to pricing and promotion strategies to drive sales and traffic.

### Other Income

Other income increased by $5.3 million or 17.9 percent, primarily due to higher real estate gains partially offset by closure costs for a retail store and corporate office.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $43.7 million, or 4.9 percent primarily due to:

- the inclusion of Helly Hansen's operating expenses;
- higher occupancy costs due to a change in the cost sharing arrangement with the Dealers, inflationary increases, lease renewals and higher property taxes compared to the prior year; and
- increased costs to support the execution of planned investments in the Company's key initiatives and areas such as brand and product development, digital retail and analytics capabilities;

partially offset by:

- lower variable compensation expense; and
- reduction in depreciation expense as a result of the change in methodology from declining balance to straight-line in first quarter of 2018.

### Net Finance Cost

Net finance cost increased $11.3 million primarily due to interest expense on recently issued medium-term notes.

## Retail Segment Full Year 2018 versus Full Year 2017

### Earnings Summary

Income before income taxes decreased $22.3 million, or 3.2 percent, compared to the prior year. Normalized income before taxes increased $9.2 million or 1.3 percent. The unpredictable weather pattern comprising an unseasonable start to spring-summer in April and milder winter weather in December negatively impacted sales and earnings. Despite this headwind, strong year-to-date sales and revenue growth was witnessed across all retail banners. The increase in revenue, along with the inclusion of Helly Hansen and increased gross margin rate at Canadian Tire, was partially offset by lower margin at SportChek and increased selling, general, and administrative expenses.

### Retail Sales

Consolidated comparable retail sales increased 2.2 percent, which reflected strong sales in non-seasonal categories, particularly in Canadian Tire's Living division, and was negatively impacted by unseasonable weather during the key spring-summer and fall-winter transition months of April and December. Despite the unfavourable timing of weather patterns, all banners posted greater than 2 percent comparable sales growth for the year. The growth reflects the benefits of the Company's 2018 strategic initiatives, including enhanced product assortment across both national and owned brands, the launch of the Triangle Rewards loyalty and credit card program, and investments in digital and eCommerce capabilities including in-store pick-up and deliver-to-home.

Canadian Tire retail sales increased 2.4 percent (comparable sales increased 2.1 percent). Performance was driven by continued strength in assortments, particularly in the Living, Automotive and Playing categories, which were the largest contributors to sales growth.

SportChek retail sales increased 1.1 percent (comparable sales increased 2.0 percent). The sales increase was driven by strong sales performance in key categories including outdoor, athletic and casual clothing and accessories, footwear, licensed apparel, and winter categories as well as higher year-over-year eCommerce sales. Targeted promotional activity and pricing strategies also boosted sales growth.

Mark's sales increased 3.0 percent (comparable sales increased 2.8 percent) with growth across all regions. The Mark's rebranding strategy grew sales of casual wear categories including denim, casual footwear, and outerwear which benefited from targeted promotional campaigns throughout the year. The unseasonably mild weather resulted in lower than expected sales of winter wear.

Petroleum retail sales increased 10.7 percent resulting from higher average per litre gas prices during the year and higher non-gas sales, partially offset by a decline in gas price in the fourth quarter.

### Revenue

Revenue increased $692.1 million, or 5.7 percent, compared to prior year. Excluding the impact of Petroleum, which increased 10.8 percent year over year, Retail revenue increased 4.8 percent primarily driven by inclusion of Helly Hansen, and increased revenue at Canadian Tire, SportChek and Mark's.

### Gross Margin

Gross margin dollars increased $219.1 million, or 5.9 percent, and 6.0 percent normalized, primarily due to the inclusion of Helly Hansen. Excluding Petroleum, gross margin dollars increased 6.3 percent, attributable to the gross margin rate improvement at Canadian Tire and Mark's, partially offset by a decline in margin at SportChek due to increased promotional strategies to drive store sales and traffic, and mix-shift to lower margin sales through the eCommerce channel.

Canadian Tire's improvement in gross margin rate during the year was primarily due to a focus on operating efficiency initiatives (which emphasize optimizing assortments, improving sales mix, and reducing freight costs) as well as the benefits of the Dealer margin sharing arrangement.

### Other Income

Other income increased $33.6 million, or 27.3 percent, primarily due to real estate gains compared to the prior year.

### Selling, General and Administrative Expenses

Selling, general, and administrative expenses increased $251.0 million, or 7.9 percent, and $224.5 million or 7.0 percent normalized, compared to the prior year due to:

- the inclusion of Helly Hansen's operating expenses;
- increased costs to support the execution of planned investments in the Company's key initiatives and areas such as brand and product development, digital retail and analytics capabilities;
- higher operating costs to support the Company's continued investment in operational effectiveness initiatives;
- increased marketing and advertising for targeted promotions; and
- higher occupancy costs due to a change in the cost sharing arrangement with the Dealers, inflationary increases, lease renewals and higher property taxes compared to the prior year;

partially offset by:

- lower depreciation and variable compensation expense.

### Net Finance Income

Net finance income decreased $24.0 million compared to prior year primarily due to lower income earned on inter-segment debt and higher interest expense due to recently issued medium-term notes.

### 7.2.4 Retail Segment Business Risks

The Retail segment is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to the Retail segment's operations. Refer to section 12.1 of this MD&A for a discussion of the Company's principal risk identification and risk management.

### Seasonality Risk

Canadian Tire derives a significant amount of its revenue from the sale of seasonal merchandise and, accordingly, derives a degree of sales volatility from abnormal weather patterns. Canadian Tire mitigates this risk, to the extent possible, through the breadth of its product mix and proactive assortment management, effective procurement and inventory management practices, as well as the development of products and offers to stimulate customer demand for 'non-seasonal' and year-round products which are not directly affected by weather patterns.

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

SportChek is affected by general seasonal trends that are characteristic of the apparel, footwear and hard goods industries. SportChek strives to minimize the impact of the seasonality of the business by altering its merchandise mix at certain times of the year to reflect consumer demand.

### Evolving Consumer Behaviour and Shopping Habits

The retail business is rapidly evolving as consumers increasingly embrace online shopping and mobile eCommerce applications. Failure to provide attractive, user-friendly and secure digital platforms that continually meet the changing expectations of online shoppers could negatively impact the Company's reputation, place the Company at a competitive disadvantage and/or have a negative impact on business operations. In order to mitigate this risk, the Company monitors the competitive landscape, digital evolutions and eCommerce trends to ensure its strategic initiatives are designed to maintain competitive positioning and continue to be relevant.

### Supply Chain Risk

A substantial portion of the Company's product assortment is sourced from foreign suppliers, lengthening the supply chain and extending the time between order and delivery to its DCs. Accordingly, the Company is exposed to potential supply chain disruptions due to foreign supplier failures, extreme weather events, geopolitical risk, labour disruption or insufficient capacity at ports, and risks of delays or loss of inventory in transit. The Company mitigates these risks through the use of advanced tracking systems and visibility tools, effective supplier selection and procurement

practices and through strong relationships with transportation companies and port and other shipping authorities, supplemented by marine insurance coverage.

### Conduct Risk

Products that are sourced from factories in less developed countries for which there is a high level of public scrutiny pertaining to working conditions and labour regulations introduces a heightened level of reputational and brand risk to CTC. In order to mitigate these risks, CTC works with its suppliers to ensure that products are sourced, manufactured and transported according to the standards outlined in the Canadian Tire Supplier Code of Conduct. The Company also works with the Business Social Compliance Initiative (BSCI) factory audit methodology to assess the hiring and employment practices, as well as the health and safety standards of its foreign suppliers.

### Environmental Risk

Environmental risk within CTC is primarily associated with the storage, handling, and recycling of certain materials. The Company has established and follows comprehensive environmental policies and practices to avoid a negative impact on the environment, to comply with environmental laws and protect its reputation. It addresses applicable environmental stewardship requirements and takes the necessary steps to manage the end-of-first life of product in accordance with these requirements. Petroleum is also subject to federal and provincial regulations relating to combating climate change, such as carbon taxes, and cap and trade. Petroleum's comprehensive regulatory compliance program includes environmental reviews and the remediation of contaminated sites as required, supplemented by environmental insurance coverage.

### Commodity Price and Disruption Risk

The operating performance of Petroleum can be affected by fluctuations in the commodity cost of oil. The wholesale price of gasoline is subject to global oil supply and demand conditions, domestic and foreign political policy, commodity speculation, and potential supply chain disruptions from natural and human-caused disasters. To mitigate this risk to profitability, Petroleum maintains tight controls over its operational costs and enters into long-term gasoline purchase arrangements with integrated gasoline wholesalers. Petroleum also enhances profitability through a comprehensive cross-marketing strategy with other retail banners and higher-margin, ancillary businesses such as convenience store and car wash sales.

### Market Obsolescence Risk

Clothing and apparel retailers are exposed, to varying degrees, to ever-changing consumers' fashion preferences. SportChek and Mark's mitigate this risk through brand positioning, consumer preference monitoring, demand forecasting and merchandise selection efforts; as well as the product development process at Mark's. SportChek offers a comprehensive assortment of brand-name products under its various banners and partners with strong, national-branded suppliers that continually evolve their assortments to reflect customer preferences. In addition, SportChek employs a number of inventory management practices, including certain agreements with vendors to manage unsold product or offer markdown dollars to offset margin deterioration in liquidating aged inventory. Mark's specifically targets consumers of durable everyday casual wear and is less exposed to changing fashions than apparel retailers offering high-fashion apparel and accessories. Mark's industrial wear category is exposed to fluctuations in the resource and construction industry.

### Global Sourcing Risk

Canadian Tire, FGL, and Mark's use internal resources and third-party logistics providers to manage supply chain technology and the movement of foreign-sourced goods from suppliers to the Company's Canadian DCs and to their retail stores. Similar to other retailers that source products internationally, there is exposure to risks associated with foreign suppliers which can include, but are not limited to, currency fluctuations, the stability of manufacturing operations in other countries and transportation and port disruptions (see supply chain disruption risk). The Company uses internal resources and third-party quality assurance providers to proactively manage product quality with vendors in the foreign sourcing regions. The Company believes that its business practices are appropriate to mitigate the risks. Further information regarding the Company's exposure to foreign currency risk is provided in section 12.2.

## 7.3 CT REIT Segment Performance

### 7.3.1 CT REIT Segment Financial Results

| (C$ in millions) | **Q4 2018** | Q4 2017 | Change | **2018** | 2017 | Change |
|---|---|---|---|---|---|---|
| Property revenue | **$ 119.3** | $ 111.2 | 7.2 % | **$ 472.5** | $ 443.3 | 6.6 % |
| Property expense | **26.8** | 23.7 | 13.0 % | **108.6** | 98.3 | 10.5 % |
| General and administrative expense | **3.4** | 2.7 | 26.9 % | **12.2** | 11.0 | 10.4 % |
| Net finance costs | **26.1** | 24.4 | 6.8 % | **104.4** | 96.4 | 8.3 % |
| Fair value (gain) adjustment | **(11.5)** | (36.7) | (68.6)% | **(53.6)** | (79.7) | (32.7)% |
| Income before income taxes | **$ 74.5** | $ 97.1 | (23.3)% | **$ 300.9** | $ 317.3 | (5.2)% |

### CT REIT Segment Key Operating Performance Measures

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 11.3.1 in this MD&A for definitions and further information on performance measures.

| (C$ in millions) | **Q4 2018** | Q4 2017 | Change | **2018** | 2017 | Change |
|---|---|---|---|---|---|---|
| Net operating income[1] | **$ 88.0** | $ 81.9 | 7.4% | **$ 345.5** | $ 322.3 | 7.2% |
| Funds from operations[1] | **62.0** | 60.4 | 2.6% | **246.0** | 237.6 | 3.5% |
| Adjusted funds from operations[1] | **$ 51.8** | $ 49.6 | 4.5% | **$ 205.2** | $ 194.4 | 5.6% |

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

### CT REIT Segment Fourth-Quarter 2018 versus Fourth-Quarter 2017

### Earnings Summary

Income before income taxes decreased by $22.6 million, or 23.3 percent, primarily due a decrease in the fair value gain on investment properties and an increase in interest expense, partially offset by an increase in earnings attributable to the income generated from properties acquired and intensification activities completed during 2018 and 2017.

### Property Revenue

Property revenue consists of base rent as well as operating cost and property tax recoveries. Property revenue increased $8.1 million, or 7.2 percent, primarily due to higher base rent relating to properties acquired and intensification activities completed during 2018 and 2017.

Of the $119.3 million in property revenue received, $107.0 million was from CTC. The property revenue received from CTC was 5.1 percent higher than the prior year of $101.8 million.

### Property Expense

Property expense for the quarter was $26.8 million, an increase of $3.1 million or 13.0 percent over the prior year, primarily due to property acquisitions in 2018 and 2017. The majority of the property expense costs are recoverable from tenants, with CT REIT absorbing these expenses where vacancies exist. Property expense consists primarily of property taxes, other recoverable operating expenses, property management expenses (including the outsourcing of property management services pursuant to the Property Management Agreement between CT REIT and CTC), and ground rent.

### General and Administrative Expense

General and administrative expenses primarily relate to personnel costs, public entity and ongoing operational costs, and outsourcing costs, which are largely related to the services provided by CTC pursuant to the Services Agreement between CT REIT and CTC. General and administrative expenses increased by or 26.9 percent compared to the prior year due to increased personnel expenses in connection with CFO transition costs and the various components

of compensation awards, partially offset by decreased compensation costs due to the fair value adjustment on unit based awards.

### Net Finance Costs

Net finance costs consist primarily of distributions on the Class C LP units held by CTC, and interest on debentures. Net finance costs increased by $1.7 million or 6.8 percent, primarily due to higher interest expense from the issuance of Series E debentures in June 2017 and Series F debentures in February 2018. The increase was partially offset by the redemption of Series 10-15 Class C LP Units in May 2017, changes in the utilization of the Bank Credit Facility and increased interest capitalization on development projects in 2018.

### Fair Value Adjustment on Investment Properties

The fair value gain on investment properties decreased by $25.2 million, or 68.6 percent, due to net higher gains in the prior year on the distribution centre in Bolton, Ontario.

### Net Operating Income

NOI was $88.0 million, an increase of $6.1 million, or 7.4 percent, primarily due to property acquisitions and properties under development completed in 2018 and 2017. NOI is a non-GAAP measure. Refer to section 11.3.2 for additional information.

### Funds from Operations and Adjusted Funds from Operations

FFO and AFFO for the quarter were $62.0 million and $51.8 million, respectively. FFO and AFFO were higher compared to the prior year by $1.6 million and $2.2 million, respectively, primarily due to property acquisitions and properties under development completed in 2018 and 2017, partially offset by higher interest expense. FFO and AFFO are non-GAAP measures. Refer to section 11.3.2 for additional information.

## CT REIT Segment Full Year 2018 versus Full Year 2017

### Earnings Summary

Income before income taxes decreased $16.4 million, or 5.2 percent, compared to the prior year largely due to a decrease in the fair value adjustment on investment properties, offset by an increase in property revenue.

### Property Revenue

Property revenue increased by $29.2 million or 6.6 percent, primarily due to higher base rent relating to properties acquired and intensification activities completed during 2018 and 2017.

Of the $472.5 million in property revenue received, $426.1 million was from CTC, an increase of 4.3 percent over prior year.

### Property Expense

Property expense for the year was $108.6 million, the majority of which are recoverable from tenants, with CT REIT absorbing these expenses for vacant properties. Property expense increased 10.5 percent compared to the prior year largely due to property acquisitions in 2018 and 2017.

### General and Administrative Expense

General and administrative expenses increased by $1.2 million or 10.4 percent compared to the prior year primarily due to increased personnel expenses due to CFO transition costs and the various components of compensation awards, partially offset by decreased compensation costs due to the fair value adjustment on unit-based awards.

### Net Finance Costs

Net finance costs increased by $8.0 million or 8.3 percent, primarily due to higher interest expense from the issuance of Series E debentures in June 2017 and Series F debentures in February 2018. The increase was partially offset by the redemption of Series 10-15 Class C LP Units in May 2017, changes in the utilization of the Bank Credit Facility and increased interest capitalization on development projects in 2018.

### Fair Value Adjustment on Investment Properties

The fair value gain on investment properties decreased by $26.1 million, or 32.7 percent, due to net higher gains in the prior year on the DC in Bolton, Ontario.

### Net Operating Income

NOI was $345.5 million, an increase of $23.2 million or 7.2 percent from the prior year, primarily due to property acquisitions and properties under development completed in 2018 and 2017. NOI is a non-GAAP measure; refer to section 11.3.2 for additional information.

### Funds from Operations and Adjusted Funds from Operations

FFO and AFFO were $246.0 million and $205.2 million respectively. FFO and AFFO were higher compared to the prior year by $8.4 million and $10.8 million primarily due to property acquisitions completed in 2018 and 2017, partially offset by higher interest expense. FFO and AFFO are non-GAAP measures; refer to section 11.3.2 for additional information.

## 7.3.2 CT REIT Segment Business Risks

CT REIT is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to the operations of CT REIT. Please refer to section 4 in CT REIT's Annual Information Form and Section 11.0 Enterprise Risk Management in CT REIT's Management's Discussion and Analysis for the period ended December 31, 2018, which are not incorporated herein by reference, for a discussion of risks that affect CT REIT's operations and also to section 12.1 in this MD&A for a discussion of the Company's principal risk identification and risk management.

### Financial Risks

In the normal course of business, CT REIT is exposed to financial risks of varying degrees which could affect its ability to achieve its key initiatives and could materially adversely affect the financial performance of CT REIT, its ability to make distributions to its unitholders, and the trading price of its publicly traded units. Refer to Note 20(b) in CT REIT's annual consolidated financial statements for a discussion of financial risk management.

### Real Estate Ownership and Tenant Risks

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

### Tax-Related Risks

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

## 7.4 Financial Services Segment Performance

### 7.4.1 Financial Services Segment Financial Results

| (C$ in millions) | **Q4 2018** | Q4 2017 | Change | **2018** | 2017 | Change |
|---|---|---|---|---|---|---|
| Revenue | **$ 322.8** | $ 292.7 | 10.2 % | **$ 1,259.9** | $ 1,156.6 | 8.9% |
| Gross margin dollars | **170.7** | 170.8 | (0.1)% | **717.2** | 695.7 | 3.1% |
| Gross margin (% of revenue) | **52.9%** | 58.3% | (545) bps | **56.9%** | 60.1% | (322) bps |
| Other expense (income) | **0.6** | (0.6) | NM[1] | **(0.3)** | (0.7) | NM[1] |
| Selling, general and administrative expenses | **78.3** | 82.1 | (4.5)% | **326.1** | 308.5 | 5.7% |
| Net finance (income) | **(0.3)** | (0.2) | 66.6 % | **(1.1)** | (0.6) | 94.1% |
| Income before income taxes | **$ 92.1** | $ 89.5 | 2.8 % | **$ 392.5** | $ 388.5 | 1.0% |

[1] *Not meaningful.*

### Selected Normalized Metrics - Financial Services

| (C$ in millions) | **2018** | 2017 | Change |
|---|---|---|---|
| Normalized[1] selling, general and administrative expenses | **$ 312.6** | $ 308.5 | 1.3% |
| Normalized[1] income before income taxes | **$ 406.0** | $ 388.5 | 4.5% |

[1] *Refer to section 7.1.1 for a description of normalized items.*

### 7.4.2 Financial Services Segment Key Operating Performance Measures

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 11.3.1 in this MD&A for definitions and further information on performance measures.

| (C$ in millions) except where noted | **Q4 2018** | Q4 2017 | Change | **2018** | 2017 | Change |
|---|---|---|---|---|---|---|
| Credit card sales growth[1] | **11.5%** | 8.6% | | **10.3%** | 8.0% | |
| GAAR | **$ 6,093.0** | $ 5,458.7 | 11.6% | **$ 5,825.3** | $ 5,263.9 | 10.7% |
| Revenue[2] (as a % of GAAR) | **21.63%** | 21.97% | (34 bps) | **n/a** | n/a | |
| Average number of accounts with a balance[3] (thousands) | **2,113** | 1,951 | 8.3% | **2,035** | 1,895 | 7.4% |
| Average account balance[3] (whole $) | **$ 2,882** | $ 2,796 | 3.1% | **$ 2,862** | $ 2,776 | 3.0% |
| Net credit card write-off rate[2, 3, 6] | **5.43%** | 5.48% | | **n/a** | n/a | |
| Past due credit card receivables[3, 4] (“PD2+”) | **2.64%** | 2.50% | | **n/a** | n/a | |
| Allowance rate[5] | **12.24%** | 1.97% | | **n/a** | n/a | |
| Operating expenses[2] (as a % of GAAR) | **5.60%** | 5.86% | | **n/a** | n/a | |
| Return on receivables[2] | **6.75%** | 7.38% | | **n/a** | n/a | |

[1] *Credit card sales growth excludes balance transfers.*
[2] *Figures are calculated on a rolling 12-month basis.*
[3] *Credit card portfolio only.*
[4] *Credit card receivables more than 30 days past due as a percentage of total-ending credit card receivables.*
[5] *The allowance rate was calculated based on the total-managed portfolio of loans receivable.*
[6] *The net credit card write-off rate was favourably impacted by 41 bps due to a change in Management’s estimate of the present value of regular recoveries.*

### Financial Services Segment Fourth-Quarter 2018 versus Fourth-Quarter 2017

### Earnings Summary

Income before income taxes increased $2.6 million, or 2.8 percent, primarily driven by strong revenue growth due to GAAR growth of 11.6 percent, partially offset by increased incremental credit card allowance which was impacted by the adoption of IFRS 9. The continued strong growth in the average number of active accounts reflects positive results from the Company’s initiatives to stimulate receivables growth and the continued focus on integration initiatives with the retail businesses, including the launch of the Triangle Rewards program and associated credit cards.

### Revenue

Revenue increased $30.1 million, or 10.2 percent, due to higher credit charges resulting from increased GAAR and higher interchange revenue due to strong credit card sales. GAAR increased 11.6 percent driven by an 8.3 percent growth in the number of average active accounts compared to the prior year. The continued growth in the average number of active accounts reflects positive results from the Company's initiatives to stimulate receivables growth. This was partially offset by a decrease in interest revenue resulting from the adoption of IFRS 9, as interest revenue on credit impaired accounts (stage 3) is calculated net of an allowance for expected credit losses. Refer to Note 2 in the consolidated financial statements for additional information regarding the adoption of IFRS 9.

### Gross Margin

Gross margin dollars decreased 0.1 percent as increased credit charges from receivables growth and the favourable impact from a change in Management's estimate of the present value of regular recoveries, was more than offset by higher regular and insolvency write-offs, and a higher IFRS 9 allowance. The allowance rate, which was approximately 2.0 percent last year, increased to 12.2 percent this year as a result of implementation of IFRS 9. This is within the previously disclosed projected range of 11.5 to 13.5 percent.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $3.8 million, or 4.5 percent, primarily due to savings in personnel costs, partially offset by volume-related increases in credit card operations and higher marketing costs.

## Financial Services Segment Full Year 2018 versus Full Year 2017

### Earnings Summary

Income before income taxes increased $4.0 million, or 1.0 percent. Normalized income before income taxes increased $17.5 million or 4.5 percent due to an increase in revenue of 8.9 percent compared to the prior year, partially offset by a reduction in gross margin rate, due in part to the increased incremental credit card allowance as a result of IFRS 9.

### Revenue

Revenue increased $103.3 million, or 8.9 percent, compared to the prior year primarily driven by higher credit charges due to an increase in the number of average active accounts and higher interchange revenue resulting from strong credit card sales; partially offset by a decrease in interest revenue resulting from the adoption of IFRS 9, as interest revenue on credit impaired accounts (stage 3) is calculated net of allowance for expected credit losses.

### Gross Margin

Gross margin dollars increased 3.1 percent compared to the prior year as a result of higher revenue. The positive impacts to gross margin dollars were partially offset by an increase in the volume of regular and insolvency write-offs. Gross margin rate decreased 322 bps from the prior year primarily due implementation of IFRS 9.

### Selling, General and Administrative Expenses

Selling, general, and administrative expenses increased $17.6 million, or 5.7 percent, and $4.1 million or 1.3 percent normalized. The normalized increase was primarily due to higher promotional and acquisition costs to support the Company's continued investment in GAAR growth and increased operating costs to support the Company's continued investment in operational effectiveness initiatives.

### 7.4.3 Financial Services Segment Business Risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Financial Services' operations. Refer to section 12.1 for a discussion of the Company's principal risk identification and risk management.

### Consumer Credit Risk

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

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

### Liquidity and Funding Risk

Liquidity and funding risk is the risk that Financial Services will be unable to meet its funding obligations or obtain funding at a reasonable cost. Financial Services mitigates its liquidity and funding risk by maintaining multiple diversified funding sources that include securitization of receivables, broker GIC deposits, retail deposits, and committed bank lines of credit. Further mitigation is provided by maintaining a pool of high-quality marketable securities that can be used as a source of liquidity under a short-term stress scenario. Scotiabank has provided CTB with a $250.0 million unsecured revolving committed credit facility and $2.0 billion in note purchase facilities for the purchase of senior and subordinated notes issued by GCCT, both of which expire in October 2021. A number of regulatory metrics are monitored including Liquidity Coverage Ratio, Net Cumulative Cash Flow, and Net Stable Funding Ratio. Further details on financing sources for Financial Services are included in section 8.5.

### Interest Rate Risk

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

### Regulatory Risk

Regulatory risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships, or reputation as a result of failure to comply with or failure to adapt to current and changing regulations or regulatory expectations. The Bank's Compliance department is responsible for the development and maintenance of a regulatory compliance management system. Specific activities that assist the Company in adhering to regulatory standards include communication of regulatory requirements, advice, training, testing, monitoring, reporting, escalation of control deficiencies, and regulatory risks.

# 8.0 Balance Sheet Analysis, Liquidity, and Capital Resources

## 8.1 Selected Balance Sheet Highlights

Selected line items from the Company's assets, liabilities, as at December 29, 2018 and December 30, 2017 are noted below:

| (C$ in millions) | 2018 | 2017[1] | Change $ | Change (%) |
|---|---|---|---|---|
| **Assets** | | | | |
| Trade and other receivables | **$ 933.3** | $ 681.1 | $ 252.2 | 37.0 % |
| Loans receivable | **5,511.3** | 5,613.2 | $ (101.9) | (1.8)% |
| Merchandise inventories | **1,997.5** | 1,769.8 | $ 227.7 | 12.9 % |
| Goodwill and intangible assets | **2,272.0** | 1,292.9 | $ 979.1 | 75.7 % |
| **Total assets** | **17,286.8** | 15,627.0 | $ 1,659.8 | 10.6 % |
| **Liabilities** | | | | |
| Trade and other payables | **$ 2,425.0** | $ 2,230.8 | $ 194.2 | 8.7 % |
| Short-term borrowings | **378.1** | 144.6 | $ 233.5 | 161.5 % |
| Current portion of long-term debt | **553.6** | 282.3 | $ 271.3 | 96.1 % |
| Long-term debt | **4,000.3** | 3,122.1 | $ 878.2 | 28.1 % |
| **Total liabilities** | **11,871.8** | 10,060.9 | $ 1,810.9 | 18.0 % |

[1] *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2 of the 2018 consolidated financial statements).*

For the complete balance sheet, refer to the Consolidated Balance Sheets in the 2018 consolidated financial statements.

The year-over-year increase in total assets of $1,659.8 million was primarily due to:

- an increase in goodwill and intangible assets of 979.1 million primarily due to the acquisition of Helly Hansen;
- an increase in trade and other receivables of $252.2 million primarily driven by the inclusion of Helly Hansen, higher corporate retail sales, favourable valuation of the Company's foreign exchange portfolio and the timing of payments from franchisees; and
- an increase in merchandise inventory of $227.7 million due to the inclusion of Helly Hansen and higher inventory levels at Canadian Tire primarily due to in-transit inventory and higher non-seasonal inventory;

partially offset by:

- a decrease in loans receivable of $101.9 million attributable to an increase in the credit card allowance, as a result of the adoption of IFRS 9, partially offset by GAAR growth as a result of an increase in active credit card holders.

The year-over-year increase in total liabilities of $1,810.9 million was primarily due to:

- a net increase in long-term debt (current portion of long-term debt and long-term debt) of $1,149.5 million due to the issuance of $200.0 million debentures by CT REIT in February 2018, the issuance of $650.0 million of medium-term notes in July 2018 and GCCT's senior and subordinated notes of $584.0 million in September 2018, partially offset by the repayment by GCCT of $264.6 million of senior and subordinated notes in November 2018;
- an increase in short-term borrowings of $233.5 million primarily driven by the issuance of commercial paper and the acquisition of Helly Hansen, partially offset by lower draws on CT REIT's credit facility; and
- an increase in trade and other payables by $194.2 million due to the acquisition of Helly Hansen and the timing of payments made to vendors.

## 8.2 Summary Cash Flows

The Company's cash and cash equivalents position, net of bank indebtedness, was $470.4 million at December 29, 2018.

The Company's Consolidated Statements of Cash Flows for the quarters ended December 29, 2018 and December 30, 2017 are noted in the following table:

| (C$ in millions) | **Q4 2018** | Q4 2017 | Change | **2018** | 2017 | Change |
|---|---|---|---|---|---|---|
| Cash generated from operating activities before the undernoted item | **$ 1,053.7** | $ 1,107.6 | $ (53.9) | **$ 1,298.9** | $ 1,403.2 | $ (104.3) |
| Change in loans receivable | **(246.7)** | (270.5) | 23.8 | **(491.5)** | (430.4) | (61.1) |
| Cash generated from operating activities | **807.0** | 837.1 | (30.1) | **807.4** | 972.8 | (165.4) |
| Cash generated from investing activities before the undernoted items | **17.8** | 11.7 | 6.1 | **40.1** | 16.3 | 23.8 |
| Change in short-term and long-term investments | **(9.8)** | 24.8 | (34.6) | **(39.5)** | (4.3) | (35.2) |
| Additions to property and equipment, investment property and intangibles | **(174.7)** | (293.7) | 119.0 | **(546.3)** | (632.6) | 86.3 |
| Business Combinations, net of cash acquired | **—** | — | — | **(762.9)** | (19.3) | (743.6) |
| Cash (used for) investing activities | **(166.7)** | (257.2) | 90.5 | **(1,308.6)** | (639.9) | (668.7) |
| Cash (used for) financing activities before the undernoted items | **(72.4)** | (102.3) | 29.9 | **(287.4)** | (272.7) | (14.7) |
| Change in long-term debt and short-term borrowings | **(722.0)** | (529.5) | (192.5) | **1,069.7** | 10.8 | 1,058.9 |
| Repurchase of share capital | **(184.0)** | (181.3) | (2.7) | **(582.4)** | (659.3) | 76.9 |
| Change in non-controlling interest from disposal of CT REIT units | **191.8** | — | 191.8 | **191.8** | — | 191.8 |
| Net proceeds from issue of trust units to non-controlling interests | **62.3** | — | $ 62.3 | **62.3** | — | 62.3 |
| Change in deposits | **131.0** | 16.8 | 114.2 | **80.6** | 201.5 | (120.9) |
| Cash (used for) generated from financing activities | **(593.3)** | (796.3) | 203.0 | **534.6** | (719.7) | 1,254.3 |
| Cash generated (used) in the period | **$ 47.0** | $ (216.4) | $ 263.4 | **$ 33.4** | $ (386.8) | $ 420.2 |

### Consolidated Fourth-Quarter 2018 versus Fourth-Quarter 2017

The Company's cash generated in the quarter was $47.0 million compared to cash used of $216.4 million in the fourth quarter of the prior year. The $263.4 million variance was primarily due to:

- net proceeds from sale of CT REIT units and treasury issuance of CT REIT units totaling $254.1 million;
- an increase of $114.2 million relating to deposits in the Financial Services segment; and
- lower spend on additions to property and equipment, investment property and intangible assets compared to the prior period by $119.0 million;

partially offset by:

- a higher use of cash $192.5 million in long-term debt and short-term borrowings, due to higher repayments on the Company's bank lines, partially offset by a lower repayment of long-term debt in 2018; and
- the net outflow of cash in the current quarter from an increase in short-term investments.

