Canadian Tire Annual Report 2003

We are growing

by touching your life in more ways every day

Canadian Tire is a growing network of innovative, interrelated businesses achieving extraordinary results through extraordinary people. We help Canadians make a great start in their lives every day by providing them with essential products and services. Canadian Tire customers shop in our retail stores, fill up their cars with gas and choose convenience items at our gas bars, get their vehicles washed at our car wash outlets, find specialized automotive parts at PartSource, choose clothing at Mark's Work Wearhouse, enjoy the convenience of our universally accepted Canadian Tire *Options* MasterCard, and benefit from the added value of Canadian Tire 'Money.' The 45,000 employees of Canadian Tire, our Associate Dealers, franchisees and agents all contribute to the Company's objective to deliver top-quartile total return to shareholders among North American retailers.

We help Canadians make a great start in their