### Consolidated Full Year 2018 versus Full Year 2017

On a year-to-date basis, the Company's cash generated during the period was $33.4 million compared to cash used of $386.8 million in the prior year. The $420.2 million improvement was primarily due to:

- the issuance of long-term debt of $1,434.0 million partially offset by repayment of long-term debt of $287.5 million compared to issuances net of repayment of $69.8 million in the prior year.
- the increase in short-term borrowings by the Financial Services segment of $203.6 million, offset by the repayment of $216.5 million of loans to the former owners of Helly Hansen; and
- net proceeds from the sale of CT REIT units and treasury issuance of CT REIT trust units totaling to $254.1 million;

partially offset by:

- the acquisition of Helly Hansen (refer to section 8.4.2 of this MD&A and Note 36 of the consolidated financial statements);
- a decrease of $120.9 million relating to deposits in the Financial Services segment; and
- a decrease in the cash generated from operations of $165.4 million driven primarily by unfavourable changes in working capital of $151.6 million.

## 8.3 Capital Management

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

### 8.3.1 Capital Management Objectives

The Company's objectives when managing capital are:

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

The current economic environment has not caused Management to change the Company's objectives in managing capital.

### 8.3.2 Capital Under Management

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

| (C$ in millions) | | **2018** | **% of total** | | 2017 | % of total |
|---|---|---|---|---|---|---|
| **Capital components** | | | | | | |
| Deposits | **$** | **964.5** | **7.8%** | $ | 973.9 | 8.7% |
| Short-term borrowings | | **378.1** | **3.1%** | | 144.6 | 1.3% |
| Current portion of long-term debt | | **553.6** | **4.5%** | | 282.3 | 2.5% |
| Long-term debt | | **4,000.3** | **32.6%** | | 3,122.1 | 27.8% |
| Long-term deposits | | **1,506.7** | **12.3%** | | 1,412.9 | 12.6% |
| Total debt | **$** | **7,403.2** | **60.3%** | $ | 5,935.8 | 52.9% |
| Redeemable financial instrument | | **567.0** | **4.6%** | | 517.0 | 4.6% |
| Share capital | | **591.5** | **4.8%** | | 615.7 | 5.5% |
| Contributed surplus | | **2.9** | **—%** | | 2.9 | —% |
| Retained earnings | | **3,720.7** | **30.3%** | | 4,161.7 | 37.0% |
| **Total capital under management** | **$** | **12,285.3** | **100.0%** | $ | 11,233.1 | 100.0% |

The Company monitors its capital structure by measuring debt-to-earnings ratios and manages its debt service and other fixed obligations by tracking its interest and other coverage ratios and forecasting corporate liquidity.

The Company manages its capital structure over the long term to optimize the balance among capital efficiency, financial flexibility and risk mitigation. Management calculates its ratios to approximate the methodologies of credit-rating agencies and other market participants on a current and prospective basis. To assess its effectiveness in managing capital, Management monitors these ratios against targeted ranges.

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

The Company has a policy in place to manage capital. As part of the overall management of capital, Management and the Audit Committee of the Board of Directors review the Company's compliance with and performance against, the policy. In addition, periodic review of the policy is performed to ensure consistency with risk tolerances.

Financial covenants of the existing debt agreements are reviewed by Management on an ongoing basis to monitor compliance with the agreements. The key financial covenant for Canadian Tire Corporation is a requirement for the Retail segment to maintain, at all times, a ratio of total indebtedness to total capitalization equal to or lower than a specified maximum ratio (as defined in the Company's bank credit agreement, but which excludes consideration of CTFS Holdings Limited, CT REIT, Franchise Trust and their respective subsidiaries).

The Company was in compliance with all key covenants as at December 29, 2018 and December 30, 2017. Under these covenants, the Company currently has sufficient liquidity to support business growth.

CT REIT is required to comply with financial covenants established under its Trust Indenture, bank credit agreement and the Declaration of Trust and was in compliance with all key covenants as at December 31, 2018 and 2017.

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

### 8.3.3 Canadian Tire Bank's Regulatory Environment

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

The Bank's objectives include:

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

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. December 31, 2018 Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings and Accumulated Other Comprehensive Income ("AOCI"), less regulatory adjustments which are deducted from capital. The Bank currently does not hold any additional Tier 1 capital instruments; therefore, the Bank's CET1 is equal to its Tier 1 regulatory capital. Tier 2 capital consists of the eligible portion of general allowances. Risk-weighted assets ("RWA") include a credit risk component for all on-balance-sheet assets weighted for the risk inherent in each type of asset, off-balance sheet financial instruments, an operational risk component based on a percentage of average risk-weighted revenues and a market-risk component for assets held for trade. For the purposes of calculating RWA, securitization transactions are considered off-balance-sheet transactions and, therefore, securitization assets are not included in the RWA calculation. Assets are classified as held for trade when they are held with trading intent.

The Leverage Ratio prescribed by OSFI's Leverage Requirements Guideline provides an overall measure of the adequacy of an institution's capital and is defined as the all-in Tier 1 capital divided by the leverage ratio exposure. The leverage ratio exposure is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet items.

As at December 31, 2018 and 2017, the Bank complied with all regulatory capital guidelines established by OSFI, its internal targets as determined by its ICAAP and all financial covenants under its bank credit agreement and note purchase facilities.

## 8.4 Investing

### 8.4.1 Capital Expenditures

The Company's capital expenditures for periods ended December 29, 2018 and December 30, 2017 were as follows:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Real estate | **$** | **179.0** | $ | 139.1 |
| Information technology | | **151.0** | | 181.4 |
| Other operating | | **118.4** | | 63.7 |
| **Operating capital expenditures** | | **448.4** | | 384.2 |
| CT REIT acquisitions and developments excluding vend-ins from CTC | | **116.6** | | 215.4 |
| Distribution capacity | | **2.0** | | 42.5 |
| **Total capital expenditures**[1] | **$** | **567.0** | $ | 642.1 |

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

Total capital expenditures decreased $75.1 million year over year primarily due to a decrease in CT REIT acquisitions, lower spend on distribution capacity as the Bolton DC became operational in the third quarter of 2017, and lower IT spend due to projects completed in the prior year and a delay in timing of projects in the current year. This was partially offset by increases in operating capital expenditures resulting mainly from increases in intensifications and development activities in real estate and other operating capital spend.

Operating capital expenditures of $448.4 million were slightly below the previously disclosed range of $450 million to $500 million, due to the delay in timing of certain real estate and IT projects.

### Capital Commitments

The Company had commitments of approximately $158.3 million as at December 29, 2018 (2017 – $120.3 million) for the acquisition of tangible and intangible assets.

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

### Operating Capital Expenditures

As previously announced, the Company expects its three-year average annual operating capital expenditures to be within the range of $450 million to $500 million from 2018 to 2020. This excludes spending for operational efficiency initiatives that may be identified.

The Company expects its 2019 annual operating capital expenditure to be within the range of $475 million to $550 million. The Company expects 2019 operating capital spend to increase over 2018, due to a shift in timing of real estate projects as well as planned incremental investment in Canadian Tire and Mark's store networks. This forecast excludes spending for operational efficiency initiatives that may be identified.

The annual and average operating capital expenditures outlined above do not include spending relating to distribution capacity, the cost of third-party acquisitions by CT REIT as part of its growth strategy, or capital-to-fund future initiatives relating to operational efficiency.

### 8.4.2 Business Acquisition

As part of its growth strategy, the Company actively pursues acquisition candidates that strategically fit with its retail businesses. Major acquisitions are only considered where the Company expects to strengthen its market position and create long-term value for Shareholders.

On July 3, 2018, the Company acquired Teodin Holdco AS, which owns and operates the Helly Hansen brands and related businesses. Helly Hansen is a global leader in sportswear and workwear, based in Oslo, Norway.

Founded in 1877, Helly Hansen is known for its professional-grade gear and for being a leader in designing innovative and high quality technical performance products developed for the harshest outdoor conditions. Within its core categories of sailing, skiing, mountain, urban, rainwear, and workwear, Helly Hansen designs and delivers products used by professionals and outdoor enthusiasts around the world. The acquisition strengthens CTC's core businesses across multiple banners, increases its brand offerings in Canada and its ability to grow its brands internationally.

Since acquisition on July 3, 2018, for the year-ended December 29, 2018, Helly Hansen generated revenue of $347.6 million and net income of $32.6 million. Included within Helly Hansen's net income for the year-ended December 29, 2018 is $4.9 million of depreciation, $4.7 million of interest expense and $9.8 million of income taxes. If the acquisition had occurred on the first day of fiscal 2018, Management estimates that Helly Hansen would have contributed $586.9 million of revenue and $30.1 million of net income, before intercompany eliminations, for the year ended December 29, 2018.

The purchase price of the equity of Teodin Holdco AS was $766.3 million which is in addition to purchased loans from the previous owners and other related items.

The fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

| (C$ in millions) | | |
|---|---|---|
| Cash and cash equivalents | $ | **3.4** |
| Trade and other receivables | | **87.1** |
| Merchandise inventories | | **169.0** |
| Prepaid expenses and deposits | | **1.3** |
| Intangible assets | | **566.0** |
| Property and equipment | | **20.7** |
| Trade and other payables | | **(120.5)** |
| Short-term borrowings | | **(91.3)** |
| Loan from previous owners | | **(216.5)** |
| Provisions | | **(0.2)** |
| Deferred income taxes (net) | | **(86.9)** |
| Other long-term liabilities | | **(0.7)** |
| **Total net identifiable assets** | **$** | **331.4** |

Goodwill was recognized as a result of the acquisition as follows:

| (C$ in millions) | | |
|---|---|---|
| Total consideration transferred | $ | **766.3** |
| Less: Total net identifiable assets | | **(331.4)** |
| Goodwill | $ | **434.9** |

The goodwill recognized on the acquisition of Helly Hansen is attributable mainly to the expected future growth potential from the expanded customer base. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred acquisition-related costs of $22.7 million, which are recorded in Selling, general and administrative expenses. The Company also recorded $5.0 million as a fair value adjustment for inventory acquired, which is recorded in the cost of producing revenue.

As a result of the acquisition, the Company is exposed to certain additional risks. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost synergies subsequent to the acquisition. Subsequent changes in the exchange rates,

economic, political, regulatory environment and other unanticipated factors, may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of the acquisition is dependent upon retaining processes, customers, and key employees of the company acquired.

## 8.5 Liquidity and Financing

The Company is in a strong liquidity position with the ability to access capital from multiple sources. A number of alternative financing sources are available to the Company, CT REIT, and CTB to help ensure an appropriate level of liquidity is available to meet the Company's key initiatives.

### Summary of the Company's Financing Sources as of December 29, 2018:

#### *Committed Bank Lines of Credit*

Provided by a syndicate of seven Canadian and four international financial institutions, $1.975 billion in a committed bank line is available to CTC for general corporate purposes, expiring in August 2023. CTC had no borrowings under its bank lines as at December 29, 2018.

Provided by a syndicate of seven Canadian financial institutions, $300.0 million in a committed bank line is available to CT REIT for general business purposes, expiring in December 2023. CT REIT had $15.0 million of borrowings under its bank lines as at December 29, 2018.

Scotiabank has provided CTB with a $250.0 million unsecured revolving committed credit facility and $2.0 billion in note purchase facilities for the purchase of senior and subordinated notes issued by GCCT, both of which expire in October 2021. CTB had no borrowings under its bank lines as at December 29, 2018.

Helly Hansen had a total of $68.8 million of Canadian Dollar equivalent borrowings outstanding across its committed bank lines of credit (175.0 million Norwegian Krone ["NOK"]) and its factoring facility (265.8 million NOK).

#### *Medium-Term Notes and Debentures*

During the first quarter of 2018, CT REIT issued $200.0 million aggregate principal amount of senior unsecured debentures. The debentures have a coupon rate of 3.865 percent and mature December 7, 2027.

On July 3, 2018, CTC completed an offering of $650.0 million aggregate principal amount of unsecured medium-term notes, issued on a private placement basis pursuant to an offering memorandum dated June 11, 2018. The offering consisted of a $250.0 million principal amount of 2.646% Series E Unsecured Medium-Term Notes due July 6, 2020 and a $400.0 million principal amount of 3.167% Series F Unsecured Medium-Term Notes due July 6, 2023. The Company had a total of $1.2 billion in senior unsecured medium-term notes outstanding as at December 29, 2018.

#### *Securitization of Credit Card Loans Receivables*

Securitization transactions, in the form of a $300 million asset-backed commercial paper program expiring in August 2021, senior notes, and subordinated notes issued through GCCT, continue to be a cost-effective form of financing for CTB.

On September 13, 2018, GCCT completed the issuance of $584.0 million of Series 2018-1 term notes that have an expected repayment date of September 20, 2023, consisting of $546.0 million principal amount of senior notes that bear an interest rate of 3.138 percent per annum, and $38.0 million principal amount of subordinated notes that bear an interest rate of 4.138 percent per annum. GCCT had a total of $2.1 billion in senior and subordinated notes and $294.3 million in commercial paper outstanding as at December 29, 2018.

#### *Broker GIC Deposits*

Funds continue to be readily available to CTB through broker networks. As at December 29, 2018, CTB held $1.9 billion in broker GIC deposits.

### *Retail Deposits*

Retail deposits consist of HIS and retail GIC deposits held by CTB, available both within and outside a TFSA. As at December 29, 2018, CTB held $572.4 million in retail deposits.

### *Real Estate*

The Company can undertake strategic real estate transactions involving properties not owned by CT REIT. It also owns an investment in CT REIT in the form of publicly traded CT REIT Units.

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

### *Credit Ratings*

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

| Credit rating summary | DBRS | S&P | Fitch |
|---|---|---|---|
| **Canadian Tire Corporation** | | | |
| Issuer rating | BBB (high) | BBB+ | - |
| Medium-term notes | BBB (high) | BBB+ | - |
| Trend or outlook | Stable | Stable | - |
| **Glacier Credit Card Trust** | | | |
| Asset-backed commercial paper | R-1 (high) (sf) | - | F1+ (sf) |
| Asset-backed senior notes | AAA (sf) | AAA (sf) - Series prior to 2018 | AAA (sf) - Series 2018-1 |
| Asset-backed subordinated notes | A (sf) - Series after 2014<br>A (high) (sf) - Series 2014-1 | A (sf) - Series 2015-1 & 2017-1<br>A+ (sf) - Series 2014-1 | A (sf) - Series 2018-1<br>- |
| **CT REIT** | | | |
| Issuer rating | BBB (high) | BBB+ | - |
| Senior unsecured debentures | BBB (high) | BBB+ | - |
| Trend or outlook | Stable | Stable | - |

### 8.5.1 Contractual Obligations, Guarantees, and Commitments

#### 8.5.1.1 Contractual Obligations

The Company funds capital expenditures, working capital needs, dividend payments, and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under an NCIB program, from a combination of sources. The following table shows the Company's contractual obligations required to be paid over the next five years and beyond. The Company believes it has sufficient liquidity available to meet its contractual obligations as at December 29, 2018.

**Contractual Obligations Due by Period**

| (C$ in millions) | Total | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 & beyond |
|---|---|---|---|---|---|---|---|
| Current and long-term debt[1, 3] | **$ 2,313.0** | $ 37.6 | $ 250.4 | $ 150.0 | $ 150.0 | $ 400.0 | $ 1,325.0 |
| Glacier Credit Card Trust debt[2, 3] | **2,144.0** | 500.0 | 500.0 | — | 560.0 | 584.0 | — |
| Finance lease obligations[4] | **134.7** | 22.1 | 20.6 | 19.5 | 18.5 | 15.2 | 38.8 |
| Operating leases[5] | **2,493.3** | 379.6 | 353.7 | 320.7 | 268.9 | 202.1 | 968.3 |
| Purchase obligations | **2,222.8** | 1,796.9 | 157.2 | 92.9 | 44.6 | 29.5 | 101.7 |
| Financial Services' deposits[3] | **2,480.3** | 973.6 | 336.5 | 219.0 | 550.0 | 401.2 | — |
| Other obligations | **131.8** | 55.9 | 31.7 | 20.9 | 13.1 | 8.0 | 2.2 |
| | **$ 11,919.9** | $ 3,765.7 | $ 1,650.1 | $ 823.0 | $ 1,605.1 | $ 1,640.0 | $ 2,436.0 |

[1] *Excludes senior and subordinated notes at GCCT.*
[2] *Represents senior and subordinated notes.*
[3] *Excludes interest obligations on debt or deposits.*
[4] *Includes interest obligations on finance leases.*
[5] *Includes $240.1 million commitment for lease agreements signed but not yet commenced.*

In addition, the Company has certain premises where it is on the head lease and subleases the property to franchisees. The total future minimum sublease payments expected under these non-cancellable subleases were $128.4 million as at December 29, 2018 (2017 - $118.2 million).

#### 8.5.1.2 Guarantees and Commitments

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee and provides other additional indemnification commitments to counterparties in various transactions that require the Company to compensate the counterparties for certain amounts and costs incurred. For a discussion of the Company's significant guarantees and commitments, refer to Note 34 of the Company's 2018 consolidated financial statements.

The Company's maximum exposure to credit risk with respect to such guarantees and commitments is provided in Note 5 of the Company's 2018 consolidated financial statements.

### 8.6 Funding Costs

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

| (C$ in millions) | 2018 | 2017 |
|---|---|---|
| Interest expense[1] | **$ 141.8** | $ 114.6 |
| Cost of debt[2] | **3.40%** | 3.23% |

[1] *Represents the interest expense relating to short-term and long-term debt. Short-term debt includes lines of credit. Long-term debt includes medium-term, debentures, senior, and subordinated notes.*
[2] *Represents the weighted average cost of short-term and long-term debt during the period.*

For a discussion of the liquidity and credit risks associated with the Company's ability to generate sufficient resources to meet its financial obligations, refer to section 12.2 and 12.3 in this MD&A.

# 9.0 Equity

## 9.1 Shares Outstanding

| (C$ in millions) | | 2018 | | 2017 |
|---|---|---|---|---|
| **Authorized** | | | | |
| 3,423,366 Common Shares | | | | |
| 100,000,000 Class A Non-Voting Shares | | | | |
| **Issued** | | | | |
| Common Shares (December 30, 2017 – 3,423,366) | **$** | **0.2** | $ | 0.2 |
| 59,478,460 Class A Non-Voting Shares (2017 - 63,066,561) | | **591.3** | | 615.5 |
| | **$** | **591.5** | $ | 615.7 |

Each year, the Company files an NCIB with the Toronto Stock Exchange ("TSX") which allows it to purchase its Class A Non-Voting Shares in the open market.

On November 9, 2017, the Company announced its intention to repurchase $550 million of its Class A Non-Voting Shares by the end of 2018, in excess of the amount of shares required to be purchased for anti-dilutive purposes. On February 20, 2018, the TSX accepted the Company's notice of intention to make an NCIB to purchase up to 5.9 million Class A Non-Voting Shares during the period from March 2, 2018 through March 1, 2019.

The following table summarizes the Company's purchases relating to the November 9, 2017 announcement:

| (C$ in millions) | | |
|---|---|---|
| Share buy-back intention announced on November 9, 2017 | **$** | **550.0** |
| Shares repurchased in 2017 under the November 9, 2017 announcement | | **100.0** |
| Shares repurchased in 2018 under the November 9, 2017 announcement | | **450.0** |
| Shares remaining to be repurchased in 2018 under the November 9, 2017 announcement | **$** | **—** |

In October 2018, the Company completed the repurchases under the November 9, 2017 announcement.

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

On November 8, 2018, the Company announced its intention to repurchase a further $300 million to $400 million of its Class A Non-Voting Shares, in excess of the amount required for anti-dilutive purposes, by the end of fiscal 2019, subject to regulatory approval of the renewal of the Company's NCIB.

The following table summarizes the Company's purchases related to the November 8, 2018 announcement:

| (C$ in millions) | |
|---|---|
| Share buy-back intention announced on November 8, 2018 (range) | **$300.0 - $400.0** |
| Shares repurchased in 2018 under the November 8, 2018 announcement | **127.0** |
| Shares remaining to be repurchased in 2019 under the November 8, 2018 announcement (range) | **$173.0 - $273.0** |

## 9.2 Dividends

The Company has a consistent record of increasing its annual dividend and on November 9, 2017 announced an increase to the dividend payout ratio target to approximately 30 to 40 percent of the prior year normalized earnings, after giving consideration to the period end cash position, future cash flow requirements, capital market conditions, and investment opportunities.

The Company declared dividends payable to holders of Class A Non-Voting Shares and Common Shares at a rate of $1.0375 per share, an increase of $0.1375 or 15.3% per share on its quarterly dividend (or $0.55 per share annually) as previously announced in November 2018, payable on June 1, 2019 to shareholders of record as of April 30, 2019. The dividend is considered an "eligible dividend" for tax purposes.

### 9.3 Equity Derivative Contracts

The Company enters into equity derivative contracts to partially offset its exposure to fluctuations in stock option, performance share unit plan, and deferred share unit plan expenses. The Company currently uses floating-rate equity forwards.

During the year, equity forwards that hedged 1,160,000 stock option and performance share units settled and resulted in a cash receipt from the counterparties of approximately $15.2 million. Also during the year, the Company entered into 1,030,000 floating-rate equity forwards at a weighted average purchase price of $164.21 to offset its exposure to stock options and performance share units.

## 10.0 Tax Matters

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

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

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

Income taxes for the 13 and 52 weeks ended December 29, 2018 were $108.7 million (2017 - $108.9 million) and $285.2 million (2017 - $293.7 million), respectively. The effective tax rates for the 13 and 52 weeks ended December 29, 2018 increased to 28.1 percent (2017 - 26.9 percent) and 26.7 percent (2017 - 26.4 percent) respectively. The effective tax rate increases are primarily due to the non-deductibility of the change in the fair value of the redeemable financial instrument, partially offset by lower non-deductible stock option expense and changes in tax rates.

The effective tax rate decreased to 26.7 percent from the previously disclosed tax rate of approximately 27.0 percent due to lower non-deductible stock option expense in the period, offset by the non-deductible change in the fair value of redeemable financial instrument.

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

In Q3 2018, the Company announced the annual effective tax rate, excluding any impact for a potential change in fair value of the redeemable financial instrument, for fiscal 2019, to be approximately 26.5 percent.

# 11.0 Accounting Policies, Estimates, and Non-GAAP Measures

## 11.1 Critical Accounting Estimates

The Company estimates certain amounts reflected in its consolidated financial statements using detailed financial models based on historical experience, current trends, and other assumptions, to be reasonable. Actual results could differ from those estimates. In Management's judgment, the accounting estimates and policies detailed in Note 2 and Note 3 of the Company's 2018 consolidated financial statements do not require Management to make assumptions about matters that are highly uncertain and, accordingly, none of those estimates are considered a "critical accounting estimate" as defined in Form 51-102F1 - *Management Discussion and Analysis,* published by the Ontario Securities Commission, except as noted below.

In the Company's view, the allowance for loan impairment in Financial Services is considered to be a "critical accounting estimate". Accounting standards relating to the allowance for loan impairments have changed effective for the Company's 2018 fiscal year. The Company's estimate of allowances on credit card loans receivable is based on an expected credit loss ("ECL") approach that employs an analysis of historical data, economic indicators and experience of delinquency and default, to estimate the amount of loans that may default as a result of past or future events, with certain adjustments for other relevant circumstances influencing the recoverability of these loans receivable. Impairment of loans is assessed based on whether there has been a significant increase in credit risk since origination and incorporation of forward-looking information in the measurement of expected credit losses. Default rates, loss rates and the expected timing of future recoveries are periodically benchmarked against actual outcomes to ensure that they remain appropriate. Future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes.

### 11.1.1 Change in Accounting Estimates

Effective in the first quarter 2018, the Company changed its depreciation method to straight-line for all its depreciable assets that were previously depreciated using the declining balance method. The Company believes that the straight-line method of depreciation better reflects the pattern of consumption of the economic benefits of the assets. In accordance with IFRS, this is considered a change in accounting estimate and has been accounted for prospectively. This change resulted in a one-time charge (due to accelerated depreciation) in Q1 2018 of $16.9 million. In addition, under the straight-line methodology, the Company expects that the ratio measuring its annual depreciation expense as a percentage of consolidated revenue will decrease by approximately 40 to 50 bps. The decrease in depreciation for the year 2018, as a percentage of revenue is within the previously disclosed range of approximately 40 to 50 bps.

## 11.2 Changes in Accounting Policies

### Standards, Amendments and Interpretations Issued and Adopted

During the year, the Company adopted IFRS 9 - *Financial Instruments* ("IFRS 9") and the related consequential amendments to IFRS 7 - *Financial Instruments: Disclosures*. The Company also early adopted amendments to IFRS 9. As permitted by the transitional provision of IFRS 9, the Company elected not to restate comparative figures. In addition, the Company has adopted IFRS 15 - *Revenue from Contracts with Customers*, as well as amendments to IFRS 2 - *Share-based Payment*. Refer to Note 2 of the consolidated financial statements for further details.

### Standards, Amendments and Interpretations Issued but not yet Adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ending December 29, 2018 and, accordingly, have not been applied in preparing the consolidated financial statements.

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

### *Leases*

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 - *Leases* ("IFRS 16"), which will replace IAS 17 - *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. IFRS 16 is expected to have a material impact on the Company's Consolidated Balance Sheets, with the addition of approximately $2.2 billion to $2.4 billion of lease liabilities and $1.6 billion to $1.8 billion of right-of-use assets. Lease-related expenses previously recorded in selling, general and administrative expenses, primarily as occupancy costs, will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's Consolidated Statements of Cash Flows, but does not cause a difference in the amount of cash transferred between the parties of a lease.

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous accounting standard (IAS 17);
- the Company will use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- the Company has used the onerous lease provisions recognized as at December 29, 2018 as an alternative to performing an impairment review on its right-of-use assets as at December 30, 2018. Where an onerous lease provision was recorded on a lease, the right-of-use asset has been reduced by the onerous lease provision recognized on December 29, 2018;
- the Company has excluded the initial direct costs in the measurement of the right-of-use asset on transition; and
- the Company has used hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.

In determining the lease term, Management considers all factors that may create an economic incentive to exercise a renewal option or termination option when determining the lease term under the new standard.

The Company has upgraded its accounting system and implemented processes and internal controls to enable the application of IFRS 16 for 2019.

### *Annual Improvements 2015-2017*

In December 2017, the IASB issued amendments to four standards, including IFRS 3 – *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 – *Income Taxes* and IAS 23 – *Borrowing Costs.* These amendments will be effective for annual periods beginning on or after January 1, 2019. The implementation of these amendments is not expected to have a significant impact on the Company.

### *Post-Employment Benefits*

In February 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19 - Employee Benefits). When a change to a plan (an amendment, curtailment or settlement) takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendments will be effective to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. The implementation of these amendments is not expected to have a significant impact on the Company.

### *Insurance Contracts*
In May 2017, the IASB issued IFRS 17 - *Insurance Contracts* ("IFRS 17"), that replaces IFRS 4 - *Insurance Contracts* and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

### *Definition of Material*
In October 2018, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements* and IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of material. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments also clarify the explanations accompanying the definition of material. The amendments are effective January 1, 2020 and are required to be applied prospectively. Early application is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

### *Definition of Business*
In October 2018, the IASB issued amendments to IFRS 3 - *Business Combinations*. The amendments narrowed and clarified the definition of a business. The amendments will help companies determine whether an acquisition is a business or a group of assets. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. The amendments apply to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier adoption is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

## 11.3 Key Operating Performance Measures and Non-GAAP Financial Measures
The Company uses certain key operating performance measures and non-GAAP financial measures and believes that they provide useful information to both Management and investors in measuring the financial performance and financial condition of the Company for the following reasons.

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

### 11.3.1 Key Operating Performance Measures
### Retail Sales
Retail sales refers to the POS value of all goods and services sold to retail customers at stores operated by Dealers, Mark's and SportChek franchisees, and Petroleum retailers, at corporately-owned stores across all retail banners, services provided as part of the Home Services offering, and of goods sold through the Company's online sales channels, and in aggregate do not form a part of the Company's consolidated financial statements. Retail sales has been included as one of the Company's financial aspirations. Sales descriptions for the retail banners can be found in the footnotes to the table contained within section 7.2.2 of this MD&A.

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

Revenue, as reported in the Company's consolidated financial statements, comprises primarily the sale of goods to Dealers and to franchisees of Mark's and SportChek, the sale of gasoline through Petroleum retailers, the sale of goods to retail customers by stores that are corporately owned under the Mark's, PartSource, and SportChek banners, the sale of services through the Home Services business, the sale of goods to customers through a business-to-

business operation, and through the Company's online sales channels, as well as revenue generated from interest, service charges, interchange and other fees, and from insurance products sold to credit card holders in the Financial Services segment, and rent paid by third-party tenants in the CT REIT segment.

### Comparable Sales

Effective Q2 2018, the term same-store sales has been replaced with comparable sales with no change in the metric's definition or calculation.

Comparable sales is a metric used by Management and is also commonly used in the retail industry to identify sales growth generated by a Company's existing store network and removes the effect of opening and closing stores in the period. For Canadian Tire stores, the calculation excludes stores that have been retrofitted, replaced, or expanded where the percentage change in square footage exceeds 25 percent of the original store size, and includes sales from all stores that have been open for a minimum of one year and one week, as well as eCommerce sales. For Mark's and SportChek, comparable sales include sales from all stores that have been open since at least the beginning of the comparative month in the prior year and include eCommerce sales. The Company also reviews consolidated comparable sales which include comparable sales at Canadian Tire (including PartSource and PHL), SportChek, and Mark's but excludes comparable sales at Petroleum. Comparable sales does not include Helly Hansen. Additional information on comparable sales and retail sales growth descriptions for Canadian Tire, Mark's, and SportChek can be found in section 7.2.2 of this MD&A.

### Sales per Square Foot

Management and investors use comparisons of sales per square foot metrics over several periods to help identify whether existing assets are being made more productive by the Company's introduction of new store layouts and merchandising strategies. Sales per square foot descriptions for Canadian Tire, Mark's, and SportChek can be found in section 7.2.2 of this MD&A.

### Retail Return on Invested Capital

The Company believes that Retail ROIC is useful in assessing the return on capital invested in its retail assets. Retail ROIC is calculated as the rolling 12-month retail earnings divided by average invested retail capital. Retail earnings are defined as Retail segment after-tax earnings excluding interest expense, inter-segment earnings, minimum lease payments, non-controlling interests, and any normalizing items. Average invested capital is defined as Retail segment total assets, including operating leases capitalized at a factor of eight, less Retail segment current liabilities and inter-segment balances for the current and prior year. A three-year Retail ROIC aspiration has been included as one of the Company's financial aspirations.

### Return on Receivables

ROR is used by Management to assess the profitability of the Financial Services' total portfolio of receivables. ROR is calculated by dividing income before income tax and gains/losses on disposal of property and equipment by the average total-managed portfolio over a rolling 12-month period.

## 11.3.2 Non-GAAP Financial Measures

### Normalized EBITDA and EBITDA

The following table reconciles the consolidated normalized income before income taxes, net finance costs, depreciation and amortization, any change in fair value of the redeemable financial instrument and certain one-time normalizing items, or normalized EBITDA, to net income attributable to shareholders of Canadian Tire Corporation which is a GAAP measure reported in the consolidated financial statements for the periods ended December 29, 2018 and December 30, 2017. Management uses normalized EBITDA as a supplementary measure when assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital expenditures.

| (C$ in millions) | Q4 2018 | Q4 2017 | 2018 | 2017 |
|---|---|---|---|---|
| Normalized EBITDA | **$ 588.1** | $ 558.5 | **$ 1,742.7** | $ 1,693.8 |
| Less normalizing items: | | | | |
| The roll-out of the Triangle Rewards program and associated credit cards | **—** | — | **17.3** | — |
| Helly Hansen: | | | | |
| Acquisition related costs | **—** | — | **22.7** | — |
| Fair value adjustment for inventories acquired[1] | **—** | | **5.0** | |
| Change in fair value of redeemable financial instrument | **50.0** | — | **50.0** | — |
| EBITDA | **$ 538.1** | $ 558.5 | **$ 1,647.7** | $ 1,693.8 |
| Less: | | | | |
| Depreciation and amortization[2] | **106.5** | 124.1 | **428.0** | 468.7 |
| Net finance costs | **44.7** | 30.1 | **151.5** | 112.6 |
| Income before income taxes | **$ 386.9** | $ 404.3 | **$ 1,068.2** | $ 1,112.5 |
| Income taxes | **108.7** | 108.9 | **285.2** | 293.7 |
| Effective tax rate | **28.1%** | 26.9% | **26.7%** | 26.4% |
| Net income | **$ 278.2** | $ 295.4 | **$ 783.0** | $ 818.8 |
| Net income attributable to non-controlling interests | **23.9** | 19.7 | **90.9** | 83.8 |
| Net income attributable to shareholders of Canadian Tire Corporation | **$ 254.3** | $ 275.7 | **$ 692.1** | $ 735.0 |

[1] *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*
[2] *Includes $1.4 million reported in cost of producing revenue in the quarter (2017 - $1.8 million) and $6.2 million in 2018 (2017 - $6.8 million).*

The change in fair value of redeemable financial instruments relates to the liability arising from the Financial Services transaction with Scotiabank. Refer to Note 32.1 in the annual consolidated financial statements for further details and accounting treatment. The recurring fair value measurement relating to the redeemable financial instrument is not included in the measure of segmented profit or loss reviewed by the chief operating decision maker and is therefore excluded from the financial performance reported in section 7.1 of this MD&A.

The following table reconciles Helly Hansen's EBITDA to net income which is a GAAP measure reported in Note 36 in the consolidated financial statements for the period ended December 29, 2018.

| (C$ in millions) | Q4 2018 | Q4 2017 | 2018 | 2017 |
|---|---|---|---|---|
| EBITDA | **$ 23.2** | $ — | **$ 52.0** | $ — |
| Less: | | — | | — |
| Depreciation and amortization | **3.1** | — | **4.9** | — |
| Net finance costs | **2.2** | — | **4.7** | — |
| Income before income taxes | **17.9** | — | **42.4** | — |
| Income taxes | **4.2** | — | **9.8** | — |
| Effective tax rate | **23.5%** | — | **23.1%** | — |
| Net income | **$ 13.7** | $ — | **$ 32.6** | $ — |

## Retail Segment Normalized EBITDA

The following table reconciles Retail segment normalized income before income taxes, net finance costs, and depreciation and amortization, or normalized EBITDA, to income before income taxes which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 29, 2018 and December 30, 2017.

| (C$ in millions) | **Q4 2018** | Q4 2017 | **2018** | 2017 |
|---|---|---|---|---|
| Normalized EBITDA | **$ 423.4** | $ 398.3 | **$ 1,057.5** | $ 1,046.1 |
| Less normalizing item: | | | | |
| The roll-out of the Triangle Rewards program and associated credit cards | **—** | — | **3.8** | — |
| Helly Hansen: | | | | |
| Acquisition related costs | **—** | — | **22.7** | — |
| Fair value adjustment for inventories acquired[1] | **—** | — | **5.0** | — |
| EBITDA | **$ 423.4** | $ 398.3 | **$ 1,026.0** | $ 1,046.1 |
| Less: | | | | |
| Depreciation and amortization[2] | **90.2** | 102.8 | **360.3** | 382.1 |
| Net finance costs (income) | **4.4** | (6.9) | **(2.7)** | (26.7) |
| Income before income taxes | **$ 328.8** | $ 302.4 | **$ 668.4** | $ 690.7 |

[1] *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*
[2] *Includes $1.4 million reported in cost of producing revenue in the quarter (2017 - $1.8 million) and $6.2 million in 2018 (2017 - $6.8 million).*

## Normalized Gross Margin

The following table reconciles normalized gross margin to gross margin which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 29, 2018 and December 30, 2017.

| (C$ in millions) | **2018** | 2017 |
|---|---|---|
| Normalized gross margin | **$ 4,716.3** | $ 4,480.2 |
| Add normalizing item: | | |
| Helly Hansen - Inventory fair value adjustment[1] | **5.0** | — |
| Gross margin | **$ 4,711.3** | $ 4,480.2 |

[1] *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*

## Normalized Selling, General and Administrative Expenses

The following table reconciles normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 29, 2018 and December 30, 2017.

| (C$ in millions) | **2018** | 2017 |
|---|---|---|
| Normalized selling, general and administrative expenses | **$ 3,427.6** | $ 3,255.0 |
| Add normalizing item: | | |
| The roll-out of the Triangle Rewards program and associated credit cards | **17.3** | — |
| Helly Hansen - Acquisition related costs | **22.7** | — |
| Selling, general and administrative expenses | **$ 3,467.6** | $ 3,255.0 |

## Retail Normalized Gross Margin

The following table reconciles Retail normalized gross margin to Retail gross margin which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 29, 2018 and December 30, 2017.

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Retail normalized gross margin | **$** | **3,953.4** | $ | 3,729.3 |
| Add normalizing item: | | | | |
| Helly Hansen - Inventory fair value adjustment[1] | | **5.0** | | — |
| Retail Gross margin | **$** | **3,948.4** | $ | 3,729.3 |

[1] *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*

## Retail Normalized Selling, General and Administrative Expenses

The following table reconciles Retail normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 29, 2018 and December 30, 2017.

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Normalized selling, general and administrative expenses | **$** | **3,413.3** | $ | 3,188.8 |
| Add normalizing item: | | | | |
| The roll-out of the Triangle Rewards program and associated credit cards | | **3.8** | | — |
| Helly Hansen - Acquisition related costs | | **22.7** | | — |
| Selling, general and administrative expenses | **$** | **3,439.8** | $ | 3,188.8 |

## Financial Services Normalized Selling, General and Administrative Expenses

The following table reconciles Financial Services normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 29, 2018 and December 30, 2017.

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Normalized selling, general and administrative expenses | **$** | **312.6** | $ | 308.5 |
| Add normalizing item: | | | | |
| The roll-out of the Triangle Rewards program and associated credit cards | | **13.5** | | — |
| Selling, general and administrative expenses | **$** | **326.1** | $ | 308.5 |

## Normalized Net Income

The following table reconciles normalized net income to net income which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 29, 2018 and December 30, 2017.

| (C$ in millions) | | **Q4 2018** | | Q4 2017 | | **2018** | | 2017 |
|---|---|---|---|---|---|---|---|---|
| Normalized net income | **$** | **328.2** | $ | 295.4 | **$** | **870.4** | $ | 818.8 |
| The roll-out of the Triangle Rewards program and associated credit cards | | **—** | | — | | **12.7** | | — |
| Helly Hansen - Acquisition related costs and fair value adjustment[1] | | **—** | | — | | **24.7** | | — |
| Change in fair value of redeemable financial instrument | | **50.0** | $ | — | | **50.0** | | — |
| Net income | **$** | **278.2** | $ | 295.4 | **$** | **783.0** | $ | 818.8 |

[1] *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*

## Normalized Net Income Attributable to Shareholders and Earnings per Share

The Company's results of operations for the 13 and 52 weeks ended December 29, 2018 include non-operating items. Management believes that normalizing GAAP net income attributable to shareholders of the Company and basic EPS for non-operating items provides a useful method for assessing the Company's underlying operating performance and assists in making decisions regarding the ongoing operations of its business.

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

| (C$ in millions, except per share amounts) | **Q4 2018** | **EPS** | Q4 2017 | EPS | **2018** | **EPS** | 2017 | EPS |
|---|---|---|---|---|---|---|---|---|
| Net income/basic EPS | **$ 254.3** | **$ 4.00** | $ 275.7 | $ 4.12 | **$ 692.1** | **$10.67** | $735.0 | $10.70 |
| Add the after-tax impact of the following, attributable to shareholders of the Company: | | | | | | | | |
| The roll-out of the Triangle Rewards program and associated credit cards | **—** | **—** | — | — | **10.7** | **0.17** | — | — |
| Helly Hansen - Acquisition related costs and fair value adjustment[1] | **—** | **—** | — | — | **24.7** | **0.38** | — | — |
| Change in fair value of redeemable financial instrument | **50.0** | **0.78** | — | — | **50.0** | **0.77** | — | — |
| Adjusted net income/adjusted basic EPS | **$ 304.3** | **$ 4.78** | $ 275.7 | $ 4.12 | **$ 777.5** | **$11.99** | $735.0 | $10.70 |
| Adjusted net income/adjusted diluted EPS | **$ 304.3** | **$ 4.78** | $ 275.7 | $ 4.10 | **$ 777.5** | **$11.95** | $735.0 | $10.67 |

[1] *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*

## Adjusted Net Debt

The following tables reconcile adjusted net debt to GAAP measures. The Company believes that adjusted net debt is relevant in assessing the amount of financial leverage employed.

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

| As at December 29, 2018<br>(C$ in millions) | **Consolidated** | **Retail** | **CT REIT** | **Financial Services** |
|---|---|---|---|---|
| Consolidated net debt | | | | |
| Bank indebtedness | **$ —** | **$ —** | **$ —** | **$ —** |
| Short-term deposits | **964.5** | **—** | **—** | **964.5** |
| Long-term deposits | **1,506.7** | **—** | **—** | **1,506.7** |
| Short-term borrowings | **378.1** | **68.8** | **15.0** | **294.3** |
| Current portion of long-term debt | **553.6** | **16.1** | **37.1** | **500.4** |
| Long-term debt | **4,000.3** | **1,290.9** | **1,069.8** | **1,639.6** |
| Debt | **7,403.2** | **1,375.8** | **1,121.9** | **4,905.5** |
| Liquid assets[1] | **(806.8)** | **(303.5)** | **(5.0)** | **(498.3)** |
| Net debt (cash) | **6,596.4** | **1,072.3** | **1,116.9** | **4,407.2** |
| Inter-company debt | **—** | **(1,699.7)** | **1,451.6** | **248.1** |
| Adjusted net debt (cash) | **$ 6,596.4** | **$ (627.4)** | **$ 2,568.5** | **$ 4,655.3** |

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

As at December 30, 2017

| (C$ in millions) | Consolidated | Retail | CT REIT | Financial Services |
|---|---|---|---|---|
| Consolidated net debt | | | | |
| Short-term deposits | $ 973.9 | $ — | $ — | $ 973.9 |
| Long-term deposits | 1,412.9 | — | — | 1,412.9 |
| Short-term borrowings | 144.6 | — | 53.9 | 90.7 |
| Current portion of long-term debt | 282.3 | 16.8 | 0.4 | 265.1 |
| Long-term debt | 3,122.1 | 652.2 | 913.1 | 1,556.8 |
| Debt | 5,935.8 | 669.0 | 967.4 | 4,299.4 |
| Liquid assets[1] | (734.5) | (355.0) | (10.9) | (368.6) |
| Net debt (cash) | 5,201.3 | 314.0 | 956.5 | 3,930.8 |
| Inter-company debt | — | (2,073.8) | 1,577.7 | 496.1 |
| Adjusted net debt (cash) | $ 5,201.3 | $ (1,759.8) | $ 2,534.2 | $ 4,426.9 |

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

## CT REIT Non-GAAP Financial Measures

### Net Operating Income

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

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

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

| (C$ in millions) | **Q4 2018** | Q4 2017 | **2018** | 2017 |
|---|---|---|---|---|
| Property revenue | **$ 119.3** | $ 111.2 | **$ 472.5** | $ 443.3 |
| Less: | | | | |
| Property expense | **26.8** | 23.7 | **108.6** | 98.3 |
| Straight-line rent adjustment | **4.5** | 5.6 | **18.4** | 22.8 |
| Add: | | | | |
| Straight-line land lease expense adjustment | **—** | — | **—** | 0.1 |
| Net operating income | **$ 88.0** | $ 81.9 | **$ 345.5** | $ 322.3 |

### Funds from Operations and Adjusted Funds from Operations

CT REIT calculates its FFO and AFFO in accordance with the *Real Property Association of Canada's* White Paper on FFO and AFFO for IFRS issued in February 2018. FFO and AFFO should not be considered as alternatives to net income or cash flow provided by operating activities determined in accordance with IFRS.

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

AFFO is a supplemental measure of recurring economic earnings used in the real estate industry to assess an entity's distribution capacity. CT REIT calculates AFFO by adjusting net income for all adjustments used to calculate FFO as well as adjustments for non-cash income and expense items such as amortization of straight-line rents. Net income is also adjusted by a reserve for maintaining productive capacity required to sustain property infrastructure and revenue from real estate properties and direct leasing costs. Property capital expenditures do not occur evenly during the fiscal year or from year to year. The capital expenditure reserve in the AFFO calculation is intended to reflect an average annual spending level.

The following table reconciles income before income taxes, as reported in CT REIT's Consolidated Statements of Income and Comprehensive Income, to FFO and AFFO:

| (C$ in millions) | **Q4 2018** | Q4 2017 | **2018** | 2017 |
|---|---|---|---|---|
| Income before income taxes | **$ 74.5** | $ 97.1 | **$ 300.9** | $ 317.3 |
| Fair value (gain) adjustment | **(11.5)** | (36.7) | **(53.6)** | (79.7) |
| Deferred taxes | **(0.3)** | (0.2) | **—** | — |
| Fair value of equity awards | **(0.7)** | 0.2 | **(1.3)** | — |
| Funds from operations | **62.0** | 60.4 | **246.0** | 237.6 |
| Properties straight-line rent adjustment | **(4.5)** | (5.6) | **(18.4)** | (22.8) |
| Straight-line land lease expense adjustment | **—** | — | **—** | 0.1 |
| Capital expenditure reserve | **(5.7)** | (5.2) | **(22.4)** | (20.5) |
| Adjusted funds from operations | **$ 51.8** | $ 49.6 | **$ 205.2** | $ 194.4 |

# 12.0 Risks and Risk Management

### Overview

CTC is exposed to a number of risks and opportunities through the normal course of its business activities. The effective management of risk is a key priority for the Company to support CTC in achieving its strategies and business objectives. Accordingly, CTC has adopted an Enterprise Risk Management Framework ("ERM Framework") for identifying, assessing, responding to and monitoring risks and opportunities facing CTC. Refer to section 2.8 in the Company's 2018 Annual Information Form for a full description of CTC's ERM Framework, which is hereby incorporated by reference.

### 12.1 Principal risks

A key element of the ERM Framework is the identification and assessment of CTC's Principal Risks. A Principal Risk is defined as one that, alone or in combination with other interrelated risks, could have a significant adverse impact on CTC's brand, financial position, and/or ability to achieve its strategic objectives. Principal Risks are enterprise-wide in scope and represent strategic, financial, and operational risks. Management has completed its formal annual review of CTC's Principal Risks which have been presented to and approved by the Audit Committee and the Board.

The following provides a high-level perspective on each of the Principal Risks and describes the main strategies that the Company has in place to mitigate the potential impacts of these risks on its business objectives. The mitigation and management of Principal Risks is approached holistically with a view to ensuring all risk exposures associated with a Principal Risk are considered. The Company maintains insurance coverage to further mitigate exposures to certain risks. Although the Company believes the measures taken to mitigate all risks described below are reasonable, there can be no assurance that they will effectively mitigate risks that may have a negative impact on the Company's financial position, brand, and/or ability to achieve its strategic objectives.

## Global and Domestic Marketplace

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

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

*Risk management strategy:*

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

Further information regarding the Company's exposure to this risk for each business segment is provided in sections 7.2.4, 7.3.2 and 7.4.3.

## Strategy

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

Risk management strategy:

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

The Company's annual operating plans include the key initiatives chosen to advance the successful longer-term execution of its strategic objectives. Further information regarding the key initiatives is included in section 5.0.

## Brand

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

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

## People

CTC is subject to the risk of not being able to attract and retain sufficient and appropriately-skilled people who have the expertise (focus, commitment, and capability) to support the achievement of CTC's strategic objectives. CTC's financial position, brand, and/or ability to achieve its strategic objectives may be negatively affected by its failure to manage its people risk.

*Risk management strategy:*
The Company manages its people risk through its organizational design, employee recruitment programs, succession planning, compensation structures, ongoing training, professional development programs, and performance management. The Company also regularly seeks opportunities to recruit new talent.

## Technology Innovation and Investment

CTC's business is affected by the introduction of new technologies, which may positively or adversely impact CTC's products, channels, and services. While CTC's investments in technology supports its ability to achieve its strategic objectives, the lack of timely investment or innovation may negatively affect its financial position, brand, and/or ability to achieve its strategic objectives.

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

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

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

## Key Business Relationships

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

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

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

Governance structures, including policies, processes, contracts, service agreements, and other management activities, are in place to maintain and strengthen the relationships that are critical to the success of the Company's performance and aligned with its overall strategic needs.

A key relationship for the Company is with its Dealers. Management of the Canadian Tire Dealer relationship is led by Officers of the Company with oversight by the CEO and Board of Directors.

### Cyber

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

*Risk management strategy:*
The Company maintains policies, processes, and procedures to address capabilities, performance, security, and availability including resiliency and disaster recovery for systems, infrastructure, and data. Security protocols, along with Corporate Information Security policies, address compliance with information security standards, including those relating to information belonging to the Company's customers and employees. The Company actively monitors, manages, and continues to enhance its ability to mitigate cyber risk through its enterprise-wide programs.

### Information

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

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

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

### Operations

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

Any significant loss of operating capabilities resulting from inadequate or failed internal processes or systems, human interactions, or external events could negatively impact CTC's financial position, brand, and/or ability to achieve its strategic objectives could be negatively affected.

*Risk management strategy:*
The Officer in charge of each banner and corporate function is accountable for providing assurances that policies, processes, and procedures are adequately designed and operating effectively to support the strategic and performance objectives, availability of business services, and regulatory compliance of the banner that they operate or support.

### Financial

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

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

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

*Risk management strategy:*
The Company has a Board-approved Financial Risk Management policy in place that governs the management of capital, funding, and other financial risks. The Treasurer and Chief Financial Officer ("CFO") provide assurances with respect to policy compliance.

In particular, the Company's hedging activities, which are designed to mitigate the Company's exposure to foreign exchange rate volatility and sensitivity to adverse movements in interest rates and the equity markets, are governed by this policy. Hedge transactions are executed with highly rated financial institutions and are monitored against policy limits. Further details are discussed in section 12.2.

### Financial Reporting

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

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

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

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

### Legal and Litigation

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

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

### Credit

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

*Risk management strategy:*
Various Board-approved policies and processes are employed to manage and mitigate the Company's credit risk exposure and are monitored for compliance with policy limits.

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

## 12.2 Financial Risks

### Financial Instrument Risk

The Company is exposed to a number of risks associated with financial instruments that have the potential to affect its operating and financial performance. The Company's primary financial instrument risk exposures relate to credit card loans receivable and allowances for credit losses thereon and the value of the Company's financial instruments (including derivatives and investments) employed to manage exposure to foreign currency risk, interest rate risk, and equity risk, all of which are subject to financial market volatility.

For further disclosure of the Company's financial instruments, their classification, their impact on financial statements, and determination of fair value refer to Note 32 of the consolidated financial statements.

### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and reasonably stressed conditions. The Company has a policy in place to manage its exposure to liquidity risk.

For a comprehensive discussion of the Company's liquidity risk, see Note 5 of the consolidated financial statements.

### Foreign Currency Risk

The Company sources its merchandise globally. Approximately 40%, 51%, and 7% of the value of the inventory purchased for the Canadian Tire, Mark's, and SportChek banners, respectively, is sourced directly from vendors outside North America, primarily denominated in U.S. dollars. The majority of Helly Hansen purchases are denominated in U.S. Dollars and Euros. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the Company has an established foreign exchange risk management program that governs the proportion of forecast U.S. Dollar purchases that must and can be hedged through the purchase of foreign exchange contracts. The purpose of the program is to provide certainty with respect to a portion of the foreign exchange component of future merchandise purchases.

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

### Interest Rate Risk

The Company may use interest rate derivatives to manage interest rate risk. The Company has a policy in place whereby, on a consolidated basis, a minimum of 75 percent of its consolidated debt (short-term and long-term) should be at fixed versus floating interest rates.

## 12.3 Credit Risks

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk primarily arises from the Company's credit card customers, Dealer network, and financial instruments held with bank or non-bank counterparties.

## Financial Instrument Counterparty Credit Risk

The Company has a Board-approved financial risk management policy in place to manage the various risks including counterparty credit risk relating to cash balances, investment activity, and the use of financial derivatives. The Company limits its exposure to counterparty credit risk by transacting only with highly-rated financial institutions and other counterparties and by managing within specific limits for credit exposure and term to maturity. The Company's financial instrument portfolio is spread across financial institutions, provincial and federal governments, and, to a lesser extent, corporate issuers that are dual rated and have a credit rating in the "A" category or better.

## Consumer and Dealer Credit Risk

Accounts receivable are primarily from Dealers, franchisees and Helly Hansen's wholesale customers. This is a large and geographically-dispersed group whose receivables, individually, generally comprise less than one percent of the total balance outstanding. Through the granting of credit cards to its customers, the Company assumes certain risks with respect to the ability and willingness of its customers to repay debt. In addition, the Company may be required to provide credit enhancement for individual Dealer's borrowings in the form of standby letters of credit (the "LCs") or guarantees of third-party bank debt agreements, with respect to the financing programs available to the Dealers.

The Company's maximum exposure to credit risk, over and above amounts recognized in the Consolidated Balance Sheets of the consolidated financial statements, include the following:

| (C$ in millions) | **2018** | 2017 |
|---|---|---|
| Undrawn loan commitments | **$ 11,009.6** | $ 9,768.7 |
| Guarantees | **414.5** | 431.4 |
| Total | **$ 11,424.1** | $ 10,200.1 |

## Allowance for Credit Losses

A continuity of the Company's allowance for impairment on loans receivable is as follows:

| (C$ in millions) | **12-month ECL (Stage 1)** | **Lifetime ECL - not credit-impaired (Stage 2)** | **Lifetime ECL - credit-impaired (Stage 3)** | **Total** |
|---|---|---|---|---|
| Balance at December 30, 2017 per IAS 39 | **$ —** | **$ —** | **$ —** | **$ 111.0** |
| IFRS 9 adjustment | | | | **584.0** |
| Balance at December 31, 2017 per IFRS 9 | **227.0** | **182.3** | **285.7** | **695.0** |
| Increase (decrease) during the period | | | | |
| Write-offs | **(11.9)** | **(25.6)** | **(352.9)** | **(390.4)** |
| Recoveries | | | **75.4** | **75.4** |
| New loans originated | **53.9** | **—** | **—** | **53.9** |
| Transfers | | | | **—** |
| to Stage 1 | **73.2** | **(50.6)** | **(22.6)** | **—** |
| to Stage 2 | **(32.5)** | **36.7** | **(4.2)** | **—** |
| to Stage 3 | **(28.2)** | **(26.8)** | **55.0** | **—** |
| Net remeasurements | **(28.5)** | **70.1** | **289.1** | **330.7** |
| Balance at December 29, 2018 | **$ 253.0** | **$ 186.1** | **$ 325.5** | **$ 764.6** |

### 12.4 Legal and Regulatory Risks

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

Regulatory risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships, or reputation as a result of failure to comply with or failure to adapt to current and changing regulations or regulatory expectations. The Company's Legislative Compliance department is responsible for the development and maintenance of a regulatory compliance management system. Specific activities that assist the Company in adhering to regulatory standards include communication of regulatory requirements, advice, training, testing, monitoring, reporting, and escalation of control deficiencies to Senior Management.

## 13.0 Internal Controls and Procedures

### 13.1 Disclosure Controls and Procedures

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

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

As required by CSA National Instrument 52-109 ("NI 52-109"), Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the adequacy of the design (quarterly) and effective operation (annually) of the Company's disclosure controls and procedures was conducted under the supervision of Management, including the CEO and the CFO, as at December 29, 2018. 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 were effective as at December 29, 2018.

### 13.2 Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining appropriate internal control over financial reporting. The Company's internal control over financial reporting includes, but are not limited to, detailed policies and procedures relating to financial accounting, reporting, and controls over systems that process and summarize transactions. The Company's procedures for financial reporting also include the active involvement of qualified financial professionals, Senior Management and its Audit Committee.
All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As also required by NI 52-109, Management, including the CEO and the CFO, evaluated the adequacy of the design (quarterly) and the effective operation (annually) of the Company's internal control over financial reporting as defined in NI 52-109, as at December 29, 2018. In making this assessment, Management, including the CEO and the CFO, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). This evaluation included review of the documentation of controls, evaluation

of the design and testing the operating effectiveness of controls, and a conclusion about this evaluation. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the internal control over financial reporting were effective as at December 29, 2018 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

### 13.3 Changes in Internal Control over Financial Reporting

During the quarter and year ended December 29, 2018, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as noted below.

In accordance with the provisions of NI 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, Management, including the CEO and the CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude such controls, policies and procedures of Helly Hansen.

CTC acquired the company which owns and operates the Helly Hansen brands and related businesses on July 3, 2018. Helly Hansen's results since its acquisition by the Company until the end of the fourth quarter are included in our Consolidated Statements of Income. Since the acquisition date, Helly Hansen generated revenue of $347.6 million and net income of $32.6 million; these measures as a percentage of the Company's consolidated results represent approximately 2 percent and 5 percent respectively. For the Consolidated Balance Sheets, Helly Hansen constitutes 4 percent of total current assets, 8 percent of total assets, 4 percent of total current liabilities and 3 percent of total liabilities as at December 29, 2018. Further details related to the acquisition of Helly Hansen are disclosed in Section 8.4.2 of this MD&A and in Note 36 of the Company's consolidated financial statements for the fourth quarter and year ended December 29, 2018.

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

## 14.0 Environmental and Social Responsibility

### 14.1 Overview

CTC prides itself on being a trusted Canadian brand and an integral part of Canadian communities, with a strong commitment to improving environmental and social outcomes for Canadians, our communities and our planet. Our environmental and social strategy is aligned with and contributes to the United Nations Sustainable Development Goals. Our initiatives are intended to deliver improved outcomes in the areas of Climate risk mitigation, Product and Packaging, Sourcing, and Inclusion. We identify, measure, and report on environmental and social benefits that result from these initiatives.

**14.1.1 Climate** Management conducted a formal risk assessment of top climate change-related risks and opportunities for the Company, which was concluded in 2018. The results indicate that no climate-related risks are, individually or in aggregate, material to the Company over the short to medium term and identified opportunities for the Company. The management and mitigation of climate risk remains a high priority of the Company. CTC's Sustainability Steering Committee, comprising Senior Executives from across the Enterprise, has responsibility for driving results from productivity initiatives that reduce the Company's environmental footprint. The results of these efforts are reported annually to CTC's Audit Committee. The specific sustainability measures derived from CTC's business sustainability strategy are reported in relation to three key segments of the business operations: (i) product and packaging; (ii) transportation; and (iii) business and retail operations. The Company has developed aspirational targets for changes in: (i) transportation; and (ii) business and retail operations, which were presented to CTC's Brand and Community Committee in February, 2018. Management is currently tracking progress against these targets.

**14.1.2 Product** The Company has a designated quality assurance team that works with the merchandising groups to improve product quality to extend its life and processes to report and act on consumer feedback. CTC reduces harmful chemicals in its products where appropriate alternatives exist, reduces the size and improves the sustainability of packaging, and seeks to develop uses for the second life of tires and certain other products. CTC actively participates in over 80 provincial product environmental stewardship programs that contribute to the safe disposal and/or recycling of many products. Through its own initiatives and collaboration with other leading organizations, the Company has committed to supporting Canada's movement from a linear economy in which products are manufactured, used and then disposed of as "waste", to a circular economy in which products are designed and manufactured so that they can be reused or recycled in a closed loop.

**14.1.3 Sourcing** CTC mitigates social compliance risk through a combination of ensuring all suppliers have signed the Supplier Code as evidence of their agreement and periodic assessments of suppliers' facilities against globally recognized audit standards such as the Business Social Compliance Initiative audit standard. CTC reviews all factory audit findings and, where circumstances warrant, works with suppliers on corrective action plans. Additionally, CTC has made significant financial contribution to and actively participated in international business efforts to improve factory safety in Bangladesh through the remediation of issues found during factory inspections, ongoing fire safety training of factory workers and security guards, and the operation of a helpline to give workers a voice in identifying safety issues to be resolved.

**14.1.4 Inclusion** CTC supports a variety of social causes, but the largest single beneficiary is Jumpstart Charities. Jumpstart is an independent organization committed to assisting financially-challenged families in communities across Canada by funding costs associated with children participating in organized sport and physical activity. In 2017, Jumpstart launched its "Play Finds a Way" movement, which focuses on funding efforts towards accessible playgrounds, as well as accessible infrastructure and programming in communities across Canada. Additional information regarding Jumpstart is available on their website at: http://jumpstart.canadiantire.ca.

## 14.2 Environmental Footprint

The following table presents the Company and its extended value-chain's 2017 environmental footprint and the percentage change relative to the 2011 baseline. The data collection and subsequent review for determining the Company's environmental footprint are rigorous processes that are completed after the close of the calendar-year. As such, the Company's most recent environmental footprint was for 2017. An independent third-party provided a limited assurance review on the footprint data.

In 2018, the Company set new GHG emission reduction targets that demonstrate CTC's commitment to reducing carbon emissions, in line with Canadian and global goals. Our targets focus on impacts that we have the ability to control or reasonably influence. We have invested in innovative ways to reduce our GHG emissions and improve our productivity at the same time. We're aiming to reduce emissions from our buildings by 22 percent by 2022, against a 2011 baseline, and to keep emissions from transportation flat. The baseline year for our footprint is 2011 because that is the earliest year for which reliable and complete footprint data is available.

CTC's absolute emissions increased 5.8 percent in 2017 compared to 2016. The primary reason was an increase in the Company's footprint in the area of raw material acquisition and product manufacturing from our retail banners due to increased volumes of product and sales of product within more energy intensive product categories. GHG emissions also increased from third-party transport due to more product volume and weight shipped by all transport modes. The Company has reduced its footprint from business and retail operations by 9.1 percent since 2011, achieving 41.3 percent of the 2022 target and transportation has remained relatively flat.

| By segment of the value-chain and GHG Protocol category[1] | | GHG emissions (tonnes carbon dioxide equivalents) 2017 | 2011[2] | Change[3] (B) / W |
|---|---|---|---|---|
| Product & Packaging[4] | Scope 3 Purchased goods and services (Canadian Tire, PartSource, Petroleum, Mark's, SportChek) | 3,531,724 | 3,987,217 | (11.4)% |
| | *Per $1,000 banner revenue* | *0.29* | *0.39* | *(25.6)%* |
| Transport[5] | Scope 1 (Canadian Tire and PartSource) | 17,730 | 12,836 | |
| | Scope 3 Upstream Transportation and Distribution (Canadian Tire and PartSource) | 307,032 | 313,185 | |
| | Scope 3 Business Air Travel (all banners) | 4,620 | *n/a* | |
| | *Sub-total* | *329,382* | *326,022* | *1.0 %* |
| | *Per 1,000 tonne-kilometres* | *0.03* | *0.02* | *50.0 %* |
| Business & Retail Operations[6] | Scope 1 & 2 (Corporate stores, offices and DCs) | 77,562 | 77,537 | |
| | Scope 3 Upstream Leased Assets (Leased offices and Distribution centres) | 14,988 | 15,253 | |
| | Scope 3 Downstream Leased Assets (Investment Properties) | 3,310 | 1,883 | |
| | Scope 3 Franchises (Dealer and franchise stores and CT Petroleum agents) | 131,082 | 145,531 | |
| | Scope 3 Fuel and Energy Related Activities (Electricity Transmission and Distribution losses) | 15,126 | 26,044 | |
| | *Sub-total* | *242,068* | *266,248* | *(9.1)%* |
| | *Per square metre* | *0.39* | *0.42* | *(7.1)%* |
| **Total** | **Scope 1 & 2** | **95,291** | **90,373** | ***5.4%*** |
| | **Scope 3** | **4,007,883** | **4,489,113** | ***(10.7)%*** |
| | **Total** | ***4,103,174*** | ***4,579,487*** | ***(10.4)%*** |
| | **Per $1,000 consolidated revenue** | ***305.41*** | ***440.88*** | ***(30.7)%*** |

[1] *Produced in accordance with principles from the World Business Council on Sustainable Development and World Resource Institute Greenhouse Gas Protocol. The 2011 baseline was restated to reflect changes in methodology and updates of previous calculations, as necessary. Mark's and SportChek product transport, customer use, and product end-of-life emissions for all banners are not currently measured due to data unavailability.*
*Scope 1 emissions are direct emissions from the combustion of on-site and mobile fuels that occur at, or are associated with, facilities and operations under the Company's operational control.*
*Scope 2 emissions are indirect emissions that occur off-site from the production of energy, such as electricity, which is purchased for use at facilities and operations under the Company's operational control.*
*Scope 3 emissions are other indirect emissions from sources upstream and downstream of the organization's activities.*

[2] *CTC tracks emission performance against a 2011 baseline as this is the first year for which complete footprint data is available.*

[3] *Percentage change relative to baseline 2011 environmental footprint. A negative change indicates a reduction in energy use and/or GHG emissions which is an improvement and indicated as Better (B), versus a positive change which indicates an increase in energy use and/or GHG emissions and is indicated as Worse (W).*

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

[5] *Values of product transportation from freight-on-board location to stores or from refining sites to gas bars. Restatement applied historically to reflect methodology and emission factor changes from source.*

[6] *Values from Corporate and third-party operated sites including offices, DCs and Corporate, Dealer, agent, and franchise retail stores.*

For details on Canadian Tire Corporation's sustainability strategy, environmental performance, and a 2017 Assurance Statement please refer to our Business Sustainability Performance Reports on the Sustainability site at: https://corp.canadiantire.ca/English/sustainability/performance-reports/default.aspx. For information on Canadian Tire Corporation's environmental and social initiatives and achievements please refer to our Sustainability Report at: sustainability.canadiantirecorporation.ca.

## 14.3 2018 Sustainability Initiatives

The Company's sustainability initiatives aim to enhance its productivity and reduce its environmental footprint relative to its business growth and provide its customers with sustainable solutions for the "Jobs and Joys for Life in Canada". In 2018, new economic benefits were realized through a number of sustainability initiatives. The Company continued calculating economic benefits that have been realized since it started its sustainability program in 2011 ("2011 baseline").

The initiatives were targeted at increasing sales of products that reduce energy use or waste, reducing fuel used to transport products, and increasing energy efficiency in buildings. These initiatives resulted in environmental benefits equivalent to eliminating the waste generation of over 35,000 Canadian homes and the energy required to power approximately 5,400 Canadian homes for a year.

The following table summarizes the net new economic benefits to the Company, its Dealers and franchisees and the net new environmental benefits realized in 2018 from the Company's sustainability initiatives. It also depicts the lifetime economic benefit of sustainability initiatives realized since 2011.

| ($C in millions, except where indicated) | 2018 Economic Benefit[1] ($M) | Energy Use Avoidance[2] (GJ) | Low-Carbon Energy Generation[3] (GJ) | Greenhouse Gas Emissions Avoidance[2] (tonnes $CO_2$e) | Waste Avoidance[2] (tonnes) | Waste Diversion[4] (tonnes) | (%) | Lifetime Economic Benefit[5] ($M) |
|---|---|---|---|---|---|---|---|---|
| Product and Packaging[6] | $ 62.20 | 396,459 | — | 14,737 | 22,075 | — | | $ 293.76 |
| Product Transport[7] | $ 2.73 | 36,421 | — | 2,149 | 16 | — | | $ 14.05 |
| Business and Retail Operations[8] | $ 14.71 | 109,341 | 50,658 | 5,209 | 1,616 | 25,106 | 78% | $ 66.55 |
| **Total** | **$ 79.64** | **542,221** | **50,658** | **22,095** | **23,707** | **25,106** | **78%** | **$ 374.36** |

[1] *Economic benefit refers to cost avoidance (e.g. energy costs) and income earned (e.g. from the sale of recyclable materials) associated with sustainability initiatives.*
[2] *Avoidance refers to savings in comparison to the baseline scenario, where the baseline scenario is defined as "what would have most likely occurred in the absence of the sustainability initiative". Improvements are related to the specific initiatives reported and do not represent total improvements to the value-chain segment.*
[3] *Refers to energy generated from on-site solar installations. To be considered "low-carbon", the Greenhouse Gas (GHG) emissions associated with the energy generated must be lower than traditional means of power generation. This energy is fed into the Ontario electrical grid for general consumption in the province.*
[4] *Materials diverted from landfill through reuse, recycling, or composting.*
[5] *Economic benefit to the Company, its Dealers and franchisees realized since our baseline year of 2011 for the entire useful life of the initiative (e.g. in-store lighting upgrades completed in our baseline year of 2011 will continue to reap benefits every year for the expected lifetime of the asset). Each initiative has a unique useful life ranging from one to 25 years.*
[6] *Realized reductions in energy use resulting from the transportation of optimized product and packaging, realized reductions in customer energy use resulting from the sale of energy efficient products, and waste reductions stemming from reduced packaging, damages, and product waste at end-of-life.*
[7] *Realized reductions in energy use from increased fuel efficiency in transportation modes and vehicles (e.g. use of long-combination vehicles).*
[8] *Realized reductions in energy use in buildings and their operations through energy efficiency initiatives (e.g. new construction, retrofits), renewable energy generated from rooftop solar installations, and percentage of waste diverted from landfill as a result of waste management initiatives at stores and DCs.*

# 15.0 Forward-Looking Statements and Other Investor Communication

### Caution Regarding Forward-looking Statements

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

- the Company's financial aspirations for fiscal years 2018 to 2020 in section 5.1;
- the 2018 key initiatives in section 5.2;
- the 2019 key initiatives in section 6.0;
- capital expenditures in subsection 8.4.1;
- contractual obligations, guarantees, and commitments in subsection 8.5.1;
- the Company's intention with respect to the purchase of its Class A Non-Voting Shares in section 9.1;
- tax matters in section 10.0;
- changes in accounting estimates in subsection 11.1.1; and
- changes in accounting policies in section 11.2.

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

Certain statements other than statements of historical facts included in this document may constitute forward-looking statements, including, but not limited to, statements concerning Management's current expectations relating to possible or assumed future prospects and results, the Company's strategic goals and priorities, its actions and the results of those actions and the economic and business outlook for the Company. Often, but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend",

“believe”, “estimate”, “plan”, “can”, “could”, “should”, “would”, “outlook”, “forecast”, “anticipate”, “aspire”, “foresee”, “continue”, “ongoing” or the negative of these terms or variations of them or similar terminology. Forward-looking statements are based on the reasonable assumptions, estimates, analyses, beliefs and opinions of Management, made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that Management believes to be relevant and reasonable at the date that such statements are made.

By their very nature, forward-looking statements require Management to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that the Company’s assumptions, estimates, analyses, beliefs and opinions may not be correct and that the Company’s expectations and plans will not be achieved. Examples of material assumptions and Management’s beliefs, which may prove to be incorrect, include, but are not limited to, the effectiveness of certain performance measures, current and future competitive conditions and the Company’s position in the competitive environment, the Company’s core capabilities, and expectations around the availability of sufficient liquidity to meet the Company’s contractual obligations. Although the Company believes that the forward-looking information in this document is based on information, assumptions and beliefs that are current, reasonable, and complete, such information is necessarily subject to a number of factors that could cause actual results to differ materially from Management’s expectations and plans as set forth in such forward-looking statements. Some of the factors, many of which are beyond the Company’s control and the effects of which can be difficult to predict, include: (a) credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, interest rates or tax rates; (b) the ability of the Company to attract and retain high-quality employees for all of its businesses, Dealers, Canadian Tire Petroleum retailers, and Mark’s and SportChek franchisees, as well as the Company’s financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at its stores or acquire the Company’s consumer brands or its financial products and services; (d) the Company’s margins and sales and those of its competitors; (e) the changing consumer preferences and expectations related to eCommerce, online retailing and the introduction of new technologies; (f) the possible effects on our business from international conflicts, political conditions, and developments including changes relating to or affecting economic or trade matters; (g) risks and uncertainties relating to information management, technology, cyber threats, property management and development, environmental liabilities, supply chain management, product safety, changes in law, regulation, competition, seasonality, weather patterns, climate change, commodity prices and business disruption, the Company’s relationships with suppliers, manufacturers, partners and other third parties, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by the Company and the cost of store network expansion and retrofits; (h) the Company’s capital structure, funding strategy, cost management program, and share price and (i) the Company’s ability to obtain all necessary regulatory approvals. Management cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect the Company’s results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

For more information on the risks, uncertainties and assumptions that could cause the Company’s actual results to differ from current expectations, please refer to section 5.1 (Three-Year (2018 to 2020) Financial Aspirations) and all subsections thereunder and section 12.0 (Risks and Risk Management) of this MD&A. Please also refer to section 2.8 (Risk Factors) of the Company’s Annual Information Form for fiscal 2018, as well as the Company’s other public filings, available on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com and at https://investors.canadiantire.ca.

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

Information contained in or otherwise accessible through the websites referenced in this MD&A does not form part of this MD&A and is not incorporated by reference into this MD&A. All references to such websites are inactive textual references and are for information only.

This document contains trade names, trademarks and service marks of CTC and other organizations, all of which are the property of their respective owners. Solely for convenience, the trade names, trademarks and service marks referred to herein appear without the ® or ™ symbol.

### Commitment to Disclosure and Investor Communication

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

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

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

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

## 16.0 Related Parties

The Company's majority shareholder is Martha Billes, who beneficially owns, or controls or directs approximately 61.4 percent of the Common Shares of the Company through two privately held companies, Tire 'N' Me Pty. Ltd. and Albikin Management Inc.

Transactions with members of the Company's Board of Directors who were also Dealers represented less than one percent of the Company's total revenue and were in accordance with established Company policy applicable to all Dealers. Other transactions with related parties, as defined by IFRS, were not significant during the year.

February 13, 2019

# *CANADIAN TIRE CORPORATION, LIMITED*

## *CONSOLIDATED FINANCIAL STATEMENTS*

## For the years ended December 29, 2018 and December 30, 2017

# Management's Responsibility for Financial Statements

The Management of Canadian Tire Corporation, Limited (the "Company") is responsible for the integrity and reliability of the accompanying consolidated financial statements. These consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards and include amounts based on judgments and estimates. All financial information in our Management's Discussion and Analysis is consistent with these consolidated financial statements.

Management is responsible for establishing and maintaining adequate systems of internal control over financial reporting. 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 has assessed the effectiveness of the Company's internal controls over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company's internal controls over financial reporting were effective as at the date of these consolidated statements.

The Board of Directors oversees Management's responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee, which is comprised solely of directors who are neither officers nor employees of the Company. This Committee meets with Management and the Company's independent auditors, Deloitte LLP, to review the consolidated financial statements and recommend approval by the Board of Directors. The Audit Committee is responsible for making recommendations to the Board of Directors with respect to the appointment of and, subject to the approval of the shareholders authorizing the Board of Directors to do so, approving the remuneration and terms of engagement of the Company's auditors. The Audit Committee also meets with the auditors, without the presence of Management, to discuss the results of their audit.

The consolidated financial statements have been audited by Deloitte LLP, in accordance with Canadian generally accepted auditing standards. Their report is presented on the following page.

**Stephen G. Wetmore**
President and
Chief Executive Officer

**Dean McCann**
Executive Vice-President
and Chief Financial Officer

February 13, 2019

# Independent Auditor's Report

To the Shareholders of Canadian Tire Corporation, Limited

## Opinion

We have audited the consolidated financial statements of Canadian Tire Corporation, Limited (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as at December 29, 2018 and December 30, 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity for the years ended December 29, 2018 and December 30, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 29, 2018 and December 30, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud

or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Keith Michael Pennells.

Deloitte LLP

Chartered Professional Accountants

Licensed Public Accountants

February 13, 2019

Toronto, Ontario

# Consolidated Balance Sheets

| As at<br>(C$ in millions) | December 29, 2018 | December 30, 2017[1] |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents (Note 7) | **$ 470.4** | $ 437.0 |
| Short-term investments | **183.7** | 132.5 |
| Trade and other receivables (Note 8) | **933.3** | 681.1 |
| Loans receivable (Note 9) | **5,511.3** | 5,613.2 |
| Merchandise inventories | **1,997.5** | 1,769.8 |
| Income taxes recoverable | **15.3** | 48.3 |
| Prepaid expenses and deposits | **138.8** | 113.1 |
| Assets classified as held for sale | **5.5** | 1.1 |
| **Total current assets** | **9,255.8** | 8,796.1 |
| Long-term receivables and other assets (Note 10) | **742.6** | 717.8 |
| Long-term investments | **152.7** | 165.0 |
| Goodwill and intangible assets (Note 11) | **2,272.0** | 1,292.9 |
| Investment property (Note 12) | **364.7** | 344.7 |
| Property and equipment (Note 13) | **4,283.2** | 4,193.3 |
| Deferred income taxes (Note 15) | **215.8** | 117.2 |
| **Total assets** | **$ 17,286.8** | $ 15,627.0 |
| **LIABILITIES** | | |
| Deposits (Note 16) | **964.5** | 973.9 |
| Trade and other payables (Note 17) | **2,425.0** | 2,230.8 |
| Provisions (Note 18) | **171.8** | 158.9 |
| Short-term borrowings (Note 20) | **378.1** | 144.6 |
| Loans payable (Note 21) | **654.6** | 667.1 |
| Income taxes payable | **110.6** | 72.1 |
| Current portion of long-term debt (Note 22) | **553.6** | 282.3 |
| **Total current liabilities** | **5,258.2** | 4,529.7 |
| Long-term provisions (Note 18) | **49.8** | 45.7 |
| Long-term debt (Note 22) | **4,000.3** | 3,122.1 |
| Long-term deposits (Note 16) | **1,506.7** | 1,412.9 |
| Deferred income taxes (Note 15) | **184.5** | 102.3 |
| Other long-term liabilities (Note 23) | **872.3** | 848.2 |
| **Total liabilities** | **11,871.8** | 10,060.9 |
| **EQUITY** | | |
| Share capital (Note 25) | **591.5** | 615.7 |
| Contributed surplus | **2.9** | 2.9 |
| Accumulated other comprehensive income (loss) | **51.1** | (37.5) |
| Retained earnings | **3,720.7** | 4,161.7 |
| **Equity attributable to shareholders of Canadian Tire Corporation** | **4,366.2** | 4,742.8 |
| Non-controlling interests (Note 14) | **1,048.8** | 823.3 |
| **Total equity** | **5,415.0** | 5,566.1 |
| **Total liabilities and equity** | **$ 17,286.8** | $ 15,627.0 |

[1] *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2).*

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

**Maureen J. Sabia**
Director

**Diana L. Chant**
Director

# Consolidated Statements of Income

| For the years ended<br>(C$ in millions, except share and per share amounts) | **December 29, 2018** | December 30, 2017[1] |
|---|---|---|
| **Revenue** (Note 27) | **$ 14,058.7** | $ 13,276.7 |
| Cost of producing revenue (Note 28) | **9,347.4** | 8,796.5 |
| **Gross margin** | **4,711.3** | 4,480.2 |
| Other (income) expense | **(26.0)** | 0.2 |
| Selling, general and administrative expenses (Note 29) | **3,467.6** | 3,254.9 |
| Net finance costs (Note 30) | **151.5** | 112.6 |
| Change in fair value of redeemable financial instrument (Note 32) | **50.0** | — |
| **Income before income taxes** | **1,068.2** | 1,112.5 |
| **Income taxes** (Note 15) | **285.2** | 293.7 |
| **Net income** | **$ 783.0** | $ 818.8 |
| Net income attributable to: | | |
| Shareholders of Canadian Tire Corporation | **$ 692.1** | $ 735.0 |
| Non-controlling interests (Note 14) | **90.9** | 83.8 |
| | **$ 783.0** | $ 818.8 |
| **Basic earnings per share** | **$ 10.67** | $ 10.70 |
| **Diluted earnings per share** | **$ 10.64** | $ 10.67 |
| **Weighted average number of Common and Class A Non-Voting Shares outstanding:** | | |
| **Basic** | **64,887,724** | 68,678,840 |
| **Diluted** | **65,062,581** | 68,871,847 |

[1] *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2).*

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

# Consolidated Statements of Comprehensive Income

| For the years ended<br>(C$ in millions) | **December 29, 2018** | December 30, 2017 |
|---|---|---|
| **Net income** | **$ 783.0** | $ 818.8 |
| **Other comprehensive income (loss), net of taxes** | | |
| **Items that may be reclassified subsequently to net income:** | | |
| (Losses) on cash flow hedges and available-for-sale financial assets | **—** | (85.7) |
| Net fair value (losses) on hedging instruments entered into for cash flow hedges not subject to basis adjustment | **(6.4)** | — |
| Deferred cost of hedging not subject to basis adjustment - Changes in fair value of the time value of an option in relation to time-period related hedged items | **(7.5)** | — |
| Reclassification of losses to non-financial assets | **—** | 19.1 |
| Reclassification of losses (gains) to income | **3.7** | (5.7) |
| Currency translation adjustment | **(40.9)** | — |
| **Items that will not be reclassified subsequently to net income:** | | |
| Actuarial gains (losses) | **10.8** | (6.2) |
| Net fair value gains on hedging instruments entered into for cash flow hedges subject to basis adjustment | **141.8** | — |
| Other comprehensive income (loss) | **$ 101.5** | $ (78.5) |
| Other comprehensive income (loss) attributable to: | | |
| Shareholders of Canadian Tire Corporation | **$ 103.0** | $ (80.3) |
| Non-controlling interests | **(1.5)** | 1.8 |
| | **$ 101.5** | $ (78.5) |
| **Comprehensive income** | **$ 884.5** | $ 740.3 |
| Comprehensive income attributable to: | | |
| Shareholders of Canadian Tire Corporation | **$ 795.1** | $ 654.7 |
| Non-controlling interests | **89.4** | 85.6 |
| | **$ 884.5** | $ 740.3 |

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

# Consolidated Statements of Cash Flows

| For the years ended<br>(C$ in millions) | **December 29, 2018** | December 30, 2017 |
|---|---|---|
| **Cash (used for) generated from:** | | |
| **Operating activities** | | |
| Net income | **$ 783.0** | $ 818.8 |
| Adjustments for: | | |
| Depreciation of property and equipment and investment property (Notes 28 and 29) | **301.4** | 335.0 |
| Income tax expense | **285.2** | 293.7 |
| Net finance costs (Note 30) | **151.5** | 112.6 |
| Amortization of intangible assets (Note 29) | **126.6** | 133.7 |
| (Gain) loss on disposal of property and equipment and investment property | **(23.4)** | 0.4 |
| Change in fair value of redeemable financial instrument (Note 32) | **50.0** | — |
| Interest paid | **(148.5)** | (125.9) |
| Interest received | **10.1** | 8.7 |
| Income taxes paid | **(204.4)** | (294.3) |
| Other | **12.0** | 13.5 |
| Total except as noted below | **1,343.5** | 1,296.2 |
| Change in operating working capital and other (Note 31) | **(44.6)** | 107.0 |
| Change in loans receivable | **(491.5)** | (430.4) |
| **Cash generated from operating activities** | **807.4** | 972.8 |
| **Investing activities** | | |
| Additions to property and equipment and investment property | **(416.8)** | (471.0) |
| Additions to intangible assets | **(129.5)** | (161.6) |
| Total additions | **(546.3)** | (632.6) |
| Acquisition of short-term investments | **(203.8)** | (421.9) |
| Proceeds from maturity and disposition of short-term investments | **208.3** | 452.6 |
| Acquisition of long-term investments | **(44.0)** | (35.0) |
| Proceeds on disposition of property and equipment and investment property | **28.9** | 13.6 |
| Business combinations, net of cash acquired (Note 36) | **(762.9)** | (19.3) |
| Other | **11.2** | 2.7 |
| **Cash (used for) investing activities** | **(1,308.6)** | (639.9) |
| **Financing activities** | | |
| Dividends paid | **(222.3)** | (169.7) |
| Distributions paid to non-controlling interests | **(36.1)** | (61.1) |
| Total dividends and distributions paid | **(258.4)** | (230.8) |
| Net issuance (repayment) of short-term borrowings | **(71.3)** | (54.8) |
| Issuance of loans payable | **225.9** | 140.9 |
| Repayment of loans payable | **(238.5)** | (173.9) |
| Issuance of long-term debt (Note 22) | **1,434.0** | 741.0 |
| Repayment of long-term debt and finance lease liabilities (Note 22) | **(287.5)** | (671.2) |
| Payment of transaction costs related to long-term debt | **(5.5)** | (4.2) |
| Repurchase of share capital | **(582.4)** | (659.3) |
| Proceeds on disposal of partial interest in CT REIT (Note 14) | **191.8** | — |
| Net proceeds from issue of trust units to non-controlling interests (Note 14) | **62.3** | — |
| Payments on financial instruments | **(16.4)** | (8.9) |
| Change in deposits | **80.6** | 201.5 |
| **Cash generated (used for) from financing activities** | **534.6** | (719.7) |
| **Cash generated (used) in the period** | **33.4** | (386.8) |
| **Cash and cash equivalents, net of bank indebtedness, beginning of period** | **437.0** | 823.8 |
| **Cash and cash equivalents, net of bank indebtedness, end of period (Note 7)** | **$ 470.4** | $ 437.0 |

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

# Consolidated Statements of Changes in Equity

| (C$ in millions) | Share capital | Contributed surplus | Total accumulated other comprehensive income (loss): Cashflow hedges[1] | Currency translation adjustment | Total accumulated other comprehensive income (loss) | Retained earnings | Equity attributable to shareholders of Canadian Tire Corporation | Equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **December 30, 2017, as previously reported** | **$ 615.7** | **$ 2.9** | **$ (37.5)** | **$ —** | **$ (37.5)** | **$ 4,169.3** | **$ 4,750.4** | **$ 823.3** | **$ 5,573.7** |
| **Transition adjustments - IFRS 15 (Note 2)** | **—** | **—** | **—** | **—** | **—** | **(7.6)** | **(7.6)** | **—** | **(7.6)** |
| **Restated balance at December 30, 2017** | **615.7** | **2.9** | **(37.5)** | **—** | **(37.5)** | **4,161.7** | **4,742.8** | **823.3** | **5,566.1** |
| **Transition adjustments - IFRS 2 & 9** | **—** | **—** | **(0.8)** | **—** | **(0.8)** | **(351.1)** | **(351.9)** | **(81.9)** | **(433.8)** |
| **Restated balance at December 31, 2017** | **615.7** | **2.9** | **(38.3)** | **—** | **(38.3)** | **3,810.6** | **4,390.9** | **741.4** | **5,132.3** |
| **Net income** | **—** | **—** | **—** | **—** | **—** | **692.1** | **692.1** | **90.9** | **783.0** |
| **Other comprehensive income** | **—** | **—** | **133.5** | **(40.9)** | **92.6** | **10.4** | **103.0** | **(1.5)** | **101.5** |
| **Total comprehensive income** | **—** | **—** | **133.5** | **(40.9)** | **92.6** | **702.5** | **795.1** | **89.4** | **884.5** |
| **Transfers of cash flow hedge (gains) to non-financial assets** | **—** | **—** | **(3.2)** | **—** | **(3.2)** | **—** | **(3.2)** | **—** | **(3.2)** |
| **Contributions and distributions to shareholders of Canadian Tire Corporation** | | | | | | | | | |
| Issuance of Class A Non-Voting Shares (Note 25) | **11.9** | **—** | **—** | **—** | **—** | **—** | **11.9** | **—** | **11.9** |
| Repurchase of Class A Non-Voting Shares (Note 25) | **(588.9)** | **—** | **—** | **—** | **—** | **—** | **(588.9)** | **—** | **(588.9)** |
| Excess of purchase price over average cost (Note 25) | **552.8** | **—** | **—** | **—** | **—** | **(552.8)** | **—** | **—** | **—** |
| Dividends | **—** | **—** | **—** | **—** | **—** | **(239.6)** | **(239.6)** | **—** | **(239.6)** |
| **Contributions and distributions to non-controlling interests** | | | | | | | | | |
| Sale of ownership interests in the CT REIT business, net of transaction costs (Note 14) | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **191.8** | **191.8** |
| Issuance of trust units to non-controlling interests, net of transaction costs | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **65.8** | **65.8** |
| Distributions and dividends to non-controlling interests | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(39.6)** | **(39.6)** |
| **Total contributions and distributions** | **(24.2)** | **—** | **(3.2)** | **—** | **(3.2)** | **(792.4)** | **(819.8)** | **218.0** | **(601.8)** |
| **Balance at December 29, 2018** | **$ 591.5** | **$ 2.9** | **$ 92.0** | **$ (40.9)** | **$ 51.1** | **$ 3,720.7** | **$ 4,366.2** | **$ 1,048.8** | **$ 5,415.0** |

[1] The December 30, 2017 opening cashflow hedges balance includes $0.8 million relating to fair value changes of available-for-sale financial instruments and are included in the IFRS 9 transition adjustments.

| (C$ in millions) | Share capital | Contributed surplus | Total accumulated other comprehensive income (loss): Cashflow hedges[2] | Currency translation adjustment | Total accumulated other comprehensive income (loss) | Retained earnings | Equity attributable to shareholders of Canadian Tire Corporation | Equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2016, as previously reported** | $ 648.1 | $ 2.9 | $ 36.7 | $ — | $ 36.7 | $ 4,250.9 | $ 4,938.6 | $ 798.7 | $ 5,737.3 |
| **Transition adjustments - IFRS 15 (Note 2)** | — | — | — | — | — | (7.6) | (7.6) | — | (7.6) |
| **Restated balance at December 31, 2016** | 648.1 | 2.9 | 36.7 | — | 36.7 | 4,243.3 | 4,931.0 | 798.7 | 5,729.7 |
| **Net income** | — | — | — | — | — | 735.0 | 735.0 | 83.8 | 818.8 |
| **Other comprehensive (loss)** | — | — | (74.2) | — | (74.2) | (6.1) | (80.3) | 1.8 | (78.5) |
| **Total comprehensive (loss) income** | — | — | (74.2) | — | (74.2) | 728.9 | 654.7 | 85.6 | 740.3 |
| **Contributions and distributions to shareholders of Canadian Tire Corporation** | | | | | | | | | |
| Issuance of Class A Non-Voting Shares (Note 25) | 9.4 | — | — | — | — | — | 9.4 | — | 9.4 |
| Repurchase of Class A Non-Voting Shares (Note 25) | (659.3) | — | — | — | — | — | (659.3) | — | (659.3) |
| Excess of purchase price over average cost (Note 25) | 617.5 | — | — | — | — | (617.5) | — | — | — |
| Dividends | — | — | — | — | — | (193.0) | (193.0) | — | (193.0) |
| **Contributions and distributions to non-controlling interests** | | | | | | | | | |
| Issuance of trust units to non-controlling interests, net of transaction costs | — | — | — | — | — | — | — | 2.4 | 2.4 |
| Distributions and dividends to non-controlling interests | — | — | — | — | — | — | — | (63.4) | (63.4) |
| **Total contributions and distributions** | (32.4) | — | — | — | — | (810.5) | (842.9) | (61.0) | (903.9) |
| **Balance at December 30, 2017** | $ 615.7 | $ 2.9 | $ (37.5) | $ — | $ (37.5) | $ 4,161.7 | $ 4,742.8 | $ 823.3 | $ 5,566.1 |

[2] The December 30, 2017 closing cashflow hedges balance included $0.8 million relating to fair value changes of available-for-sale financial instruments, under IAS 39.

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

# 1. The Company and its Operations

Canadian Tire Corporation, Limited is a Canadian public company primarily domiciled in Canada. Its registered office is located at 2180 Yonge Street, Toronto, Ontario, M4P 2V8, Canada. It is listed on the Toronto Stock Exchange (TSX – CTC, CTC.A). Canadian Tire Corporation, Limited and entities it controls are together referred to in these consolidated financial statements as the "Company" or "Canadian Tire Corporation". Refer to Note 14 for the Company's major subsidiaries.

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

On July 3, 2018, the Company acquired Teodin Holdco AS, which owns and operates the Helly Hansen brands and related businesses ("Helly Hansen"). The results from the operations of Helly Hansen are included in the Company's results from operations and financial position commencing July 3, 2018. For further information regarding the Company's acquisition of Helly Hansen, refer to Note 36.

This document contains trade names, trademarks and service marks of CTC and other organizations, all of which are the property of their respective owners. Solely for convenience, the trade names, trademarks and service marks referred to herein appear without the ® or TM symbol.

# 2. Basis of Preparation

### Fiscal Year

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to December 31. The fiscal years for the consolidated financial statements and notes presented for 2018 and 2017 are the 52-week periods ended December 29, 2018 and December 30, 2017, respectively.

### Statement of Compliance

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

These consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 13, 2019.

### Basis of Presentation

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

- financial instruments at fair value through profit or loss ("FVTPL");
- derivative financial instruments;
- available-for-sale financial assets (under IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"), amortized cost under IFRS 9 - *Financial Instruments* ("IFRS 9") in 2018);
- liabilities for share-based payment plans; and
- initial recognition of assets acquired and liabilities assumed in a business combination.

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

### Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars ("C$"), the Company's functional currency.

## Judgments and Estimates

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

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

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

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

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

### *Impairment of Assets*

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

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

### *Fair Value Measurement of Redeemable Financial Instrument*

*Judgment* - The Company uses judgment in determining the fair value measurement of the redeemable financial instrument issued in conjunction with the sale of a 20 percent equity interest in the Company's Financial Services business. In calculating the fair value, judgment is used when determining the discount and growth rates applied to the forecast earnings in the discounted cash flow valuation. Refer to Note 32 for further information regarding this financial instrument.

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

### *Merchandise Inventories*

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

### *Income and Other Taxes*

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

### *Consolidation*

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

### *Loans Receivable*

*Estimation* - The Company's estimate of allowances on credit card loans receivable is based on an expected credit loss ("ECL") approach that employs an analysis of historical data, economic indicators and experience of delinquency and default, to estimate the amount of loans that may default as a result of past or future events, with certain adjustments for other relevant circumstances influencing the recoverability of these loans receivable. Impairment of loans is assessed based on whether there has been a significant increase in credit risk since origination and incorporation of forward-looking information in the measurement of expected credit losses. Default rates, loss rates and the expected timing of future recoveries are periodically benchmarked against actual outcomes to ensure that they remain appropriate. Future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes.

### *Post-Employment Benefits*

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

### *Depreciation*

*Estimation* - Effective in 2018, the Company changed its depreciation method to straight-line for all of its depreciable assets that were previously depreciated using the declining balance method. The Company believes that the straight-line method of depreciation better reflects the pattern of consumption of the economic benefits of the assets. In accordance with IFRS, this is considered a change in accounting estimate and has been accounted for prospectively.

Estimated useful lives are as follows:

| Asset Category | Estimated Useful Lives |
|---|---|
| Buildings | 10 - 45 years |
| Fixtures and equipment (including software intangible assets) | 3 - 25 years |
| Leasehold improvements | Shorter of term of lease or estimated useful life |
| Assets under finance lease | Shorter of term of lease or estimated useful life |

### *Other*

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

## Standards, Amendments and Interpretations Issued and Adopted

### *Adoption of IFRS 9 - Financial Instruments: Classification and Measurement and Impairment*

Effective in 2018, the Company adopted IFRS 9, issued in July 2014 and the related consequential amendments to IFRS 7 - *Financial Instruments: Disclosures*. IFRS 9 introduces new requirements for 1) classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting, which represent a significant change from IAS 39.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The ECL model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The adoption of IFRS 9 has resulted in an increase in the Company's allowance for loans receivable. Refer to Note 9 for a reconciliation of the previously reported impairment allowance under IAS 39 to the new impairment allowance under IFRS 9.

The Company also early adopted amendments to IFRS 9, issued in October 2017, effective in 2018. The component of the amendments relevant to the Company relates to clarifying the accounting for the modification of financial liabilities and requires the entity to recognize any adjustments to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange regardless of whether the changes are substantial. The Company previously modified the terms for two medium-term notes, which did not result in the derecognition of the original notes. As a result of applying the amendments to IFRS 9, the carrying amount of long-term debt increased, with the adjustment recognized in opening retained earnings. Refer to the IFRS 9 transitional adjustment section below.

### *Adoption of IFRS 9 - Financial Instruments: Transitional Adjustments*

As permitted by the transitional provision of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amount of financial assets and financial liabilities at the date of transition were recognized in the opening retained earnings and Accumulated Other Comprehensive Income ("AOCI") of the current period. Accordingly, the information presented in these consolidated financial statements for the prior year does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented in the current period under IFRS 9. The following table summarizes the cumulative impact on previously reported balances:

| (C$ in millions) | Original classification under IAS 39 | New classification under IFRS 9 | IAS 39 carrying amount December 30, 2017 | IFRS 9 re-measurements | IFRS 9 carrying amount December 31, 2017 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | Loans and receivables | Amortized cost | $ 437.0 | $ — | $ 437.0 |
| Short-term investments[1] | FVTPL | Amortized cost | 45.6 | — | 45.6 |
| Short-term investments[1] | Available for sale | Amortized cost | 86.9 | (0.1) | 86.8 |
| Trade and other receivables | Loans and receivables | Amortized cost | 657.9 | — | 657.9 |
| Trade and other receivables - derivatives | FVTPL | FVTPL | 19.4 | — | 19.4 |
| Trade and other receivables - derivatives | Fair value - effective hedging instruments | Fair value - effective hedging instruments | 3.8 | — | 3.8 |
| Loans receivable[2] | Loans and receivables | Amortized cost | 6,240.4 | (585.7) | 5,654.7 |
| Long-term receivables and other assets | Loans and receivables | Amortized cost | 44.5 | — | 44.5 |
| Long-term receivables and other assets - derivatives | FVTPL | FVTPL | 27.5 | — | 27.5 |
| Long-term receivables and other assets - derivatives | Fair value - effective hedging instruments | Fair value - effective hedging instruments | 18.6 | — | 18.6 |
| Long-term investments[1] | Available for sale | Amortized cost | 165.0 | (1.2) | 163.8 |
| **Total financial assets** | | | $ 7,746.6 | $ (587.0) | $ 7,159.6 |
| **Financial liabilities** | | | | | |
| Deposits | Amortized cost | Amortized cost | $ 2,386.8 | $ — | $ 2,386.8 |
| Trade and other payables | Amortized cost | Amortized cost | 1,780.8 | — | 1,780.8 |
| Trade and other payables - derivatives | FVTPL | FVTPL | 14.2 | — | 14.2 |
| Trade and other payables - derivatives | Fair value - effective hedging instruments | Fair value - effective hedging instruments | 60.7 | — | 60.7 |
| Short-term borrowings | Amortized cost | Amortized cost | 144.6 | — | 144.6 |
| Loans payable | Amortized cost | Amortized cost | 667.1 | — | 667.1 |
| Debt[3] | Amortized cost | Amortized cost | 3,404.4 | 5.1 | 3,409.5 |
| Other long-term liabilities - derivatives | Fair value - effective hedging instruments | Fair value - effective hedging instruments | 3.6 | — | 3.6 |
| Redeemable financial instrument (recorded in other long-term liabilities) | FVTPL | FVTPL | 517.0 | — | 517.0 |
| **Total financial liabilities** | | | $ 8,979.2 | $ 5.1 | $ 8,984.3 |
| **Deferred income taxes** | | | $ 12.1 | $ 157.0 | $ 169.1 |

[1] *Short-term investments and long-term investments previously classified either as available-for-sale or FVTPL under IAS 39 are now classified as amortized cost under IFRS 9. This adjustment relates to the reclassification of the cumulative gains/losses recorded in AOCI to the carrying amount of the investments to reflect their amortized costs.*

[2] *The ECL impairment model is applied to financial assets that are classified and measured at amortized cost under IFRS 9. This adjustment relates to the Company's impairment loss on loans receivable. The adjustment was recognized in opening retained earnings at December 31, 2017. Refer to Note 9 for further details regarding the impairment loss on loans receivable measured in accordance with IFRS 9.*

[3] *This adjustment relates to the Company's previous modification of medium-term notes, which did not result in the derecognition of the original notes. The adjustment was recognized in opening retained earnings as at December 31, 2017.*

*In addition, the adoption of IFRS 9 resulted in the reclassification of financial instruments as explained below:*

Cash and cash equivalents, trade and other receivables, loans receivable and long-term receivables that were classified as loans and receivables under IAS 39 are now classified as amortized cost, because their previous category under IAS 39 was eliminated, with no change in the carrying amounts.

Short-term investments and long-term investments previously classified either as available-for-sale or FVTPL are now classified as amortized cost because, at the date of initial application, the Company's business model is to hold these investments to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. The change in classification resulted in an insignificant change to the carrying amount of short-term and long-term investments.

There were no further changes to the classification of financial asset and liabilities as a result of the adoption of IFRS 9. Refer to Note 3 for the classification of financial instruments other than the above.

### *Adoption of IFRS 9 - Financial Instruments: Hedge Accounting*

The new general hedge accounting requirements retain the three types of hedge accounting, which are cash flow hedges, fair value hedges and hedges for net investments in foreign operations. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Enhanced annual disclosure requirements about the Company's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Company has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application without restatement of prior period comparatives. The Company's qualifying hedging relationships in place as at December 30, 2017 also qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Company has not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 also introduced the concept of costs of hedging. The fair value of an option consists of its intrinsic value and its time value. Upon adoption of IFRS 9, the time value of an option can be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. During the year, the Company entered into new derivative financial instruments that provide it with an option to enter into an interest rate swap as part of the Company's strategy to manage its interest rate exposure. The Company designates only the change in fair value of the intrinsic value of the instrument as the hedging instrument. The time value of the option relates to a time-period related hedged item. The change in time value is recognized in Other Comprehensive Income ("OCI") and is subsequently amortized on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss.

IFRS 9 requires hedging gains and losses to be included in the initial carrying amount of non-financial hedged items, which is referred to as a basis adjustment. Although this is consistent with the Company's existing practice, IFRS 9 states that such transfers are not a reclassification adjustment under IAS 1 - *Presentation of Financial Statements* ("IAS 1") and hence they do not affect other comprehensive income. Previously, hedging gains and losses subject to basis adjustments were categorized as amounts that may be subsequently reclassified to net income in other comprehensive income and the actual basis adjustments were presented as a reclassification adjustment in other comprehensive income. Since the IFRS 9 hedge accounting requirements apply prospectively from December 31 2017, the comparative figures have not been restated. The current year fair value gain of $141.8 million on foreign currency contracts subject to cash flow hedge accounting that will be subsequently basis adjusted onto the initial carrying amount of non-financial hedged items (foreign currency denominated inventory purchases), has been presented as amounts that will not be subsequently reclassified to net income. Furthermore, the current year basis adjustment of $3.2 million has been presented as a direct transfer from equity to the initial carrying amount of the hedged inventories, rather than being presented as a reclassification adjustment affecting other comprehensive income.

Apart from this, the application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Company for current and prior years.

### *Adoption of IFRS 15 - Revenue from Contracts with Customers ("IFRS 15")*

Effective in 2018, the Company adopted IFRS 15, issued in May 2014 and amended in September 2015 and April 2016. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. In accordance with the transitional provisions in IFRS 15, the Company elected to adopt the new standard using the retrospective approach. Accordingly, comparative figures have been restated.

IFRS 15 mainly impacts the accounting for the Company's loyalty programs. The costs of the loyalty program previously presented within selling, general and administrative expenses are now presented as a reduction of revenue and the related liabilities previously presented within provisions are now recorded within trade and other payables. Under IFRS 15, expected loyalty rewards are reflected as a reduction in revenue when the Company sells merchandise to Canadian Tire Associate Dealers ("Dealers"). Under the previous accounting guidance, the costs were recorded when merchandise was sold by the Dealers. Therefore, there was a transitional adjustment relating to the timing difference between when merchandise is sold to the Dealers and when the merchandise is ultimately sold to customers.

The following tables summarize the impacts of adopting IFRS 15 on the Company's consolidated financial statements:

### Consolidated Statement of Income

| For the year ended | | | December 30, 2017 |
|---|---|---|---|
| (C$ in millions) | As previously reported | IFRS 15 Adjustments | As restated |
| Revenue | $ 13,434.9 | $ (158.2) | $ 13,276.7 |
| Gross margin | 4,638.4 | (158.2) | 4,480.2 |
| Selling, general and administrative expenses | 3,413.1 | (158.2) | 3,254.9 |
| Income before income taxes | 1,112.5 | — | 1,112.5 |

The impact of adopting IFRS 15 resulted in the restatements of the following Balance Sheet line items below. As the impact is limited to these four line items, a 2016 restated balance sheet has not been provided.

### Consolidated Balance Sheets

| As at | December 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| (C$ in millions) | As previously reported | IFRS 15 Adjustments | As restated | As previously reported | IFRS 15 Adjustments | As restated |
| Deferred income taxes | $ 114.4 | $ 2.8 | $ 117.2 | $ 82.3 | $ 2.8 | $ 85.1 |
| Trade and other payables | 2,100.3 | 130.5 | 2,230.8 | 1,859.3 | 109.3 | 1,968.6 |
| Provisions | 279.0 | (120.1) | 158.9 | 250.8 | (98.9) | 151.9 |
| Retained earnings | 4,169.3 | (7.6) | 4,161.7 | 4,250.9 | (7.6) | 4,243.3 |

### *Adoption of Amendments to IFRS 2 - Share-Based Payment ("IFRS 2")*

Effective in 2018, the Company adopted amendments to IFRS 2, as issued in June 2016. The component of the amendments relevant to the Company relates to clarifying the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. The implementation of these amendments did not have a significant impact on the Company. As required by the transitional provisions of IFRS 2, prior periods have not been restated. The effect of applying the amendments has been recognized in the opening retained earnings of the current period.

## Standards, Amendments and Interpretations Issued but not yet Adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ending December 29, 2018 and, accordingly, have not been applied in preparing these consolidated financial statements.

### *Leases*

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 - *Leases* ("IFRS 16"), which will replace IAS 17 - *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. IFRS 16 is expected to have a material impact on the Company's Consolidated Balance Sheets, with the addition of approximately $2.2 billion to $2.4 billion of lease liabilities and $1.6 billion to $1.8 billion of right-of-use assets. Lease-related expenses previously recorded in selling, general and administrative expenses, primarily as occupancy costs, will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's Consolidated Statements of Cash Flows, but does not cause a difference in the amount of cash transferred between the parties of a lease.

IFRS 16 will be applied for the 2019 annual fiscal period using the modified retrospective approach and the Company will therefore not be restating comparative information. In addition, the Company has elected to use the following practical expedients on adoption of IFRS 16:

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous accounting standard (IAS 17);
- the Company will use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- the Company has used the onerous lease provisions recognized as at December 29, 2018 as an alternative to performing an impairment review on its right-of-use assets as at December 30, 2018. Where an onerous lease provision was recorded on a lease, the right-of-use asset has been reduced by the onerous lease provision recognized on December 29, 2018;
- the Company has excluded the initial direct costs in the measurement of the right-of-use asset on transition; and
- the Company has used hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.

In determining the lease term, Management considers all factors that may create an economic incentive to exercise a renewal option or termination option when determining the lease term under the new standard.

The Company has upgraded its accounting system and implemented processes and internal controls to enable the application of IFRS 16 for 2019.

### *Annual Improvements 2015-2017*

In December 2017, the IASB issued amendments to four standards, including IFRS 3 – *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 – *Income Taxes* and IAS 23 – *Borrowing Costs.* These amendments will be effective for annual periods beginning on or after January 1, 2019. The implementation of these amendments is not expected to have a significant impact on the Company.

### *Post-Employment Benefits*

In February 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19 - Employee Benefits). When a change to a plan (an amendment, curtailment or settlement) takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendments

will be effective to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. The implementation of these amendments is not expected to have a significant impact on the Company.

### *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 - *Insurance Contracts* ("IFRS 17"), that replaces IFRS 4 - *Insurance Contracts* and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

### *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements* and IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of material. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments also clarify the explanations accompanying the definition of material. The amendments are effective January 1, 2020 and are required to be applied prospectively. Early application is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

### *Definition of Business*

In October 2018, the IASB issued amendments to IFRS 3 - *Business Combinations*. The amendments narrowed and clarified the definition of a business. The amendments will help companies determine whether an acquisition is a business or a group of assets. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. The amendments apply to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier adoption is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

## 3. Significant Accounting Policies

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

### Basis of Consolidation

These consolidated financial statements include the accounts of Canadian Tire Corporation and entities it controls. An entity is controlled when the Company has the ability to direct the relevant activities of the entity, has exposure or rights to variable returns from its involvement with the entity and is able to use its power over the entity to affect its returns from the entity. Refer to Note 14.1 for details of the Company's significant entities.

The results of certain subsidiaries that have different year ends have been included in these consolidated financial statements for the 52-week periods ended December 29, 2018 and December 30, 2017. The year end of CTFS Holdings Limited and its subsidiaries, Franchise Trust, CT Real Estate Investment Trust ("CT REIT") and Helly Hansen is December 31.

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

### *Business Combinations*

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

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

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

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

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

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

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

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

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

### *Joint Arrangement*

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

### *Functional and Presentation Currency*

Each of the Company's foreign subsidiaries determines its own functional currency and items included in the consolidated financial statements of each foreign subsidiary are measured using that functional currency. Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expenses at average rates during the period. Gains or losses on translation are accumulated as a component of equity. On the disposal of a foreign operation, or the loss of control, the component of AOCI relating to that foreign operation is reclassified to net income.

### *Foreign Currency Transactions and Balances*
Transactions in foreign currencies are translated into the entity's functional currency at rates in effect at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the entity's functional currency at the closing exchange rate at the balance sheet date. Non-monetary items that are measured in terms of historical cost are translated into the entity's functional currency at the exchange rate at the date of the original transaction. Exchange gains or losses arising from translation are recorded in Other income or Cost of producing revenue as applicable in the Consolidated Statements of Income.

## Financial Instruments
As the Company has adopted IFRS 9 using the modified retrospective approach, the prior period results have not been restated. The accounting policies applied from December 31, 2017 onwards are in compliance with IFRS 9. The policies applied under the previous accounting standard (IAS 39) were applied in the accounting for the comparative period results.

### *Recognition and Initial Measurement*
Financial assets and financial liabilities, including derivatives, are recognized in the Consolidated Balance Sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net income.

### *Classification and Subsequent Measurement*
The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories: a) amortized cost and b) fair value through profit or loss.

### *Financial Instruments at Amortized Cost*
Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL. These financial liabilities, including derivative liabilities and the redeemable financial instrument, are subsequently measured at fair value with changes in fair value recorded in net income in the period in which they arise to the extent they are not part of a designated hedging relationship. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method, with gains and losses recognized in net income in the period that the liability is derecognized.

### *Financial Instruments at Fair Value Through Profit or Loss*
Financial instruments are classified as FVTPL when the financial instrument is either held for trading or designated as such upon initial recognition. Financial instruments are classified as held for trading if acquired principally for the purpose of selling in the near future or if part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-making. All financial assets not classified as

amortized cost are measured at FVTPL. This includes derivative financial assets that are not part of a designated hedging relationship.

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

### *Impairment of Financial Instruments*

The Company recognizes a loss allowance on a forward-looking basis at an amount equal to the lifetime ECL on its financial assets measured at amortized cost, except for the following, which are measured at 12-month ECL:

- debt investments that are determined to have low credit risk at the reporting date with a credit risk rating equivalent to investment grade; and
- other financial assets, such as loan receivables, for which credit risk has not increased significantly since initial recognition.

Lifetime ECL represents the expected credit losses that will result from all probable default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Losses for impaired credit card loans are recognized when credit is granted. Twelve-month ECL is recognized on loans except when credit risk has increased significantly since initial recognition, in which case lifetime ECL is applied. A significant increase in credit risk is assessed based on changes in the probability of default since initial recognition along with borrower specific qualitative information, or when the loan is more than 30 days past due. Credit card loans are considered impaired and in default when they are 90 days past due or there is sufficient doubt regarding the ultimate collectability of principal and/or interest. The estimate of credit card loans receivable for accounts wherein the customer has initiated the consumer proposal insolvency process is based on the present value of expected future cash flows based on the terms of consumer proposal agreements received during the year. Credit card loans that are 180 days past due are written down to the present value of the expected future cash flows.

ECL is calculated as the product of the probability of default, exposure at default and loss given default over the remaining expected life of the loans and discounted to the reporting date. The ECL model also incorporates forward-looking information, which increases the degree of judgment required as to how changes in macro-economic factors will affect ECLs. Macro-economic factors taken into consideration include, but are not limited to, unemployment rate and require an evaluation of both the current and forecast direction of the macro-economic cycle. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loans receivable are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivable not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

### *Derecognition of Financial Instruments*

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

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

### *Derivative Financial Instruments*

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

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

### *Hedge Accounting*

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

### *Cash Flow Hedges*

For cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recognized in OCI, while the ineffective and unhedged portions are recognized immediately in net income. Amounts recorded in AOCI are reclassified to net income in the periods when the hedged item affects net income. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in AOCI are directly transferred from AOCI and included in the initial measurement of the cost of the non-financial asset or liability without affecting other comprehensive income.

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

The Company enters into foreign currency contracts to hedge the exposure against foreign currency risk on the future payment of certain foreign-currency-denominated inventory purchases and certain expenses. The Company's policy is for the critical terms of the foreign currency contracts to align with the hedged item and applies a hedge ratio of 1:1. The changes in fair value of these contracts are included in OCI to the extent the hedges continue to be effective. Hedge ineffectiveness may arise if the timing of the hedged transactions changes from what was originally estimated. Once the inventory is received, the Company transfers the related AOCI amount to merchandise inventories and subsequent changes in the fair value of the foreign currency contracts are recorded in net income as they occur. When the expenses are incurred, the Company reclassifies the related AOCI amount to the expense.

The Company enters into interest rate swap contracts to hedge the exposure against interest rate risk on the future interest payments of debt issuances and deposits. The Company also enters into "swaption" derivative financial instruments that provide it with an option to enter into an interest rate swap as part of the Company's strategy to manage its interest rate exposure risk on the future interest payments of debt issuances and deposits.

The Company's policy is for the critical terms of the interest rate swap and swaptions contracts to align with the hedged item and applies a hedge ratio of 1:1. The changes in fair value of these contracts are included in OCI to the extent that the hedges continue to be effective. The Company designates only the change in fair value of the intrinsic value of the instrument as the hedging instrument. The time value of the option relates to a time-period related hedged item. The change in time value is recognized in OCI and is subsequently amortized on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss. Hedge ineffectiveness may arise if the timing of the hedged transactions changes from what was originally estimated. When the interest expense is incurred, the Company reclassifies the related AOCI amount to finance costs.

### *Cash and Cash Equivalents*

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

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

### *Trade and Other Receivables*
The lifetime ECL allowance for impairment is recognized for trade and other receivables. It is estimated based on the Company's historical loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current as well as forecast direction of conditions at the reporting date. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in Selling, general and administrative expenses in the Consolidated Statements of Income. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in Selling, general and administrative expenses in the Consolidated Statements of Income.

### *Loans Receivable*
Loans receivable consists of credit card and line of credit loans, as well as loans to Dealers, who are independent third-party operators of Canadian Tire Retail stores. Loans receivable are recognized when cash is advanced to the borrower. They are derecognized when the borrower repays its obligations, the loans are sold or written off, or substantially all of the risks and rewards of ownership are transferred.

Losses for impaired loans are recognized when the loan is originated. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded in cost of producing revenue in the Consolidated Statements of Income. The carrying amount of loans receivable in the Consolidated Balance Sheets is reduced through the use of impairment allowance accounts.

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

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

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

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

### *Long-Term Investments*
Investments in highly liquid and rated certificates of deposit, commercial paper, or other securities with a remaining term to maturity of greater than one year are classified as long-term investments. The Company's exposure to credit, currency and interest rate risks related to other investments is disclosed in Note 5.

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

### *Finite Life and Indefinite Life Intangible Assets*

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

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

Expenditures on research activities are expensed as incurred.

## Investment Property

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

## Property and Equipment

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

Buildings, fixtures and equipment are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives, depreciation method and residual values are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis.

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

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

Estimated useful lives are as follows:

| Asset Category | Estimated Useful Lives |
|---|---|
| Buildings | 10 - 45 years |
| Fixtures and equipment (including software intangible assets) | 3 - 25 years |
| Leasehold improvements | Shorter of term of lease or estimated useful life |
| Assets under finance lease | Shorter of term of lease or estimated useful life |

## Leased Assets

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

### *Lessor*

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

### *Lessee*

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

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

### *Sale and Leaseback*

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

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

## Impairment of Assets

The carrying amounts of property and equipment, investment property and intangible assets with finite useful lives are reviewed at the end of each reporting period to determine whether there are any indicators of impairment. Indicators of impairment may include a significant decline in asset market value, material adverse changes in the external operating environment which affect the manner in which the asset is used or is expected to be used, obsolescence, or physical damage of the asset. If any such indicators exist, then the recoverable amount of the asset is estimated. Goodwill and intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized but are tested for impairment at least annually or whenever there is an indicator that the asset may be impaired.

### *Cash Generating Units*

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

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

### *Determining the Recoverable Amount*

An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount. The recoverable amount of an asset or CGU is defined as the higher of its FVLCS and its VIU.

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

### *Recording Impairments and Reversals of Impairments*

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

## Assets Classified as Held for Sale

Non-current assets and disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets (and disposal groups) classified as held for sale are measured at the lower of the carrying amount or FVLCS and are not depreciated. The fair value measurement of assets held for sale is categorized within Level 2 of fair value hierarchy (refer to Note 32.2 for definition of fair value hierarchy levels).

## Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized. Qualifying assets are those that require a minimum of three months to prepare for their intended use. All other borrowing costs are recognized in Cost of producing revenue or in Net finance costs in the Consolidated Statements of Income in the period in which they are incurred.

## Employee Benefits

### *Short-Term Benefits*

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

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

### *Post-Employment Benefits*

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

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

### *Termination Benefits*

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

## Share-Based Payments

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

The fair value of the amount payable to employees with respect to share unit plans and trust unit plans, which are settled in cash, is recorded as the services are provided over the vesting period. The fair value of the liability is remeasured at each reporting date with the change in the liability being recognized in Selling, general and administrative expenses in the Consolidated Statements of Income.

## Insurance Reserve

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

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

## Provisions

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

### *Sales and Warranty Returns*

The provision for sales and warranty returns relates to the Company's obligation for defective goods in current store inventories and defective goods sold to customers that have yet to be returned, after-sales service for replacement parts and future corporate store sales returns. Accruals for sales and warranty returns are estimated on the basis of historical returns and are recorded as a reduction to revenue. These accruals are reviewed regularly and updated to reflect Management's best estimate that is based on a most likely amount at each reporting date.

### *Site Restoration and Decommissioning*

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

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

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

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

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

### Dividends
Dividends declared and payable to the Company's shareholders are recognized as a liability in the Consolidated Balance Sheets in the period in which the dividends are approved by the Company's Board of Directors.

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

### Revenue
#### *Sale of Goods*
Revenue from the sale of goods includes merchandise sold to Dealers, Mark's and SportChek[1] franchisees, the sale of gasoline through agents and the sale of goods to the general public by Mark's, PartSource and SportChek[1] corporately-owned stores. This revenue is recognized when the goods are delivered, less an estimate for sales and warranty returns. Revenue from the sale of goods is measured at the fair value of the consideration received less an appropriate deduction for actual and expected returns, discounts, rebates and warranty and customer loyalty program costs, net of sales taxes.

#### *Customer Loyalty Programs*
Loyalty reward credits issued as part of a sales transaction results in revenue being deferred until the loyalty reward is redeemed by the customer. In addition, an obligation arises from the loyalty program when the Company sells merchandise to the Dealers, for which reward credits may be issued as part of the subsequent sales transaction with the customer. The obligation is measured at fair value by reference to the fair value of the rewards for which they could be redeemed and based on the estimated probability of their redemption. The loyalty program costs are recorded as a reduction to revenue in the Consolidated Statements of Income.

#### *Interest Income on Loans Receivable*
Interest income includes interest charged on loans receivable and fees that are an integral part of the effective interest rate on financial instruments. Interest income on financial assets is determined using the effective interest method.

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[1] *"SportChek" refers to the retail business carried on by FGL Sports Ltd., including stores operated under the SportChek, Sports Experts, Atmosphere, National Sports, Sports Rousseau and Hockey Experts names and trademarks.*

### *Services Rendered*
Service revenue includes Roadside Assistance Club membership revenue; Drivers Academy revenue; merchant, interchange and processing fees; cash advance fees; home services fees; foreign exchange fees; and service charges on the loans receivable of the Financial Services operating segment, as well as Mark's clothing alteration revenue. Service revenue is recognized according to the contractual provisions of the arrangement, which is generally when the service is provided or over the contractual period.

Merchant, interchange and processing fees, cash advance fees and foreign exchange fees on credit card transactions are recognized as revenue at the time transactions are completed.

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

### *Royalties and Licence Fees*
Royalties and licence fees include licence fees from petroleum agents and Dealers and royalties from Mark's and SportChek franchisees. Royalties and licence fee revenues are recognized as they are earned in accordance with the substance of the relevant agreement, which is generally based on percentage of occurred sales.

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

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

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

### Net Finance Costs
Finance income comprises interest income on funds invested. Interest income is recognized as it accrues using the effective interest method.

Finance costs comprises interest expense on borrowings (including borrowings relating to the Dealer Loan Program), unwinding of the discount on provisions and is net of borrowing costs that have been capitalized. Interest on deposits is recorded in Cost of producing revenue in the Consolidated Statements of Income.

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

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

Deferred income tax is recognized using the liability method for unused tax losses, unused tax benefits and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these consolidated financial statements. However, deferred income tax is not accounted for if it arises from the initial recognition of

goodwill or the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the date of the Consolidated Balance Sheets and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

## Earnings per Share

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

## Non-controlling Interests

When the proportion of the equity held by non-controlling interests changes, the Company adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interest in the subsidiary. The Company recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received and attribute it to the shareholders of the Company.

## Financial Instruments Prior to December 31, 2017

The following is applicable only for periods prior to December 31, 2017, for financial instruments accounted for under IAS 39.

### *Recognition, Classification and Initial and Subsequent Measurement*

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

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

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

### *Available-for-Sale*

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

### *Loans and Receivables*

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

### *Cash Flow Hedges*

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

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

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

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

### *Trade and Other Receivables*

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

***Loans Receivable***

Loans receivable consists of credit card and line of credit loans, as well as loans to Dealers, who are independent third-party operators of Canadian Tire Retail stores. Loans receivable are recognized when cash is advanced to the borrower. They are derecognized when the borrower repays its obligations, the loans are sold or written off, or substantially all of the risks and rewards of ownership are transferred.

Losses for impaired loans are recognized when there is objective evidence that impairment of the loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded in Cost of producing revenue in the Consolidated Statements of Income. The carrying amount of impaired loans in the Consolidated Balance Sheets is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognized.

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

The Company uses a roll-rate methodology to calculate allowances for credit card loans. This methodology employs analysis of historical data, economic indicators and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the reporting date, with certain adjustments for other relevant circumstances influencing the recoverability of the loans receivable. Default rates, loss rates and cash recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

## 4. Capital Management

The Company's objectives when managing capital are:

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

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

| (C$ in millions) | | **2018** | **% of total** | | 2017 | % of total |
|---|---|---|---|---|---|---|
| **Capital components** | | | | | | |
| Deposits | **$** | **964.5** | **7.8%** | $ | 973.9 | 8.7% |
| Short-term borrowings | | **378.1** | **3.1%** | | 144.6 | 1.3% |
| Current portion of long-term debt | | **553.6** | **4.5%** | | 282.3 | 2.5% |
| Long-term debt | | **4,000.3** | **32.6%** | | 3,122.1 | 27.8% |
| Long-term deposits | | **1,506.7** | **12.3%** | | 1,412.9 | 12.6% |
| Total debt | **$** | **7,403.2** | **60.3%** | $ | 5,935.8 | 52.9% |
| Redeemable financial instrument | | **567.0** | **4.6%** | | 517.0 | 4.6% |
| Share capital | | **591.5** | **4.8%** | | 615.7 | 5.5% |
| Contributed surplus | | **2.9** | **—%** | | 2.9 | —% |
| Retained earnings | | **3,720.7** | **30.3%** | | 4,161.7 | 37.0% |
| **Total capital under management** | **$** | **12,285.3** | **100.0%** | $ | 11,233.1 | 100.0% |

The Company monitors its capital structure by measuring debt-to-earnings ratios and manages its debt service and other fixed obligations by tracking its interest and other coverage ratios and forecasting corporate liquidity.

The Company manages its capital structure over the long term to optimize the balance among capital efficiency, financial flexibility and risk mitigation. Management calculates its ratios to approximate the methodologies of credit-rating agencies and other market participants on a current and prospective basis. To assess its effectiveness in managing capital, Management monitors these ratios against targeted ranges.

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

The Company has a policy in place to manage capital. As part of the overall management of capital, Management and the Audit Committee of the Board of Directors review the Company's compliance with and performance against, the policy. In addition, periodic review of the policy is performed to ensure consistency with risk tolerances.

Financial covenants of the existing debt agreements are reviewed by Management on an ongoing basis to monitor compliance with the agreements. The key financial covenant for Canadian Tire Corporation is a requirement for the Retail segment to maintain, at all times, a ratio of total indebtedness to total capitalization equal to or lower than a specified maximum ratio (as defined in the Company's bank credit agreement, but which excludes consideration of CTFS Holdings Limited, CT REIT, Franchise Trust and their respective subsidiaries).

The Company was in compliance with all key covenants as at December 29, 2018 and December 30, 2017. Under these covenants, the Company currently has sufficient liquidity to support business growth.

Helly Hansen is required to comply with covenants established under its bank credit agreements, and was in compliance with the financial covenants thereunder as at December 29, 2018.

CT REIT is required to comply with financial covenants established under its Trust Indenture, bank credit agreement and the Declaration of Trust and was in compliance with all key covenants as at December 31, 2018 and 2017.

In addition, the Company is required to comply with regulatory requirements for capital associated with the operations of Canadian Tire Bank ("CTB" or "the Bank"), a federally chartered Schedule I bank and other regulatory requirements that have an impact on its business operations and certain financial covenants established under its bank credit agreement and note purchase facilities.

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

The Bank's objectives include:

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

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings and AOCI, less regulatory adjustments which are deducted from capital. The Bank currently does not hold any additional Tier 1 capital instruments; therefore, the Bank's CET1 is equal to its Tier 1 regulatory capital. Tier 2 capital consists of the eligible portion of general allowances. Risk-weighted

assets ("RWA") include a credit risk component for all on-balance-sheet assets weighted for the risk inherent in each type of asset, off-balance sheet financial instruments, an operational risk component based on a percentage of average risk-weighted revenues and a market-risk component for assets held for trade. For the purposes of calculating RWA, securitization transactions are considered off-balance-sheet transactions and, therefore, securitization assets are not included in the RWA calculation. Assets are classified as held for trade when they are held with trading intent.

The Leverage Ratio prescribed by OSFI's Leverage Requirements Guideline provides an overall measure of the adequacy of an institution's capital and is defined as the all-in Tier 1 capital divided by the leverage ratio exposure. The leverage ratio exposure is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet items.

As at December 31, 2018 and 2017, the Bank complied with all regulatory capital guidelines established by OSFI, its internal targets as determined by its ICAAP and all financial covenants under its bank credit agreement and note purchase facilities.

# 5. Financial Risk Management

## 5.1 Overview

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

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

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

## 5.2 Risk Management Framework

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

## 5.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet their contractual obligations. Credit risk primarily arises from the Company's credit card customers, Dealer network and financial instruments held with bank or non-bank counterparties.

### 5.3.1 Financial Instrument Counterparty Credit Risk

The Company has a Board-approved Financial Risk Management policy in place to manage the various risks including counterparty credit risk relating to cash balances, investment activity and the use of financial derivatives. The Company limits its exposure to counterparty credit risk by transacting only with highly-rated financial institutions and other counterparties and by managing within specific limits for credit exposure and term to maturity. The Company's financial instrument portfolio is spread across financial institutions, provincial and federal governments and, to a lesser extent, corporate issuers that are dual rated and have a credit rating in the "A" category or better.

### 5.3.2 Consumer and Dealer Credit Risk

Through the granting of credit cards to its customers, the Company assumes certain risks with respect to the ability and willingness of its customers to repay debt. In addition, the Company may be required to provide credit enhancement for individual Dealer's borrowings in the form of standby letters of credit (the "LCs") or guarantees of third-party bank debt agreements, with respect to the financing programs available to the Dealers (Note 34).

The Company's maximum exposure to credit risk, over and above amounts recognized in the Consolidated Balance Sheets, include the following:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Undrawn loan commitments | **$** | **11,009.6** | $ | 9,768.7 |
| Guarantees | | **414.5** | | 431.4 |
| Total | **$** | **11,424.1** | $ | 10,200.1 |

Refer to Note 9 for information on the credit quality and performance of loans receivable.

## 5.4 Liquidity Risk

Liquidity risk is the risk that the Company might encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and reasonably stressed conditions. The Company's financial risk management policy serves to manage its exposure to liquidity risk. The Company uses a detailed consolidated cash flow forecast model to regularly monitor its near-term and longer-term cash flow requirements, which assists in optimizing its short-term cash and indebtedness position while evaluating longer-term funding strategies.

In addition, CTB has in place an Asset Liability Management policy. It is CTB's objective to ensure the availability of adequate funds by maintaining a strong liquidity management framework and to satisfy all applicable regulatory and statutory requirements.

Provided by a syndicate of seven Canadian and four international financial institutions, $1.975 billion in a committed bank line is available to CTC for general corporate purposes, expiring in August 2023.

Provided by a syndicate of seven Canadian financial institutions, $300.0 million in a committed bank line is available to CT REIT for general business purposes, expiring in December 2023.

Scotiabank has provided CTB with a $250.0 million unsecured revolving committed credit facility and $2.0 billion in note purchase facilities for the purchase of senior and subordinated notes issued by GCCT, both of which expire in October 2021.

In addition to the committed bank lines of credit, the Company has access to additional funding sources including internal cash generation, access to public and private financial markets and strategic real estate transactions. Assets of CTB are funded through the securitization of credit card receivables using GCCT, broker guaranteed investment certificate ("GICs") deposits, retail GIC deposits and high-interest savings ("HIS") account deposits. CTB also holds high quality liquid assets, as required by regulators, which are available to address funding disruptions.

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

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

| (C$ in millions) | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Deposits[1] | $ 973.6 | $ 336.5 | $ 219.0 | $ 550.0 | $ 401.2 | $ — | $ 2,480.3 |
| Trade and other payables | 2,034.4 | — | — | — | — | — | 2,034.4 |
| Short-term borrowings[2] | 363.1 | — | — | — | 15.0 | — | 378.1 |
| Loans payable | 654.6 | — | — | — | — | — | 654.6 |
| Long-term debt | 500.9 | 750.0 | 150.0 | 710.0 | 984.0 | 1,325.0 | 4,419.9 |
| Finance lease obligations | 15.8 | 15.1 | 15.0 | 14.8 | 12.3 | 35.0 | 108.0 |
| Mortgages | 37.1 | — | — | — | — | — | 37.1 |
| Interest payments[3] | 192.1 | 166.0 | 147.0 | 128.8 | 88.5 | 395.4 | 1,117.8 |
| Total | $ 4,771.6 | $ 1,267.6 | $ 531.0 | $ 1,403.6 | $ 1,501.0 | $ 1,755.4 | $ 11,230.2 |

[1] *Deposits exclude the GIC broker fee discount of $9.1 million.*
[2] *Includes CT REIT's $15.0 million credit facility that matures in 2023, however is classified as a short-term liability as Management expects to repay this amount within the next twelve months.*
[3] *Includes interest payments on deposits, short-term borrowings, loans payable, long-term debt and finance lease obligations.*

It is not expected that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

## 5.5 Market Risk

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

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

### 5.5.1 Foreign Currency Risk

The Company sources its merchandise globally. Approximately 40%, 51%, and 7% of the value of the inventory purchased for the Canadian Tire, Mark's, and SportChek banners, respectively, is sourced directly from vendors outside North America, primarily denominated in U.S. dollars. The majority of Helly Hansen's purchases are denominated in U.S. dollars and Euro. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the Company has an established foreign exchange risk management program that governs the proportion of forecast U.S. dollar purchases that must and can be hedged through the purchase of foreign exchange contracts. The purpose of the program is to provide certainty with respect to a portion of the foreign exchange component of future merchandise purchases.

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

### 5.5.2 Interest Rate Risk

The Company may use interest rate derivatives to manage interest rate risk. The Company has a policy in place whereby, on a consolidated basis, a minimum of 75 percent of its consolidated debt should be at fixed versus floating interest rates.

A one percent change in interest rates would not materially affect the Company's net income or equity as the Company has minimal floating interest rate exposure given the indebtedness of the Company is predominantly at fixed rates.

The Company's exposure to interest rate changes is predominantly driven by the Financial Services business to the extent that the interest rates on future issuances of GIC deposits, HIS account deposits, tax free savings account ("TFSA") deposits and securitization transactions are market-dependent. Partially offsetting this will be rates charged on credit cards and a significant portion of the funding liabilities for Financial Services are fixed rate, which reduces interest rate risk. In addition, Financial Services has entered into interest rate derivatives to hedge a portion of its planned GCCT term debt issuances and GIC deposits in 2019 to 2022.

## 6. Operating Segments

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

- The retail business is conducted under a number of banners including Canadian Tire, Canadian Tire Gas ("Petroleum"), Mark's, PartSource, Helly Hansen and various SportChek banners. Retail also includes the Dealer Loan Program (the portion [silo] of Franchise Trust that issues loans to Dealers). Non-CT REIT real estate is included in Retail.

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

- Financial Services issues Canadian Tire and Canadian Tire's Triangle branded credit cards, as well as insurance and warranty products and provides settlement services to the Company's affiliates. In the second quarter of 2018, the Company launched its Triangle Rewards program and associated Triangle MasterCard, Triangle World MasterCard and Triangle World Elite MasterCard credit cards. Certain existing customers were given the option to upgrade from existing Canadian Tire card offerings and Canadian Tire Money loyalty program. Financial Services also offers Cash Advantage MasterCard and Gas Advantage MasterCard products. Certain costs associated with these activities were allocated to Financial Services for segment reporting purposes. Financial Services includes CTB, a federally regulated financial institution that manages and finances the Company's consumer MasterCard and retail credit card portfolios, as well as an existing block of Canadian Tire branded line of credit loans. CTB also offers HIS deposit accounts, TFSAs and GIC deposits, both directly and through third-party brokers. Financial Services includes GCCT, a structured entity established to purchase co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases.

Performance is measured based on segment income before income taxes, as included in the internal management reports. Management has determined that this measure is the most relevant in evaluating segment results and allocating resources. Information regarding the results of each reportable operating segment is as follows:

| | | | | | 2018 | | | | | 2017[1] |
|---|---|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | **Retail** | **CT REIT** | **Financial Services** | **Eliminations and adjustments** | **Total** | Retail | CT REIT | Financial Services | Eliminations and adjustments | Total |
| External revenue | **$12,804.6** | **$ 46.4** | **$ 1,216.1** | **$ (8.4)** | **$14,058.7** | $12,115.5 | $ 34.8 | $ 1,131.9 | $ (5.5) | $13,276.7 |
| Intercompany revenue | **8.9** | **426.1** | **43.8** | **(478.8)** | **—** | 5.9 | 408.5 | 24.7 | (439.1) | — |
| Total revenue | **12,813.5** | **472.5** | **1,259.9** | **(487.2)** | **14,058.7** | 12,121.4 | 443.3 | 1,156.6 | (444.6) | 13,276.7 |
| Cost of producing revenue | **8,865.1** | **—** | **542.7** | **(60.4)** | **9,347.4** | 8,392.1 | — | 460.9 | (56.5) | 8,796.5 |
| Gross margin | **3,948.4** | **472.5** | **717.2** | **(426.8)** | **4,711.3** | 3,729.3 | 443.3 | 695.7 | (388.1) | 4,480.2 |
| Other (income) expense | **(157.1)** | **—** | **(0.3)** | **131.4** | **(26.0)** | (123.5) | — | (0.7) | 124.4 | 0.2 |
| Selling, general and administrative expenses[2] | **3,439.8** | **120.8** | **326.1** | **(419.1)** | **3,467.6** | 3,188.8 | 109.3 | 308.5 | (351.7) | 3,254.9 |
| Net finance (income) costs | **(2.7)** | **104.4** | **(1.1)** | **50.9** | **151.5** | (26.7) | 96.4 | (0.6) | 43.5 | 112.6 |
| Change in fair value of redeemable financial instrument | **—** | **—** | **—** | **50.0** | **50.0** | — | — | — | — | — |
| Fair value (gain) loss on investment properties | **—** | **(53.6)** | **—** | **53.6** | **—** | — | (79.7) | — | 79.7 | — |
| Income before income taxes | **$ 668.4** | **$ 300.9** | **$ 392.5** | **$ (293.6)** | **$ 1,068.2** | $ 690.7 | $ 317.3 | $ 388.5 | $ (284.0) | $ 1,112.5 |
| Items included in the above: | | | | | | | | | | |
| Depreciation and amortization | **$ 360.3** | **$ —** | **$ 10.0** | **$ 57.7** | **$ 428.0** | $ 382.1 | $ — | $ 10.3 | $ 76.3 | $ 468.7 |
| Interest income | **91.6** | **0.2** | **1,028.5** | **(72.7)** | **1,047.6** | 92.1 | 0.1 | 931.2 | (72.6) | 950.8 |
| Interest expense | **70.0** | **104.6** | **121.6** | **(73.7)** | **222.5** | 49.7 | 96.5 | 111.9 | (79.9) | 178.2 |

[1] *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2).*
[2] *Effective in 2018, the Company changed its depreciation method for certain depreciable assets (refer to Note 2).*

The eliminations and adjustments include the following items:

- reclassifications of certain revenues and costs in the Financial Services segment to net finance costs;
- conversion from CT REIT's fair value investment property valuation policy to the Company's cost model, including the recording of depreciation; and
- inter-segment eliminations and adjustments including intercompany rent, property management fees, credit card processing fees and the change in fair value of the redeemable financial instrument.

While the Company primarily operates in Canada, following the acquisition of Helly Hansen, it now also operates in foreign jurisdictions. Foreign revenue earned by Helly Hansen amounted to $295.5 million for the year ended December 29, 2018. Property and equipment and intangible assets (brand and goodwill) located outside of Canada was $979.1 million as at December 29, 2018.

Capital expenditures by reportable operating segment are as follows:

| | | | | 2018 | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | **Retail** | **CT REIT** | **Financial Services** | **Total** | Retail | CT REIT | Financial Services | Total |
| Capital expenditures[1] | **$ 440.7** | **$ 116.6** | **$ 9.7** | **$ 567.0** | $ 413.6 | $ 215.4 | $ 13.1 | $ 642.1 |

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

Total assets by reportable operating segment are as follows:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Retail | **$** | **11,894.3** | $ | 11,051.7 |
| CT REIT | | **5,708.7** | | 5,455.4 |
| Financial Services | | **6,345.6** | | 6,172.5 |
| Eliminations and adjustments | | **(6,661.8)** | | (7,052.6) |
| Total assets[1] | **$** | **17,286.8** | $ | 15,627.0 |

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

Total liabilities by reportable operating segment are as follows:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Retail | **$** | **5,239.3** | $ | 4,238.6 |
| CT REIT | | **2,623.8** | | 2,594.0 |
| Financial Services | | **5,407.1** | | 5,027.2 |
| Eliminations and adjustments | | **(1,398.4)** | | (1,798.9) |
| Total liabilities[1] | **$** | **11,871.8** | $ | 10,060.9 |

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

The eliminations and adjustments include the following items:

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

## 7. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Cash | **$** | **125.2** | $ | 104.4 |
| Cash equivalents | | **324.8** | | 321.5 |
| Restricted cash[1] | | **20.4** | | 11.1 |
| Total cash and cash equivalents[2] | **$** | **470.4** | $ | 437.0 |

[1] *Relates to GCCT and is restricted for the purpose of paying out note holders and additional funding costs of $16.2 million (2017 - $11.1 million) and other operational items $4.2 million (2017 - nil).*

[2] *Included in cash and cash equivalents are amounts held in reserve in support of Financial Services' liquidity and regulatory requirements (refer to Note 31.1).*

## 8. Trade and Other Receivables

Trade and other receivables include the following:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Trade receivables | **$** | **618.6** | $ | 450.9 |
| Other receivables | | **167.8** | | 207.0 |
| Derivatives (Note 32) | | **146.9** | | 23.2 |
| Total financial assets | **$** | **933.3** | $ | 681.1 |

Trade receivables are primarily from Dealers, franchisees and Helly Hansen's wholesale customers. This is a large and geographically-dispersed group whose receivables, individually, generally comprise less than one percent of the total balance outstanding. Other receivables are primarily receivables from vendors and tenants and insurance receivables.

Receivables from Dealers are in the normal course of business and include cost-sharing and financing arrangements. The net average credit period on sale of goods is between 0 and 120 days.

## 9. Loans Receivable

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

| | **Total principal amount of receivables[1]** | | | |
|---|---|---|---|---|
| (C$ in millions) | | **2018** | | 2017 |
| Credit card loans[2] | **$** | **5,484.2** | $ | 5,567.5 |
| Dealer loans[3] | | **662.0** | | 672.9 |
| Total loans receivable | | **6,146.2** | | 6,240.4 |
| Less: long-term portion[4] | | **634.9** | | 627.2 |
| Current portion of loans receivable | **$** | **5,511.3** | $ | 5,613.2 |

[1] *Amounts shown are net of allowance for loan impairment. Due to the adoption of IFRS 9, prior period figures presented are not comparable.*
[2] *Includes line of credit loans and are expected to be recovered within one year of the reporting date.*
[3] *Dealer loans primarily relate to loans issued by Franchise Trust (refer to Note 21).*
[4] *The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer loans of $633.7 million (2017 – $624.5 million).*

For the year ended December 29, 2018, cash received from interest earned on credit cards and loans was $959.6 million (2017 – $874.3 million).

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

A continuity of the Company's allowance for impairment on loans receivable is as follows:

| (C$ in millions) | 12-month ECL (Stage 1) | Lifetime ECL - not credit-impaired (Stage 2) | Lifetime ECL - credit-impaired (Stage 3) | Total |
|---|---|---|---|---|
| Balance at December 30, 2017 per IAS 39 | $ — | $ — | $ — | $ 111.0 |
| IFRS 9 adjustment | | | | 584.0 |
| Balance at December 31, 2017 per IFRS 9 | 227.0 | 182.3 | 285.7 | 695.0 |
| Increase (decrease) during the period | | | | |
| Write-offs | (11.9) | (25.6) | (352.9) | (390.4) |
| Recoveries | | | 75.4 | 75.4 |
| New loans originated | 53.9 | — | — | 53.9 |
| Transfers | | | | — |
| to Stage 1 | 73.2 | (50.6) | (22.6) | — |
| to Stage 2 | (32.5) | 36.7 | (4.2) | — |
| to Stage 3 | (28.2) | (26.8) | 55.0 | — |
| Net remeasurements | (28.5) | 70.1 | 289.1 | 330.7 |
| Balance at December 29, 2018 | $ 253.0 | $ 186.1 | $ 325.5 | $ 764.6 |

Credit card loans are considered impaired when a payment is 90 days past due or there is sufficient doubt regarding the collectability of the outstanding balance. No collateral is held against loans receivable, except for loans to Dealers, as discussed above. The Bank continues to seek recovery on amounts that were written-off during the period, unless the Bank no longer has the right to collect, the receivable has been sold to a third party, or all reasonable efforts to collect have been exhausted.

The following table sets out information about the credit risk exposure of loans receivable:

| (C$ in millions) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Low risk | $ 2,119.3 | $ 210.6 | $ — | $ 2,329.9 |
| Moderate risk | 1,864.4 | 251.9 | — | 2,116.3 |
| High risk | 836.6 | 290.4 | 675.6 | 1,802.6 |
| Total gross carrying amount | 4,820.3 | 752.9 | 675.6 | 6,248.8 |
| ECL allowance | 253.0 | 186.1 | 325.5 | 764.6 |
| Net carrying amount | $ 4,567.3 | $ 566.8 | $ 350.1 | $ 5,484.2 |

## Transfers of Financial Assets

### *Glacier Credit Card Trust*

GCCT is a structured entity that was created to securitize the Bank's credit card loans receivable. The Bank has transferred co-ownership interest in credit card loans receivable to GCCT and has determined, for the purposes of accounting, consolidation of GCCT is appropriate. The associated liabilities, as at December 29, 2018 and December 30, 2017, secured by these assets, include the commercial paper notes and term notes on the Consolidated Balance Sheets and are carried at amortized cost. The table below sets out the carrying amounts and the fair values of the Bank's transferred credit card loans receivable and the associated liabilities.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| (C$ in millions) | Carrying amount | Fair value | Carrying amount | Fair value |
| Credit card loans receivable transferred[1] | $ 2,438.2 | $ 2,438.2 | $ 1,915.1 | $ 1,915.1 |
| Associated liabilities | 2,432.8 | 2,419.2 | 1,910.5 | 1,903.3 |
| Net position | $ 5.4 | $ 19.0 | $ 4.6 | $ 11.8 |

[1] *The fair value measurement of credit card loans receivable is categorized within Level 2 of the fair value hierarchy. For definitions of the levels refer to Note 32.2.*

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

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

### *Franchise Trust*

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

| | **2018** | | 2017 | |
|---|---|---|---|---|
| (C$ in millions) | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| Dealer loans[1] | **$ 654.6** | **$ 654.6** | $ 667.1 | $ 667.1 |
| Associated liabilities | **654.6** | **654.6** | 667.1 | 667.1 |
| Net position | **$ —** | **$ —** | $ — | $ — |

[1] *The fair value measurement of Dealer loans is categorized within Level 2 of the fair value hierarchy. For definitions of the levels refer to Note 32.2*

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

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

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

The Co-owner Trusts may also draw against the LCs to cover any shortfalls in certain related fees owing to them. In any case, where a draw is made against the LCs, the Company has agreed to reimburse the bank issuing the LCs for the amount so drawn. Refer to Note 34 for further information.

## 10. Long-Term Receivables and Other Assets

Long-term receivables and other assets include the following:

| (C$ in millions) | 2018 | 2017 |
|---|---|---|
| Loans receivable (Note 9) | $ 634.9 | $ 627.2 |
| Derivatives (Note 32) | 44.8 | 46.1 |
| Mortgages receivable | 31.9 | 14.8 |
| Other receivables | 5.8 | 4.9 |
| Total long-term receivables | 717.4 | 693.0 |
| Other | 25.2 | 24.8 |
| | $ 742.6 | $ 717.8 |

## 11. Goodwill and Intangible Assets

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

| | | | | | | 2018 |
|---|---|---|---|---|---|---|
| | Indefinite-life intangible assets and goodwill | | | Finite-life intangible assets | | |
| (C$ in millions) | Goodwill | Banners and trademarks | Franchise agreements and other intangibles | Software | Other intangibles[1] | Total |
| **Cost** | | | | | | |
| Balance, beginning of year | $ 446.6 | $ 288.6 | $ 158.0 | $ 1,536.9 | $ 23.1 | $ 2,453.2 |
| Additions[2] | — | 1.9 | 7.5 | 137.5 | — | 146.9 |
| Additions related to business combinations | 434.9 | 566.0 | — | — | — | 1,000.9 |
| Disposals/retirements[3] | — | — | — | (626.3) | — | (626.3) |
| Currency translation adjustment | (18.0) | (23.8) | — | — | — | (41.8) |
| Reclassifications and transfers | — | — | — | — | — | — |
| Balance, end of year | $ 863.5 | $ 832.7 | $ 165.5 | $ 1,048.1 | $ 23.1 | $ 2,932.9 |
| **Accumulated amortization and impairment** | | | | | | |
| Balance, beginning of year | $ (1.9) | $ (0.6) | $ — | $ (1,136.2) | $ (21.6) | $ (1,160.3) |
| Amortization for the year | — | — | — | (125.8) | (0.8) | (126.6) |
| Impairment | — | — | — | — | — | — |
| Disposals/retirements[3] | — | — | — | 626.0 | — | 626.0 |
| Reclassifications and transfers | — | — | — | — | — | — |
| Balance, end of year | $ (1.9) | $ (0.6) | $ — | $ (636.0) | $ (22.4) | $ (660.9) |
| **Net carrying amount, end of year** | $ 861.6 | $ 832.1 | $ 165.5 | $ 412.1 | $ 0.7 | $ 2,272.0 |

[1] *Relates to SportChek off-market leases.*
[2] *Additions primarily relate to internally developed intangible assets.*
[3] *Current year disposals includes $624.0 million of zero net book value assets no longer in use.*

| | | | | | | 2017 |
|---|---|---|---|---|---|---|
| | Indefinite-life intangible assets and goodwill | | | Finite-life intangible assets | | |
| (C$ in millions) | Goodwill | Banners and trademarks | Franchise agreements and other intangibles | Software | Other intangibles[1] | Total |
| Cost | | | | | | |
| Balance, beginning of year | $ 446.6 | $ 270.3 | $ 156.0 | $ 1,410.8 | $ 23.1 | $ 2,306.8 |
| Additions[2] | — | 18.3 | 2.0 | 127.4 | — | 147.7 |
| Disposals/retirements | — | — | — | (3.6) | — | (3.6) |
| Reclassifications and transfers | — | — | — | 2.3 | — | 2.3 |
| Balance, end of year | $ 446.6 | $ 288.6 | $ 158.0 | $ 1,536.9 | $ 23.1 | $ 2,453.2 |
| Accumulated amortization and impairment | | | | | | |
| Balance, beginning of year | $ (1.9) | $ (0.6) | $ — | $ (1,003.5) | $ (20.5) | $ (1,026.5) |
| Amortization for the year | — | — | — | (133.2) | (0.5) | (133.7) |
| Impairment | — | — | — | — | — | — |
| Disposals/retirements | — | — | — | 2.8 | — | 2.8 |
| Reclassifications and transfers | — | — | — | (2.3) | (0.6) | (2.9) |
| Balance, end of year | $ (1.9) | $ (0.6) | $ — | $ (1,136.2) | $ (21.6) | $ (1,160.3) |
| Net carrying amount, end of year | $ 444.7 | $ 288.0 | $ 158.0 | $ 400.7 | $ 1.5 | $ 1,292.9 |

[1] *Relates to SportChek off-market leases.*
[2] *Additions primarily relate to internally developed intangible assets.*

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

| (C$ in millions) | **2018** | 2017 |
|---|---|---|
| Helly Hansen | **$ 416.7** | n/a |
| SportChek | **364.6** | $ 364.6 |
| Mark's | **56.7** | 56.7 |
| Canadian Tire | **23.5** | 23.4 |
| Total | **$ 861.5** | $ 444.7 |

The Company's banners and trademarks, which include SportChek, Mark's and Helly Hansen store banners and trademarks and acquired private-label brands, represent legal trademarks of the Company with expiry dates ranging from 2019 to 2033 with further renewals at the Company's election and discretion dependent on use. As the Company currently has no approved plans to change its store banners and intends to continue to use and renew its trademarks and private-label brands at each expiry date for the foreseeable future, there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows. Therefore, these intangible assets are considered to have indefinite useful lives.

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

Finite-life intangible assets are amortized over a term of 2 to 10 years. Off-market leases are amortized over the term of the lease to which they relate.

The amount of borrowing costs capitalized in 2018 was $5.0 million (2017 - $2.4 million). The capitalization rate used to determine the amount of borrowing costs capitalized during the year was 5.3 percent (2017 - 6.1 percent).

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

### Impairment of Intangible Assets and Subsequent Reversal

The Company performed its annual impairment test on goodwill and indefinite-life intangible assets for all CGUs based on VIU using after-tax discount rates ranging from 8.0 to 9.3 percent and growth rates ranging from 2.0 to 6.0 percent per annum.

There was no impairment or reversal of impairment of intangible assets in 2018 or 2017.

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

## 12. Investment Property

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

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, beginning of year | **$** | **391.6** | $ | 306.3 |
| Additions | | **119.3** | | 86.7 |
| Other [1] | | **(94.5)** | | (1.4) |
| Balance, end of year | **$** | **416.4** | $ | 391.6 |
| **Accumulated depreciation and impairment** | | | | |
| Balance, beginning of year | **$** | **(46.9)** | $ | (39.9) |
| Depreciation for the year | | **(2.0)** | | (7.8) |
| Other [1] | | **(2.8)** | | 0.8 |
| Balance, end of year | **$** | **(51.7)** | $ | (46.9) |
| **Net carrying amount, end of year** | **$** | **364.7** | $ | 344.7 |

[1] *Other includes disposals, retirements, impairment, reversals of impairment, reclassifications and transfers. The current year includes a $70.0 million transfer to property and equipment for a distribution centre in Alberta that became owner-occupied during the year.*

The investment properties generated rental income of $50.0 million (2017 - $38.4 million).

Direct operating expenses (including repairs and maintenance) arising from investment property recognized in net income were $22.0 million (2017 - $15.6 million).

The estimated fair value of investment property was $483.2 million (2017 - $488.6 million). This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (refer to Note 32.2 for definition of levels). The Company determines the fair value of investment property by applying a pre-tax capitalization rate to the annual rental income for the current leases. The capitalization rate ranged from 4.75 percent to 7.75 percent (2017 - 4.85 percent to 7.69 percent). The cash flows are for a term of five years, including a terminal value. The Company has real estate management expertise that is used to perform the valuation of investment property and has also completed independent appraisals on certain investment property owned by CT REIT.

### Impairment of Investment Property and Subsequent Reversal

Any impairment or reversals of impairment are reported in Other income in the Consolidated Statements of Income.

## 13. Property and Equipment

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

| (C$ in millions) | Land | Buildings | Fixtures and equipment | Leasehold improvements | Assets under finance lease | Construction in progress | 2018 Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance, beginning of year | $ 955.1 | $ 3,289.2 | $ 1,606.5 | $ 1,370.9 | $ 218.5 | $ 161.4 | $ 7,601.6 |
| Additions | 1.8 | 65.1 | 157.1 | 83.0 | 1.6 | 1.4 | 310.0 |
| Additions related to business combinations | — | 0.6 | 13.6 | 4.9 | — | 1.7 | 20.8 |
| Disposals/retirements[1] | | (9.6) | (255.5) | (135.1) | (10.4) | (8.0) | (418.6) |
| Currency translation adjustment | — | — | (0.9) | (0.3) | — | (0.2) | (1.4) |
| Reclassifications and transfers[2] | 14.9 | 44.8 | 14.3 | (4.0) | (10.1) | 9.3 | 69.2 |
| Balance, end of year | $ 971.8 | $ 3,390.1 | $ 1,535.1 | $ 1,319.4 | $ 199.6 | $ 165.6 | $ 7,581.6 |
| **Accumulated depreciation and impairment** | | | | | | | |
| Balance, beginning of year | $ (7.0) | $ (1,589.0) | $ (1,035.7) | $ (626.7) | $ (149.9) | $ — | $ (3,408.3) |
| Depreciation for the year | — | (80.3) | (121.3) | (87.8) | (10.0) | — | (299.4) |
| Disposals/retirements[1] | — | 8.2 | 253.8 | 135.0 | 9.4 | — | 406.4 |
| Reclassifications and transfers | — | 8.6 | (8.6) | (3.8) | 6.7 | — | 2.9 |
| Balance, end of year | $ (7.0) | $ (1,652.5) | $ (911.8) | $ (583.3) | $ (143.8) | $ — | $ (3,298.4) |
| **Net carrying amount, end of year** | $ 964.8 | $ 1,737.6 | $ 623.3 | $ 736.1 | $ 55.8 | $ 165.6 | $ 4,283.2 |

[1] *Current year disposals includes $380.6 million of zero net book value assets no longer in use.*
[2] *Current year reclassification and transfers includes a $70.0 million transfer from investment property for a distribution centre in Alberta that became owner-occupied during the year.*

| (C$ in millions) | Land | Buildings | Fixtures and equipment | Leasehold improvements | Assets under finance lease | Construction in progress | 2017 Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance, beginning of year | $ 911.2 | $ 2,943.9 | $ 1,382.0 | $ 1,306.4 | $ 223.0 | $ 425.9 | $ 7,192.4 |
| Additions | 44.5 | 346.5 | 222.6 | 67.0 | 15.7 | (262.1) | 434.2 |
| Disposals/retirements | (0.8) | (1.2) | (14.0) | (3.1) | (3.0) | (10.0) | (32.1) |
| Reclassifications and transfers | 0.2 | — | 15.9 | 0.6 | (17.2) | 7.6 | 7.1 |
| Balance, end of year | $ 955.1 | $ 3,289.2 | $ 1,606.5 | $ 1,370.9 | $ 218.5 | $ 161.4 | $ 7,601.6 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance, beginning of year | $ (6.6) | $ (1,481.6) | $ (919.1) | $ (535.0) | $ (152.9) | $ — | $ (3,095.2) |
| Depreciation for the year | — | (104.1) | (119.5) | (91.2) | (12.4) | — | (327.2) |
| Impairment | (0.5) | (0.4) | (0.9) | (1.2) | — | — | (3.0) |
| Disposals/retirements | — | 1.0 | 12.5 | 3.0 | 2.6 | — | 19.1 |
| Reclassifications and transfers | 0.1 | (3.9) | (8.7) | (2.3) | 12.8 | — | (2.0) |
| Balance, end of year | $ (7.0) | $ (1,589.0) | $ (1,035.7) | $ (626.7) | $ (149.9) | $ — | $ (3,408.3) |
| Net carrying amount, end of year | $ 948.1 | $ 1,700.2 | $ 570.8 | $ 744.2 | $ 68.6 | $ 161.4 | $ 4,193.3 |

The Company capitalized borrowing costs of $5.8 million (2017 - $12.8 million) on indebtedness relating to property and equipment under construction. The rate used to determine the amount of borrowing costs capitalized during the year was 4.8 percent (2017 - 6.1 percent).

The carrying amount of assets under finance leases at December 29, 2018, comprises $25.2 million (2017 - $28.9 million) in buildings and $30.6 million (2017 - $39.7 million) in fixtures and equipment.

### Impairment of Property and Equipment and Subsequent Reversal

There was no impairment of property and equipment in 2018 (2017 - $3.0 million). There was no reversal of impairment in 2018 or 2017. Any impairment or reversal of impairment is reported in Other income in the Consolidated Statements of Income.

## 14. Subsidiaries

### 14.1 Control of Subsidiaries and Composition of the Company

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

| | | | Ownership Interest | |
|---|---|---|---|---|
| **Name of subsidiary** | **Principal activity** | Country of incorporation and operation | **2018** | 2017 |
| CTFS Holdings Limited[1] | Marketing of insurance products, processing credit card transactions at Canadian Tire stores, banking and reinsurance | Canada | **80.0%** | 80.0% |
| Canadian Tire Real Estate Limited | Real estate | Canada | **100.0%** | 100.0% |
| CT Real Estate Investment Trust | Real estate | Canada | **76.2%** | 85.5% |
| FGL Sports Ltd. ("SportChek")[2] | Retailer of sporting equipment, apparel and footwear | Canada | **100.0%** | 100.0% |
| Franchise Trust[3] | Canadian Tire Dealer Loan Program | Canada | **0.0%** | 0.0% |
| Glacier Credit Card Trust[4] | Financing program to purchase co-ownership interests in Canadian Tire Bank's credit card loans | Canada | **0.0%** | 0.0% |
| Mark's Work Wearhouse Ltd. | Retailer of clothing and footwear | Canada | **100.0%** | 100.0% |
| Helly Hansen Group AS | Holding company for "Helly Hansen" branded global whole-seller of sportswear and workwear | Norway | **100.0%** | 0.0% |

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

[2] *"SportChek" refers to the retail business carried on by FGL Sports Ltd., including stores operated under the SportChek, Sports Experts, Atmosphere, National Sports, Sports Rousseau and Hockey Experts names and trademarks.*

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

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

### 14.2 Details of Non-wholly Owned Subsidiaries that have Non-Controlling Interests

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

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

| | | | | 2018 |
|---|---|---|---|---|
| (C$ in millions) | CT REIT[1] | CTFS Holdings Limited[2] | Other[3] | Total |
| Non-controlling interests | 23.8% | 20.0% | 50.0% | |
| Current assets | $ 9.7 | $ 5,993.9 | $ 10.4 | $ 6,014.0 |
| Non-current assets | 5,699.0 | 346.7 | 30.0 | 6,075.7 |
| Current liabilities | 99.0 | 2,223.8 | 3.9 | 2,326.7 |
| Non-current liabilities | 2,524.8 | 3,178.3 | 19.6 | 5,722.7 |
| Net assets | 3,084.9 | 938.5 | 16.9 | 4,040.3 |
| Revenue | $ 472.5 | $ 1,355.5 | $ 218.9 | $ 2,046.9 |
| Net income attributable to non-controlling interests | $ 30.2 | $ 56.6 | $ 4.1 | $ 90.9 |
| Equity attributable to non-controlling interests | 555.6 | 485.7 | 7.5 | 1,048.8 |
| Distributions to non-controlling interests | (25.3) | (10.5) | (3.8) | (39.6) |

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

| | | | | 2017 |
|---|---|---|---|---|
| (C$ in millions) | CT REIT[1] | CTFS Holdings Limited[2] | Other[3] | Total |
| Non-controlling interests | 14.5% | 20.0% | 50.0% | |
| Current assets | $ 15.9 | $ 5,942.7 | $ 15.4 | $ 5,974.0 |
| Non-current assets | 5,439.5 | 232.2 | 31.5 | 5,703.2 |
| Current liabilities | 225.9 | 2,028.3 | 5.6 | 2,259.8 |
| Non-current liabilities | 2,368.0 | 2,998.9 | 21.5 | 5,388.4 |
| Net assets | 2,861.5 | 1,147.7 | 19.8 | 4,029.0 |
| Revenue | $ 443.3 | $ 1,239.4 | $ 209.6 | $ 1,892.3 |
| Net income attributable to non-controlling interests | $ 23.1 | $ 56.0 | $ 4.7 | $ 83.8 |
| Equity attributable to non-controlling interests | 293.0 | 523.1 | 7.2 | 823.3 |
| Distributions to non-controlling interests | (21.5) | (38.7) | (3.2) | (63.4) |

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

### 14.3 Change in the Company's Ownership Interest in a Subsidiary

During the year, the Company reduced its interest in CT REIT from 85.5% to 76.2% and CT REIT completed a treasury unit offering, for gross proceeds of approximately $200.0 million and $65.0 million and net transaction costs of $8.2 million and $2.7 million respectively. As a result, $254.1 million has been transferred to non-controlling interests.

# 15. Income Taxes

## 15.1 Deferred Income Tax Assets and Liabilities

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

| | | | | | | **2018** |
|---|---|---|---|---|---|---|
| (C$ in millions) | **Balance, beginning of year** | **Recognized in profit or loss** | **Recognized in other comprehensive income** | **Recognized in equity** | **Other adjustments** | **Balance, end of year** |
| Provisions, deferred revenue and reserves | **$ 173.8** | **$ (29.5)** | **$ —** | **$ 163.9** | **$ 3.2** | **$ 311.4** |
| Property and equipment | **(52.9)** | **(13.8)** | **—** | **6.3** | **—** | **(60.4)** |
| Intangible assets | **(169.8)** | **14.3** | **—** | **5.5** | **(127.5)** | **(277.5)** |
| Employee benefits | **43.2** | **1.1** | **(3.9)** | **—** | **—** | **40.4** |
| Cash flow hedges | **13.2** | **—** | **(48.0)** | **1.2** | **—** | **(33.6)** |
| Finance leases | **14.6** | **(1.0)** | **—** | **—** | **—** | **13.6** |
| Non-capital losses carryforward | **3.3** | **(5.0)** | **—** | **(1.6)** | **37.0** | **33.7** |
| Other | **(10.5)** | **13.8** | **—** | **0.1** | **0.3** | **3.7** |
| Net deferred tax asset (liability)[1] | **$ 14.9** | **$ (20.1)** | **$ (51.9)** | **$ 175.4** | **$ (87.0)** | **$ 31.3** |

[1] *Includes the net amount of deferred tax assets of $215.8 million and deferred tax liabilities of $184.5 million.*

| | | | | | | 2017 |
|---|---|---|---|---|---|---|
| (C$ in millions) | Balance, beginning of year | Recognized in profit or loss | Recognized in other comprehensive income | Recognized in equity | Other adjustments | Balance, end of year |
| Provisions, deferred revenue and reserves | $ 155.6 | $ 17.6 | $ — | $ — | $ 0.6 | $ 173.8 |
| Property and equipment | (37.9) | (14.5) | — | 0.3 | (0.8) | (52.9) |
| Intangible assets | (170.6) | 1.7 | — | — | (0.9) | (169.8) |
| Employee benefits | 39.7 | 1.2 | 2.3 | — | — | 43.2 |
| Cash flow hedges | (13.2) | — | 26.4 | — | — | 13.2 |
| Finance leases | 14.7 | (0.1) | — | — | — | 14.6 |
| Non-capital losses carryforward | 2.8 | 0.5 | — | — | — | 3.3 |
| Other | (10.2) | 0.1 | — | — | (0.4) | (10.5) |
| Net deferred tax asset (liability)[1] | $ (19.1) | $ 6.5 | $ 28.7 | $ 0.3 | $ (1.5) | $ 14.9 |

[1] *Includes the net amount of deferred tax assets of $117.2 million and deferred tax liabilities of $102.3 million.*

No deferred tax is recognized on the amount of temporary differences arising from the difference between the carrying amount of the investment in subsidiaries, branches and associates and interests in joint arrangements accounted for in these consolidated financial statements and the cost amount for tax purposes of the investment. The Company is able to control the timing of the reversal of these temporary differences and believes it is probable that they will not reverse in the foreseeable future. The amount of these taxable temporary differences was approximately $2.4 billion at December 29, 2018 (2017 - $2.4 billion).

No deferred tax asset is recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is not probable that future taxable profit will not be available against which they can be utilized. The amount of these deductible temporary differences was approximately $150.4 million at December 29, 2018 (2017 - nil).

## 15.2 Income Tax Expense

The following are the major components of income tax expense:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| **Current tax expense** | | | | |
| Current period | **$** | **264.3** | $ | 291.9 |
| Adjustments with respect to prior years | | **0.8** | | 8.3 |
| | **$** | **265.1** | $ | 300.2 |
| **Deferred tax expense (benefit)** | | | | |
| Deferred income tax expense relating to the origination and reversal of temporary differences | **$** | **23.4** | $ | 4.4 |
| Deferred income tax (benefit) adjustments with respect to prior years | | **(2.2)** | | (11.9) |
| Deferred income tax (benefit) expense resulting from change in tax rate | | **(1.1)** | | 1.0 |
| | | **20.1** | | (6.5) |
| Total income tax expense | **$** | **285.2** | $ | 293.7 |

Income tax expense (benefit) recognized in other comprehensive income was as follows:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| (Losses) on derivatives designated as cash flow hedges and available-for-sale financial assets | | **n/a** | $ | (31.2) |
| Net fair value (losses) on hedging instruments entered into for cash flow hedges not subject to basis adjustment | **$** | **(2.6)** | | n/a |
| Deferred cost of hedging not subject to basis adjustment - Changes in fair value of the time value of an option in relation to time-period related hedged items | | **(2.7)** | | n/a |
| Reclassification of losses to non-financial assets | | **n/a** | | 6.9 |
| Reclassification of losses (gains) to income | | **1.6** | | (2.1) |
| Net fair value gains on hedging instruments entered into for cash flow hedges subject to basis adjustment | | **51.7** | | n/a |
| Actuarial gains (losses) | | **3.9** | | (2.3) |
| Total income tax expense (benefit) | **$** | **51.9** | $ | (28.7) |

## Reconciliation of Income Tax Expense

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

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Income before income taxes | **$** | **1,068.2** | $ | 1,112.5 |
| Income taxes based on the applicable statutory tax rate of 26.70% (2017 - 26.66%) | **$** | **285.2** | $ | 296.5 |
| Adjustment to income taxes resulting from: | | | | |
| Non-deductible (non-taxable) stock option (recovery) expense | | **(1.6)** | | 5.7 |
| Non-deductible acquisition-related costs | | **2.9** | | — |
| Non-deductibility of change in fair value of redeemable financial instrument | | **13.3** | | — |
| Non-taxable portion of capital gains | | **(3.4)** | | (0.1) |
| Income attributable to non-controlling interest in flow-through entities | | **(9.1)** | | (7.4) |
| Other | | **(2.1)** | | (1.0) |
| Income tax expense | **$** | **285.2** | $ | 293.7 |

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2017 - 15.0 percent) and the Canadian provincial income tax rate of 11.70 percent (2017 - 11.66 percent).

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

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

## 16. Deposits

Deposits consist of broker deposits and retail deposits.

Cash from broker deposits is raised through sales of GICs through brokers rather than directly to the retail customer. Broker deposits are offered for varying terms ranging from 30 days to five years and issued broker GICs are non-redeemable prior to maturity (except in certain rare circumstances). Total short-term and long-term broker deposits outstanding at December 29, 2018, were $1,898.8 million (2017 - $1,746.5 million).

Retail deposits consist of HIS deposits, retail GICs and TFSA deposits. Total retail deposits outstanding at December 29, 2018, were $572.4 million (2017 - $640.3 million).

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

| | **2018** | 2017 |
|---|---|---|
| GIC deposits | **2.75%** | 2.67% |
| HIS account deposits | **1.59%** | 1.40% |

## 17. Trade and Other Payables

Trade and other payables include the following:

| (C$ in millions) | **2018** | 2017[1] |
|---|---|---|
| Trade payables and accrued liabilities | **$ 2,034.4** | $ 1,780.8 |
| Derivatives (Note 32) | **21.4** | 74.9 |
| Total financial liabilities | **2,055.8** | 1,855.7 |
| Deferred revenue | **216.2** | 196.1 |
| Insurance reserve | **14.4** | 15.2 |
| Other | **138.6** | 163.8 |
| | **$ 2,425.0** | $ 2,230.8 |

[1] *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2).*

Deferred revenue consists mainly of unearned revenue relating to gift cards and customer loyalty program rewards. Deferred revenue will be recognized as revenue as the customer utilizes gift cards and loyalty rewards are redeemed. The majority of deferred revenue is expected to be redeemed within one year from issuance. $194.4 million included in deferred revenue at the beginning of the period was recognized as revenue in 2018 (2017 - $156.3 million).

Other consists primarily of the short-term portion of share based payment transactions and sales taxes payable.

The credit range period on trade payables is one to 270 days (2017 - one to 270 days).

## 18. Provisions

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

| (C$ in millions) | Sales and warranty returns | Site restoration and decommissioning | Other | 2018 Total |
|---|---|---|---|---|
| **Balance, beginning of year** | **$ 147.6** | **$ 40.2** | **$ 16.8** | **$ 204.6** |
| Charges, net of reversals | **563.6** | **1.0** | **7.2** | **571.8** |
| Utilizations | **(545.3)** | **(1.6)** | **(8.4)** | **(555.3)** |
| Discount adjustments | **1.7** | **(1.2)** | **—** | **0.5** |
| **Balance, end of year** | **$ 167.6** | **$ 38.4** | **$ 15.6** | **$ 221.6** |
| **Current provisions** | **160.2** | **4.3** | **7.3** | **171.8** |
| **Long-term provisions** | **7.4** | **34.1** | **8.3** | **49.8** |

## 19. Contingencies

### Legal Matters

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

The Bank's commodity tax assessments for the years 2011 through 2015 have been appealed to the Tax Court of Canada. The Bank is of the view that certain credit card processing services are exempt financial services under the *Excise Tax Act (Canada)*. Although the Court has recently ruled in a proceeding unrelated to the Bank that similar processing services are subject to Federal and Quebec sales taxes, that decision is currently under appeal and the Bank is of the view that there is a more likely than not chance that its position will be accepted by the Courts and the services will be viewed as exempt financial services. Accordingly, no provision has been made for amounts that would be payable in the event of an adverse outcome. If the Court rules against the Bank, the total aggregate exposure as of 2018 would not be significant.

## 20. Short-Term Borrowings

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

The commercial paper notes are short-term notes issued with varying original maturities of one year or less at interest rates fixed at the time of each renewal and are recorded at amortized cost. As at December 29, 2018, $294.3 million (2017 - $90.7 million) of commercial paper notes were outstanding.

As at December 29, 2018, $15.0 million (2017 - $53.9 million) of bank line of credit borrowings had been drawn on CT REIT's Bank Credit Facility. Helly Hansen had a total of $68.8 million of Canadian Dollar equivalent borrowings outstanding across its committed bank lines of credit (175.0 million Norwegian Krone ["NOK"]) and its factoring facility (265.8 million NOK). CTC had no borrowings under its bank lines as at December 29, 2018.

## 21. Loans Payable

Franchise Trust, a special purpose entity, is a legal entity sponsored by a third-party bank that originates loans to Dealers. Loans payable are the loans that Franchise Trust incurs to fund loans to Dealers. These loans are not direct legal liabilities of the Company but have been consolidated in the accounts of the Company as the Company effectively controls the silo of Franchise Trust containing the Dealer Loan Program.

Loans payable, which are initially recognized at fair value and are subsequently measured at amortized cost, are due within one year.

## 22. Long-Term Debt

Long-term debt includes the following:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| (C$ in millions) | **Face value** | **Carrying amount** | Face value | Carrying amount |
| Senior notes (GCCT) | | | | |
| Series 2013-1, 2.755%, November 20, 2018 | **$ —** | **$ —** | $ 250.0 | $ 249.7 |
| Series 2014-1, 2.568%, September 20, 2019 | **472.5** | **472.2** | 472.5 | 471.5 |
| Series 2015-1, 2.237%, September 20, 2020 | **465.0** | **464.3** | 465.0 | 463.8 |
| Series 2017-1, 2.048%, September 20, 2022 | **523.6** | **521.7** | 523.6 | 521.2 |
| Series 2018-1, 3.138%, September 20, 2023 | **546.0** | **543.4** | — | — |
| Subordinated notes (GCCT) | | | | |
| Series 2013-1, 3.275%, November 20, 2018 | **—** | **—** | 14.6 | 14.6 |
| Series 2014-1, 3.068%, September 20, 2019 | **27.5** | **27.5** | 27.5 | 27.5 |
| Series 2015-1, 3.237%, September 20, 2020 | **35.0** | **35.0** | 35.0 | 35.0 |
| Series 2017-1, 3.298%, September 20, 2022 | **36.4** | **36.4** | 36.4 | 36.4 |
| Series 2018-1, 4.138%, September 20, 2023 | **38.0** | **38.0** | — | — |
| Medium-term notes and debentures (CT REIT) | | | | |
| 2.159% due June 1, 2021 | **150.0** | **149.6** | 150.0 | 149.3 |
| 2.852% due June 9, 2022 | **150.0** | **149.5** | 150.0 | 149.3 |
| 3.527% due June 9, 2025 | **200.0** | **198.9** | 200.0 | 198.7 |
| 3.289% due June 1, 2026 | **200.0** | **199.0** | 200.0 | 198.7 |
| 3.469% due June 16, 2027 | **175.0** | **174.0** | 175.0 | 173.5 |
| 3.865% due December 7, 2027 | **200.0** | **198.8** | — | — |
| Medium-term notes and debentures (CTC) | | | | |
| 2.646% due July 6, 2020 | **250.0** | **249.5** | — | — |
| 3.167% due July 6, 2023 | **400.0** | **398.6** | — | — |
| 6.375% due April 13, 2028 | **150.0** | **150.6** | 150.0 | 148.7 |
| 6.445% due February 24, 2034 | **200.0** | **201.3** | 200.0 | 198.2 |
| 5.61% due September 4, 2035 | **200.0** | **199.6** | 200.0 | 199.5 |
| Finance lease obligations | **108.0** | **108.0** | 123.4 | 123.4 |
| Mortgages | **37.1** | **37.1** | 44.0 | 44.0 |
| Promissory note | **0.9** | **0.9** | 1.4 | 1.4 |
| Total debt | **$ 4,565.0** | **$ 4,553.9** | $ 3,418.4 | $ 3,404.4 |
| Current | **553.6** | **553.6** | 282.3 | 282.3 |
| Non-current | **4,011.4** | **4,000.3** | 3,136.1 | 3,122.1 |

The carrying amount of long-term debt is net of debt issuance costs of $16.2 million (2017 - $14.0 million).

### Senior and Subordinated Notes

Asset-backed senior and subordinated notes issued by GCCT are recorded at amortized cost using the effective interest method.

Subject to the payment of certain priority amounts, the senior notes have recourse on a priority basis to the related series ownership interest. The subordinated notes have recourse to the related series ownership interests on a subordinated basis to the senior notes in terms of the priority of payment of principal and, in some circumstances, interest. The asset-backed notes, together with certain other permitted obligations of GCCT, are secured by the assets of GCCT. The entitlement of note holders and other parties to such assets is governed by the priority and payment provisions set forth in the GCCT's Trust Indenture dated as of November 29, 1995, as amended and related series supplements under which these series of notes were issued.

Repayment of the principal of the series 2014-1, 2015-1, 2017-1 and 2018-1 notes is scheduled for the expected repayment dates indicated in the preceding table. Subsequent to the expected repayment date, collections distributed to GCCT with respect to the related ownership interest will be applied to pay any remaining amount owing.

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

- the Bank failing to make required payments to GCCT or failing to meet covenant or other contractual terms;
- the performance of the receivables failing to achieve set criteria; and
- insufficient receivables in the pool.

None of these events occurred in the year ended December 29, 2018.

### Medium-Term Notes and Debentures

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

During the first quarter of 2018, CT REIT issued $200.0 million aggregate principal amount of senior unsecured debentures. The debentures have a coupon rate of 3.865 percent and mature December 7, 2027.

On July 3, 2018, the Company completed the issuance of $650.0 million aggregate principal amount of unsecured medium-term notes, consisting of $250.0 million aggregate principal amount of 2.646 percent Series E Unsecured Medium-Term Notes due July 6, 2020 and $400.0 million aggregate principal amount of 3.167 percent Series F Unsecured Medium-Term Notes due July 6, 2023.

On September 13, 2018, GCCT completed the issuance of $584.0 million term notes that have an expected repayment date of September 20, 2023, consisting of $546.0 million principal amount of senior notes that bear an interest rate of 3.138 percent per annum and $38.0 million principal amount of subordinated notes that bear an interest rate of 4.138 percent per annum.

### Finance Lease Obligations

Finance leases relate to distribution centres, fixtures and equipment. The Company generally has the option to renew such leases or purchase the leased assets at the conclusion of the lease term. During 2018, interest rates on finance leases ranged from 0.6 percent to 8.0 percent. Remaining terms at December 29, 2018, were five to 96 months.

Finance lease obligations are payable as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| (C$ in millions) | **Future minimum lease payments** | **Interest** | **Present value of future minimum lease payments** | Future minimum lease payments | Interest | Present value of future minimum lease payments |
| Due in less than one year | **$ 22.1** | **$ 6.3** | **$ 15.8** | $ 24.4 | $ 7.0 | $ 17.4 |
| Due between one year and two years | **20.6** | **5.5** | **15.1** | 21.7 | 6.2 | 15.5 |
| Due between two years and three years | **19.5** | **4.5** | **15.0** | 20.0 | 5.5 | 14.5 |
| Due between three years and four years | **18.5** | **3.7** | **14.8** | 19.0 | 4.6 | 14.4 |
| Due between four years and five years | **15.2** | **2.9** | **12.3** | 18.2 | 3.7 | 14.5 |
| Due in more than five years | **38.8** | **3.8** | **35.0** | 53.8 | 6.7 | 47.1 |
| | **$ 134.7** | **$ 26.7** | **$ 108.0** | $ 157.1 | $ 33.7 | $ 123.4 |

### Mortgages

Mortgages payable at December 29, 2018 had a weighted average interest rate of 3.81% percent and a maturity date of December 8, 2019.

### Promissory Notes

Promissory notes were issued as part of franchise acquisitions in 2015. These notes are non-interest bearing.

## 23. Other Long-Term Liabilities

Other long-term liabilities include the following:

| (C$ in millions) | **2018** | 2017 |
|---|---|---|
| Redeemable financial instrument[1] | **$ 567.0** | $ 517.0 |
| Employee benefits (Note 24) | **151.9** | 162.4 |
| Deferred gains | **11.0** | 12.5 |
| Derivatives (Note 32) | **5.0** | 3.6 |
| Deferred revenue | **2.0** | 2.7 |
| Other | **135.4** | 150.0 |
| | **$ 872.3** | $ 848.2 |

[1] *A financial liability; refer to Note 32 for further information on the redeemable financial instrument.*

Deferred gains relate to the sale and leaseback of certain distribution centres. The deferred gains are amortized over the terms of the leases.

Other includes the long-term portion of share-based payment transactions, deferred lease inducements and straight-line rent liabilities.

# 24. Employment Benefits

## Profit-Sharing Program

The Company has a profit-sharing program for certain employees. The amount awarded to employees is contingent on the Company's profitability but shall be equal to at least one percent of the Company's previous year's net profits after income tax. A portion of the award ("Base Award") is contributed to a DPSP for the benefit of the employees. The maximum amount of the Company's Base Award contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 percent of the Base Award in a Company share fund of the DPSP. The share fund holds both Common Shares and Class A Non-Voting Shares. The Company's contributions to the DPSP, with respect to each employee, vest 20 percent after one year of continuous service and 100 percent after two years of continuous service.

In 2018, the Company contributed $24.1 million (2017 - $23.5 million) under the terms of the DPSP.

## Defined Benefit Plan

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

| (C$ in millions) | **2018** | 2017 |
|---|---|---|
| **Change in the present value of defined benefit obligation** | | |
| Defined benefit obligation, beginning of year | **$ 162.4** | $ 149.3 |
| Current service cost | **2.1** | 1.9 |
| Interest cost | **5.6** | 5.7 |
| Actuarial (gain) arising from changes in demographic assumptions | **(6.8)** | — |
| Actuarial (gain) loss arising from changes in financial assumptions | **(13.5)** | 9.9 |
| Actuarial loss (gain) arising from changes in experience assumptions | **5.6** | (1.1) |
| Benefits paid | **(3.5)** | (3.3) |
| Defined benefit obligation, end of year[1] | **$ 151.9** | $ 162.4 |

[1] *The accrued benefit obligation is not funded because funding is provided when benefits are paid. Accordingly, there are no plan assets.*

Significant actuarial assumptions used:

| | **2018** | 2017 |
|---|---|---|
| Defined benefit obligation, end of year: | | |
| Discount rate | **3.90%** | 3.50% |
| Net benefit plan expense for the year: | | |
| Discount rate | **3.50%** | 3.90% |

For measurement purposes, a 4.08 percent weighted average health care cost trend rate is assumed for 2018 (2017 - 4.67 percent). The rate is assumed to decrease gradually to 2.11 percent for 2040 and remain at that level thereafter.

The most recent actuarial valuation of the obligation was performed as of December 29, 2018.

The cumulative amount of actuarial losses before tax recognized in equity at December 29, 2018, was $41.9 million (2017 - $56.6 million).

***Sensitivity Analysis:***

The Company's defined benefit plan is exposed to actuarial risks such as the health care cost trend rate, the discount rate and the life expectancy assumptions. The following tables provide the sensitivity of the defined benefit obligation to these assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged.

| (C$ in millions) | | | **2018** |
|---|---|---|---|
| Sensitivity analysis | | **Accrued benefit obligation** | |
| | | ***Increase*** | ***Decrease*** |
| A fifty basis point change in assumed discount rates | **$** | **(11.5)** | **$ 13.0** |
| A one-percentage-point change in assumed health care cost trend rates | | **14.0** | **(12.1)** |
| A one-year change in assumed life expectancy | | **3.4** | **(3.4)** |

The weighted-average duration of the defined benefit plan obligation at December 29, 2018 is 16.1 years (2017 - 16.6 years).

## 25. Share Capital

Share capital consists of the following:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Authorized | | | | |
| 3,423,366 Common Shares | | | | |
| 100,000,000 Class A Non-Voting Shares | | | | |
| Issued | | | | |
| 3,423,366 Common Shares (2017 - 3,423,366) | **$** | **0.2** | $ | 0.2 |
| 59,478,460 Class A Non-Voting Shares (2017 - 63,066,561) | | **591.3** | | 615.5 |
| | **$** | **591.5** | $ | 615.7 |

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

During 2018 and 2017, the Company issued and repurchased Class A Non-Voting Shares. The Company's share repurchases were made pursuant to its NCIB program.

The following transactions occurred with respect to Class A Non-Voting Shares during 2018 and 2017:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| (C$ in millions) | **Number** | **$** | Number | $ |
| Shares outstanding at beginning of the year | **63,066,561** | **$ 615.5** | 67,323,781 | $ 647.9 |
| Issued under the dividend reinvestment plan[1] | **73,010** | **11.9** | 60,785 | 9.4 |
| Repurchased[2] | **(3,661,111)** | **(588.9)** | (4,318,005) | (659.3) |
| Excess of purchase price over average cost | **—** | **552.8** | — | 617.5 |
| Shares outstanding at end of the period | **59,478,460** | **$ 591.3** | 63,066,561 | $ 615.5 |

[1] *Includes 776 shares issued pursuant to the Company`s stock option program. The associated cost of these shares is $0.1.*

[2] *Repurchased shares, pursuant to the Company's NCIB program, have been restored to the status of authorized but unissued shares. The Company records shares repurchased on a transaction date basis.*

## Conditions of Class A Non-Voting Shares and Common Shares

The holders of Class A Non-Voting Shares are entitled to receive a fixed cumulative preferential dividend at the rate of $0.01 per share per annum. After payment of fixed cumulative preferential dividends at the rate of $0.01 per share per annum on each of the Class A Non-Voting Shares with respect to the current year and each preceding year and payment of a non-cumulative dividend on each of the Common Shares with respect to the current year at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in equal amounts per share without preference or distinction or priority of one share over another.

In the event of the liquidation, dissolution, or winding up of the Company, all of the property of the Company available for distribution to the holders of the Class A Non-Voting Shares and the Common Shares shall be paid or distributed equally, share for share, to the holders of the Class A Non-Voting Shares and to the holders of the Common Shares without preference or distinction or priority of one share over another.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders; however, except as provided by the *Business Corporations Act* (Ontario) and as hereinafter noted, they are not entitled to vote at those meetings. Holders of Class A Non-Voting Shares, voting separately as a class, are entitled to elect the greater of (i) three Directors or (ii) one-fifth of the total number of the Company's Directors.

The holders of Common Shares are entitled to receive notice of, to attend and to have one vote for each Common Share held at all meetings of holders of Common Shares, subject only to the restriction on the right to elect those directors who are elected by the holders of Class A Non-Voting Shares as set out above.

Common Shares can be converted, at any time and at the option of each holder of Common Shares, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of shares of either class cannot be increased without the approval of the holders of at least two-thirds of the shares of each class represented and voted at a meeting of the shareholders called for the purpose of considering such an increase. Neither the Class A Non-Voting Shares nor the Common Shares can be changed in any manner whatsoever, whether by way of subdivision, consolidation, reclassification, exchange, or otherwise, unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all, or substantially all of the holders of Common Shares, or be required by applicable securities legislation or by the Toronto Stock Exchange to be made to all holders of Common Shares in Ontario and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon and thereafter be entitled to one vote per share at all meetings of the shareholders and thereafter the Class A Non-Voting Shares shall be designated as Class A Shares. The foregoing voting entitlement applicable to Class A Non-Voting Shares would not apply in the case where an offer is made to purchase both Class A Non-Voting Shares and Common Shares at the same price per share and on the same terms and conditions.

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

As of December 29, 2018, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of $64.9 million (2017 - $59.6 million) at a rate of $1.0375 per share (2017 - $0.900 per share).

On February 13, 2019 the Company's Board of Directors declared a dividend of $1.0375 per share payable on June 1, 2019 to shareholders of record as of April 30, 2019.

Dividends per share declared were $3.7375 in 2018 (2017 - $2.8500).

The dilutive effect of employee stock options is 174,857 (2017 - 193,007).

# 26. Share-Based Payments

The Company's share-based payment plans are described below.

## Stock Options

The Company has granted stock options to certain employees that enable such employees to exercise their stock options and subscribe for Class A Non-Voting Shares or surrender their options and receive a cash payment. Such cash payment is calculated as the difference between the fair market value of Class A Non-Voting Shares as at the surrender date and the exercise price of the option. Stock options granted prior to 2012 vested on the third anniversary of their grant. Stock options that were granted in 2012 and later vest over a three-year period. All outstanding stock options have a term of seven years. At December 29, 2018, and December 30, 2017, the aggregate number of Class A Non-Voting Shares that were authorized for issuance under the stock option plan was 3.4 million.

Stock option transactions during 2018 and 2017 were as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| Outstanding at beginning of year | **1,025,839** | **$ 130.14** | 961,349 | $ 116.41 |
| Granted | **302,160** | **177.09** | 300,217 | 156.20 |
| Exercised and surrendered[1] | **(239,559)** | **118.47** | (193,493) | 100.46 |
| Forfeited | **(61,895)** | **159.38** | (42,234) | 138.85 |
| Outstanding at end of year | **1,026,545** | **$ 144.91** | 1,025,839 | $ 130.14 |
| Stock options exercisable at end of year | **425,267** | | 483,704 | |

[1] *The weighted average market price of the Company's shares when the options were exercised in 2018 was $171.97 (2017 - $155.67).*

The following table summarizes information about stock options outstanding and exercisable at December 29, 2018:

| | **Options outstanding** | | | **Options exercisable** | |
|---|---|---|---|---|---|
| **Range of exercise prices** | **Number of outstanding options** | **Weighted average remaining contractual life[1]** | **Weighted average exercise price** | **Number of exercisable options** | **Weighted average exercise price** |
| $ 177.09 | **276,717** | **6.16** | **$ 177.09** | **—** | **$ —** |
| 159.29 | **249,712** | **5.17** | **156.29** | **—** | **—** |
| 129.14 to 129.92 | **392,453** | **3.80** | **129.63** | **317,604** | **129.56** |
| 99.72 | **80,773** | **2.20** | **99.72** | **80,773** | **99.72** |
| 62.30 to 69.01 | **26,890** | **0.98** | **67.87** | **26,890** | **67.87** |
| $ 62.30 to 177.09 | **1,026,545** | **4.57** | **$ 144.91** | **425,267** | **$ 119.99** |

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

## Performance Share Units and Performance Units

The Company grants Performance Share Units ("PSUs") to certain of its employees that generally vest after three years. Each PSU entitles the participant to receive a cash payment equal to the fair market value of the Company's Class A Non-Voting Shares on the date set out in the Performance Share Unit plan, multiplied by a factor determined by specific performance-based criteria and, a relative total shareholder return modifier.

CT REIT grants Performance Units ("PUs") to certain of its employees that generally vest after three years. Each PU entitles the participant to receive a cash payment equal to the fair market value of Units of CT REIT on the date set out in the Performance Unit plan, multiplied by a factor determined by specific performance-based criteria.

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

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Stock options** | **PSUs** | Stock options | PSUs |
| Share price at end of year (C$) | **$ 142.08** | **$ 142.08** | $ 163.90 | $ 163.90 |
| Weighted average exercise price[1](C$) | **$ 144.21** | **N/A** | $ 129.42 | N/A |
| Expected remaining life (years) | **3.6** | **1.0** | 3.8 | 1.2 |
| Expected dividends | **3.0%** | **4.5%** | 2.4% | 3.2% |
| Expected volatility[2] | **21.0%** | **25.5%** | 20.6% | 15.7% |
| Risk-free interest rate | **2.3%** | **2.3%** | 2.2% | 1.9% |

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

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

## Deferred Share Units and Deferred Units

The Company offers Deferred Share Unit ("DSU") plans to certain of its Executives and to members of its Board of Directors. Under the Executives' DSU plan, eligible Executives may elect to receive all or a portion of their annual bonus in DSUs. The Executives' DSU plan also provides for the granting of discretionary DSUs. Under the Directors' DSU plan, eligible Directors may defer all or a portion of their annual director fees into DSUs. DSUs received under both the Executives' and Directors' DSU plans are settled in cash following termination of service with the Company and/or the Board based on the fair market value of the Company's Class A Non-Voting Shares on the settlement date.

CT REIT also offers a Deferred Unit ("DU") plan for members of its Board of Trustees. Under this plan, eligible trustees may elect to receive all or a portion of their annual trustee fees in DUs. DUs are settled through the issuance of an equivalent number of Units of CT REIT or, at the election of the trustee, cash, following termination of service with the Board.

## Restricted Unit Plan

CT REIT offers a Restricted Unit ("RU") plan for its Executives. RUs may be issued as discretionary grants or, Executives may elect to receive all or a portion of their annual bonus in RUs. At the end of the vesting period, which is generally three years from the date of grant (in the case of discretionary grants) and five years from the annual bonus payment date (in the case of deferred bonus), an Executive receives an equivalent number of Units issued by CT REIT or, at the Executive's election, the cash equivalent thereof.

The Company enters into equity derivative transactions to hedge share-based payments and does not apply hedge accounting. The expense recognized for share-based compensation is summarized as follows:

| (C$ in millions) | **2018** | 2017 |
|---|---|---|
| Expense arising from share-based payment transactions | **$ 14.4** | $ 75.4 |
| Effect of hedging arrangements | **28.2** | (32.0) |
| Total expense included in net income | **$ 42.6** | $ 43.4 |

The total carrying amount of liabilities for share-based payment transactions at December 29, 2018, was $91.2 million (2017 - $129.3 million).

The intrinsic value of the liability for vested benefits at December 29, 2018, was $33.1 million (2017 - $47.4 million).

## 27. Revenue

Revenue by reportable operating segment is as follows:

| | | | | | 2018 | | | | | 2017[1] |
|---|---|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | Retail | CT REIT | Financial Services | Adjust-ments | Total | Retail | CT REIT | Financial Services | Adjust-ments | Total |
| Sale of goods | **$12,303.0** | **$ —** | **$ —** | **$ —** | **$12,303.0** | $11,628.9 | $ — | $ — | $ — | $11,628.9 |
| Interest income on loans receivable | **18.8** | **—** | **1,027.2** | **(8.4)** | **1,037.6** | 15.7 | — | 930.6 | (5.5) | 940.8 |
| Royalties and licence fees | **424.3** | **—** | **—** | **—** | **424.3** | 414.9 | — | — | — | 414.9 |
| Services rendered | **15.7** | **—** | **188.9** | **—** | **204.6** | 13.7 | — | 201.3 | — | 215.0 |
| Rental income | **42.8** | **46.4** | **—** | **—** | **89.2** | 42.3 | 34.8 | — | — | 77.1 |
| | **$12,804.6** | **$ 46.4** | **$ 1,216.1** | **$ (8.4)** | **$14,058.7** | $12,115.5 | $ 34.8 | $ 1,131.9 | $ (5.5) | $13,276.7 |

[1] *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2).*

Retail revenue breakdown is as follows:

| (C$ in millions) | 2018 | 2017 |
|---|---|---|
| Canadian Tire | **$ 7,209.0** | $ 7,090.7 |
| SportChek | **1,993.4** | 1,978.1 |
| Mark's | **1,247.2** | 1,215.2 |
| Helly Hansen | **347.6** | n/a |
| Petroleum | **2,016.5** | 1,820.2 |
| Other and inter-segment eliminations | **(9.1)** | 11.3 |
| | **$ 12,804.6** | $ 12,115.5 |

### Major Customers

The Company does not rely on any one customer.

## 28. Cost of Producing Revenue

Cost of producing revenue consists of the following:

| (C$ in millions) | 2018 | 2017 |
|---|---|---|
| Inventory cost of sales[1] | **$ 8,863.8** | $ 8,398.9 |
| Net impairment loss on loans receivable | **360.6** | 292.9 |
| Finance costs on deposits | **61.1** | 55.6 |
| Other | **61.9** | 49.1 |
| | **$ 9,347.4** | $ 8,796.5 |

[1] *Inventory cost of sales includes depreciation for the year ended December 29, 2018 of $6.2 million (2017 - $6.8 million).*

Inventory writedowns, as a result of net realizable value being lower than cost, recognized in the year ended December 29, 2018 were $50.1 million (2017 - $59.0 million).

Inventory writedowns recognized in prior periods and reversed in the year ended December 29, 2018 were $5.7 million (2017 - $9.6 million). The reversal of writedowns was the result of actual losses being lower than previously estimated.

The writedowns and reversals are included in inventory cost of sales.

## 29. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

| (C$ in millions) | | **2018** | | 2017[1] |
|---|---|---|---|---|
| Personnel expenses | **$** | **1,281.5** | $ | 1,191.7 |
| Occupancy | | **748.0** | | 697.2 |
| Marketing and advertising | | **329.5** | | 277.6 |
| Depreciation of property and equipment and investment property[2,3] | | **295.2** | | 328.2 |
| Information systems | | **175.5** | | 167.9 |
| Amortization of intangible assets | | **126.6** | | 133.7 |
| Other | | **511.3** | | 458.6 |
| | **$** | **3,467.6** | $ | 3,254.9 |

[1] *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2).*
[2] *Refer to Note 28 for depreciation included in cost of producing revenue.*
[3] *Effective in 2018, the Company changed its depreciation method for certain depreciable assets (refer to Note 2).*

## 30. Net Finance Costs

Net finance costs consists of the following:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Finance (income)[1] | **$** | **(9.9)** | $ | (10.0) |
| Finance costs | | | | |
| Subordinated and senior notes | **$** | **49.6** | $ | 49.4 |
| Medium-term notes and debentures | | **78.7** | | 58.9 |
| Loans payable | | **16.8** | | 13.6 |
| Finance leases | | **7.1** | | 7.5 |
| Other | | **20.0** | | 8.4 |
| | | **172.2** | | 137.8 |
| Less: Capitalized borrowing costs | | **10.8** | | 15.2 |
| **Total finance costs** | **$** | **161.4** | $ | 122.6 |
| **Net finance costs** | **$** | **151.5** | $ | 112.6 |

[1] *Primarily includes interest income on short and long-term investments and tax instalments.*

# 31. Notes to the Consolidated Statements of Cash Flows

Change in operating working capital and other comprise the following:

| (C$ in millions) | 2018 | 2017 |
|---|---|---|
| Change in operating working capital | | |
| Trade and other receivables | **$ 32.8** | $ (50.8) |
| Merchandise inventories | **(104.4)** | (29.2) |
| Income taxes | **(6.5)** | (1.0) |
| Prepaid expenses and deposits | **(24.5)** | (8.0) |
| Trade and other payables | **76.2** | 175.3 |
| Total | **(26.4)** | 86.3 |
| Change in other | | |
| Provisions | **13.6** | 10.4 |
| Long-term provisions | **6.2** | (1.3) |
| Other long-term liabilities | **(38.0)** | 11.6 |
| Total | **(18.2)** | 20.7 |
| Change in operating working capital and other | **$ (44.6)** | $ 107.0 |

Changes in liabilities arising from financing activities comprise the following:

| | | 2018 |
|---|---|---|
| (C$ in millions) | **Deposits** | **Long-term debt** |
| Balance at December 30, 2017 per IAS 39 | **$ 2,386.8** | **$ 3,404.4** |
| IFRS 9 adjustment | **—** | **5.1** |
| **Balance at December 31, 2017 per IFRS 9** | **2,386.8** | **3,409.5** |
| Cash changes: | | |
| Change in deposits | **80.6** | **—** |
| Long-term debt issuance | **—** | **1,434.0** |
| Long-term debt repayment | **—** | **(265.3)** |
| Finance lease obligation repayment | **—** | **(17.0)** |
| Mortgage repayment | **—** | **(6.8)** |
| Payment of transaction costs related to long-term debt | **—** | **(5.5)** |
| Total changes from financing cash flows | **80.6** | **1,139.4** |
| Non-cash changes: | | |
| Finance lease addition | **—** | **1.6** |
| Amortization of debt issuance costs | **—** | **3.4** |
| Amortization of broker commission | **3.8** | **—** |
| **Balance, end of year** | **$ 2,471.2** | **$ 4,553.9** |

## 31.1 Cash and Marketable Investments Held in Reserve

Cash and marketable investments includes reserves held by the Financial Services segment in support of its liquidity and regulatory requirements. As at December 29, 2018, reserves held by Financial Services totaled $498.3 million (2017 - $368.6 million) and includes restricted cash disclosed in Note 7 as well as short-term investments.

# 32. Financial Instruments

## 32.1 Fair Value of Financial Instruments

Fair values have been determined for measurement and/or disclosure purposes based on the following:

The carrying amount of the Company's cash and cash equivalents, trade and other receivables, loans receivable, bank indebtedness, trade and other payables, short-term borrowings and loans payable approximate their fair value either due to their short-term nature or because they are derivatives, which are carried at fair value.

The carrying amount of the Company's long-term receivables and other assets approximate their fair value either because the interest rates applied to measure their carrying amount approximate current market interest or because they are derivatives, which are carried at fair value.

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

### Investments in Equity and Debt Securities

The fair values of financial assets at FVTPL, held-to-maturity investments (under IAS 39) and available-for-sale financial assets (under IAS 39) that are traded in active markets are determined by reference to their quoted closing bid price or dealer price quotations at the reporting date. For investments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models, comparison to similar instruments for which market-observable prices exist and other valuation models.

### Derivatives

The fair value of a foreign exchange forward contract is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps and swaptions reflect the estimated amounts the Company would receive or pay if it were to settle the contracts at the measurement date and is determined by an external valuator using valuation techniques based on observable market input data.

The fair value of equity derivatives is determined by reference to share price movement adjusted for interest using market interest rates specific to the terms of the underlying derivative contracts.

### Redeemable Financial Instrument

On October 1, 2014, the Bank of Nova Scotia ("Scotiabank") acquired a 20.0 percent interest in the Financial Services business from the Company for proceeds of $476.8 million, net of $23.2 million in transaction costs. In conjunction with the transaction, Scotiabank was provided an option to sell and require the Company to purchase all of the interest owned by Scotiabank at any time during the six-month period following the tenth anniversary of the transaction. This obligation gives rise to a liability for the Company (the "redeemable financial instrument") and is recorded on the Company's Consolidated Balance Sheets in Other long-term liabilities. The purchase price will be based on the fair value of the Financial Services business and Scotiabank's proportionate interest in the Financial Services business, at that time.

The redeemable financial instrument was initially recorded at $500.0 million and is subsequently measured at fair value with changes in fair value recorded in net income for the period in which they arise. The subsequent fair value measurements of the redeemable financial instrument are calculated based on a discounted cash flow analysis using normalized earnings attributable to the Financial Services business, adjusted for any undistributed earnings and Scotiabank's proportionate interest in the business. The Company estimates future normalized earnings based on the most recent actual results. The earnings are then forecast over a period of up to five years, taking into account a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on an industry-based estimate of the Financial Services business. The discount rate reflects the cost of equity of the Financial Services business and is based on expected market rates adjusted to reflect the risk profile

of the business. The fair value measurement is performed quarterly using internal estimates and judgment supplemented by input from a third party, as required. This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (refer to Note 32.2).

### 32.2 Fair Value of Financial Assets and Financial Liabilities Classified Using the Fair Value Hierarchy

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are:

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

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

| (C$ in millions) | | | **2018** | | 2017 |
|---|---|---|---|---|---|
| **Balance sheet line** | **Category** | **Level** | | Level | |
| Short-term investments[1] | FVTPL | **2** | **n/a** | 2 | $ 45.6 |
| Short-term investments[1] | Available-for-sale | **2** | **n/a** | 2 | 86.9 |
| Long-term investments[1] | Available-for-sale | **2** | **n/a** | 2 | 165.0 |
| Trade and other receivables | FVTPL[2] | **2** | **$ 25.1** | 2 | 19.4 |
| Trade and other receivables | Effective hedging instruments | **2** | **121.8** | 2 | 3.8 |
| Long-term receivables and other assets | FVTPL[2] | **2** | **7.7** | 2 | 27.5 |
| Long-term receivables and other assets | Effective hedging instruments | **2** | **37.1** | 2 | 18.6 |
| Trade and other payables | FVTPL[2] | **2** | **16.7** | 2 | 14.2 |
| Trade and other payables | Effective hedging instruments | **2** | **4.7** | 2 | 60.7 |
| Redeemable financial instrument | FVTPL | **3** | **567.0** | 3 | 517.0 |
| Other long-term liabilities | Effective hedging instruments | **2** | **5.0** | 2 | 3.6 |

[1] *Under IAS 39, short-term and long-term investments were measured at fair value and categorized within Level 2 of the fair value hierarchy.*
[2] *Includes derivatives that were classified as held for trading under IAS 39.*

There were no transfers in either direction between categories in 2018 or 2017.

### Changes in Fair Value Measurement for Instruments Categorized in Level 3

Level 3 financial instruments include a redeemable financial instrument.

As of December 29, 2018, the fair value of the redeemable financial instrument was estimated to be $567.0 million (2017 - $517.0 million). The determination of the fair value of the redeemable financial instrument requires significant judgment on the part of Management. Refer to Note 2 of these consolidated financial statements for further information.

## 32.3 Fair Value Measurement of Investments, Debt and Deposits

The fair value measurement of investments, debt and deposits is categorized within Level 2 of the fair value hierarchy (refer to Note 32.2). The fair values of the Company's investments, debt and deposits compared to the carrying amounts are as follows:

| As at | **December 29, 2018** | | December 30, 2017 | |
|---|---|---|---|---|
| (C$ in millions) | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| Short-term investments[1,2] | **$ 183.7** | **$ 183.7** | n/a | n/a |
| Long-term investments[2] | **152.7** | **153.4** | n/a | n/a |
| Debt | **4,553.9** | **4,603.9** | $ 3,404.4 | $ 3,534.8 |
| Deposits | **2,471.2** | **2,450.4** | 2,386.8 | 2,404.4 |

[1] *The effective interest rate of investments that were reclassified out of FVTPL upon transition to IFRS 9 is 1.1% per annum.*
[2] *Under IFRS 9, short-term and long-term investments are measured at amortized cost; previously under IAS 39 they were measured at fair value.*

The difference between the fair values and the carrying amounts (excluding transaction costs, which are included in the carrying amount of debt) is due to changes in market interest rates for similar instruments. The fair values are determined by discounting the associated future cash flows using current market interest rates for items of similar risk.

## 32.4 Items of Income, Expense, Gains or Losses

The following table presents certain amounts of income, expense, gains, or losses, arising from financial instruments that were recognized in net income or equity:

| (C$ in millions) | **2018** | 2017 |
|---|---|---|
| Net (loss) gain on: | | |
| Financial instruments designated and/or classified as FVTPL[1] | **$ (66.7)** | $ 29.4 |
| Interest income (expense): | | |
| Total interest income calculated using effective interest method for financial instruments that are not at FVTPL | **1,047.6** | 947.0 |
| Total interest expense calculated using effective interest method for financial instruments that are not at FVTPL | **(226.4)** | (183.8) |
| Fee expense arising from financial instruments that are not at FVTPL: | | |
| Other fee expense | **(15.0)** | (14.7) |

[1] *Excludes gains (losses) on cash flow hedges, which are effective hedging relationships and gains (losses) on available-for-sale investments (under IAS 39) that are both reflected in the Consolidated Statements of Comprehensive Income.*

## 32.5 Derivatives Designated as Hedging Instruments

The following table details the effectiveness of the hedging relationships and the amounts reclassified from hedging reserve to profit or loss:

| | **2018** | | |
|---|---|---|---|
| | | **Amounts reclassified to profit or loss** | |
| (C$ in millions) | **Current period hedging gains (losses) recognized in OCI** | **Due to hedged item affecting profit or loss** | **Line item in profit or loss affected by the reclassification** |
| Foreign currency risk | **$ 198.1** | **$ 0.2** | **Other income** |
| Interest rate risk | **$ (23.8)** | **$ 5.1** | **Net finance costs** |

The following table shows a reconciliation of cash flow hedges, net of tax, in relation to hedge accounting:

| (C$ in millions) | | 2018 |
|---|---|---|
| **Balance, beginning of year** | **$** | **(38.3)** |
| Changes in fair value: | | |
| *Foreign currency risk* | | |
| Hedging instruments entered into for cash flow hedges subject to basis adjustment | | **193.5** |
| Hedging instruments entered into for cash flow hedges not subject to basis adjustment | | **4.6** |
| *Interest rate risk* | | |
| Hedging instruments entered into for cash flow hedges not subject to basis adjustment | | **(13.6)** |
| Deferred cost of hedging not subject to basis adjustment - time value of an option in relation to time-period related hedged items | | **(10.2)** |
| Amount reclassified to profit or loss: | | |
| Foreign currency risk | | **0.2** |
| Interest rate risk | | **5.1** |
| Amount reclassified to non-financial assets: | | |
| Foreign currency risk | | **(4.4)** |
| Tax on movements on reserves during the year | | **(46.8)** |
| Attributable to non-controlling interests | | **1.9** |
| **Balance, end of year** | **$** | **92.0** |

## 33. Operating Leases

### The Company as Lessee

The Company leases a number of retail stores, distribution centres, petroleum sites, facilities and office equipment, under operating leases with termination dates extending to March 25, 2060. Generally, the leases have renewal options, primarily at the Company's option.

The annual lease payments for property and equipment under operating leases are as follows:

| (C$ in millions) | | 2018[1] | | 2017 |
|---|---|---|---|---|
| Less than one year | **$** | **379.6** | $ | 338.9 |
| Between one and five years | | **1,145.4** | | 1,044.2 |
| More than five years | | **968.3** | | 769.0 |
| | **$** | **2,493.3** | $ | 2,152.1 |

[1] *Includes $240.1 million commitment for lease agreements signed but not yet commenced.*

In addition to the above, due to the redevelopment or replacement of existing properties, certain leased properties are no longer needed for business operations. Where possible, the Company subleases these properties to third parties, receiving sublease payments to reduce costs. In addition, the Company has certain premises where it is on the head lease and subleases the property to franchisees. The total future minimum sublease payments expected under these non-cancellable subleases were $128.4 million as at December 29, 2018 (2017 - $118.2 million).

The amounts recognized as an expense are as follows:

| (C$ in millions) | | 2018 | | 2017 |
|---|---|---|---|---|
| Minimum lease payments[1] | **$** | **407.0** | $ | 380.6 |
| Sublease payments received | | **(39.5)** | | (38.7) |
| | **$** | **367.5** | $ | 341.9 |

[1] *Minimum lease payments includes contingent rent.*

### The Company as Lessor

The Company leases out a number of its investment properties (refer to Note 12) and has certain sublease arrangements, under operating leases, with lease terms between 1 to 36 years with the majority having an option to renew after the expiry date.

The lessee does not have an option to purchase the property at the expiry of the lease period.

The future annual lease payments receivable from lessees under non-cancellable leases are as follows:

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Less than one year | **$** | **49.1** | $ | 47.1 |
| Between one and five years | | **138.5** | | 128.4 |
| More than five years | | **96.3** | | 81.1 |
| | **$** | **283.9** | $ | 256.6 |

## 34. Guarantees and Commitments

### Guarantees

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable that is related to an asset, a liability or an equity security of the counterparty; (ii) failure of another party to perform under an obligating agreement; or (iii) failure of a third party to pay its indebtedness when due.

The Company has provided the following significant guarantees and other commitments to third parties:

### Standby Letters of Credit

Franchise Trust, a legal entity sponsored by a third-party bank, originates loans to Dealers for their purchase of inventory and fixed assets. While Franchise Trust is consolidated as part of these financial statements, the Company has arranged for several major Canadian banks to provide standby LCs to Franchise Trust to support the credit quality of the Dealer loan portfolio. The banks may also draw against the LCs to cover any shortfalls in certain related fees owing to it. In any case where a draw is made against the LCs, the Company has agreed to reimburse the banks issuing the standby LCs for the amount so drawn. The Company has not recorded any liability for these amounts due to the credit quality of the Dealer loans and to the nature of the underlying collateral represented by the inventory and fixed assets of the borrowing Dealers. In the unlikely event that all the LCs have been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $115.7 million at December 29, 2018 (2017 - $117.0 million).

The Company has obtained documentary and standby letters of credit aggregating $36.0 million (2017 - $41.2 million) relating to the importation of merchandise inventories and to facilitate various real estate activities.

### Business and Property Dispositions

In connection with agreements for the sale of all or part of a business or property and in addition to indemnifications relating to failure to perform covenants and breach of representations and warranties, the Company has agreed to indemnify the purchasers against claims from its past conduct, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the parties in the agreements. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

### Lease Agreements Guarantees

The Company has guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. These lease agreements have expiration dates through November 2023. The maximum amount that the Company may be required to pay under these agreements was $3.2 million (2017 - $3.9 million). In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the consolidated financial statements with respect to these lease agreements.

### Third-Party Financial Guarantees

The Company has guaranteed the debts of certain Dealers. These third-party financial guarantees require the Company to make payments if the Dealer fails to make scheduled debt payments. The majority of these third-party financial guarantees have expiration dates extending up to and including June 2018. Under these financial guarantees, $14.3 million (2017 - $17.2 million) was issued at December 29, 2018. No amount has been accrued in the consolidated financial statements with respect to these debt agreements.

The Company has entered into agreements to buy back franchise-owned merchandise inventory should the banks foreclose on any of the franchisees. The terms of the guarantees range from less than a year to the lifetime of the particular underlying franchise agreement. The Company's maximum exposure as at December 29, 2018, was $59.4 million (2017 - $68.9 million).

### Indemnification of Lenders and Agents Under Credit Facilities

In the ordinary course of business, the Company has agreed to indemnify its lenders under various credit facilities against costs or losses resulting from changes in laws and regulations that would increase the lenders' costs and from any legal action brought against the lenders related to the use of the loan proceeds. These indemnifications generally extend for the term of the credit facilities and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

### Other Indemnification Agreements

In the ordinary course of business, the Company provides other additional indemnification agreements to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above) and the arrangements with Franchise Trust discussed above. These additional indemnification agreements require the Company to compensate the counterparties for certain amounts and costs incurred, including costs resulting from changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction.

The terms of these additional indemnification agreements vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such additional indemnifications and no amount has been accrued in the consolidated financial statements with respect to these additional indemnification commitments.

The Company's exposure to credit risks related to the above-noted guarantees are disclosed in Note 5.

### Capital Commitments

As at December 29, 2018, the Company had capital commitments for the acquisition of property and equipment, investment property and intangible assets for an aggregate cost of approximately $158.3 million (2017 - $120.3 million).

## 35. Related Parties

The Company's majority shareholder is Martha Billes, who beneficially owns, or controls or directs approximately 61.4 percent of the Common Shares of the Company through two privately held companies, Tire 'N' Me Pty. Ltd. and Albikin Management Inc.

Transactions with members of the Company's Board of Directors who were also Dealers represented less than one percent of the Company's total revenue and were in accordance with established Company policy applicable to all Dealers. Other transactions with related parties, as defined by IFRS, were not significant during the year.

The following outlines the compensation of the Company's Board of Directors and key Management personnel (the Company's Chief Executive Officer, Chief Financial Officer and certain other Senior Officers):

| (C$ in millions) | | **2018** | | 2017 |
|---|---|---|---|---|
| Salaries and short-term employee benefits | **$** | **15.1** | $ | 12.2 |
| Share-based payments and other | | **7.7** | | 24.2 |
| | **$** | **22.8** | $ | 36.4 |

## 36. Business Combinations

On July 3, 2018, the Company acquired Teodin Holdco AS, which owns and operates the Helly Hansen brands and related businesses. Helly Hansen is a global leader in sportswear and workwear based in Oslo, Norway.

Founded in 1877, Helly Hansen is known for its professional-grade gear and for being a leader in designing innovative and high quality technical performance products developed for the harshest outdoor conditions. Within its core categories of sailing, skiing, mountain, urban, rainwear, and workwear, Helly Hansen designs and delivers products used by professionals and outdoor enthusiasts around the world. The acquisition strengthens CTC's core businesses across multiple banners, increases its brand offerings in Canada and its ability to grow its brands internationally.

Since acquisition on July 3, 2018, for the year-ended December 29, 2018, Helly Hansen generated revenue of $347.6 million and net income of $32.6 million. Included within Helly Hansen's net income for the year-ended December 29, 2018 is $4.9 million of depreciation, $4.7 million of interest expense and $9.8 million of income taxes. If the acquisition had occurred on the first day of fiscal 2018, Management estimates that Helly Hansen would have contributed $586.9 million of revenue and $30.1 million of net income, before intercompany eliminations, for the year ended December 29, 2018.

The purchase price of the equity of Teodin Holdco AS was $766.3 million which is in addition to purchased loans from the previous owners and other related items.

The fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

| (C$ in millions) | | |
|---|---|---|
| Cash and cash equivalents | $ | 3.4 |
| Trade and other receivables | | 87.1 |
| Merchandise inventories | | 169.0 |
| Prepaid expenses and deposits | | 1.3 |
| Intangible assets | | 566.0 |
| Property and equipment | | 20.7 |
| Trade and other payables | | (120.5) |
| Short-term borrowings | | (91.3) |
| Loan from previous owners | | (216.5) |
| Provisions | | (0.2) |
| Deferred income taxes (net) | | (86.9) |
| Other long-term liabilities | | (0.7) |
| **Total net identifiable assets** | **$** | **331.4** |

Goodwill was recognized as a result of the acquisition as follows:

| (C$ in millions) | | |
|---|---|---|
| Total consideration transferred | $ | 766.3 |
| Less: Total net identifiable assets | | (331.4) |
| Goodwill | $ | 434.9 |

The goodwill recognized on the acquisition of Helly Hansen is attributable mainly to the expected future growth potential from the expanded customer base. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred acquisition-related costs of $22.7 million, which are recorded in Selling, general and administrative expenses. The Company also recorded $5.0 million as a fair value adjustment for inventory acquired, which is recorded in the cost of producing revenue.

In the prior year, on July 14, 2017, the Company completed the acquisition of Padinox Inc., the company that owned the Canadian rights to the Paderno brand, for cash consideration of $19.3 million.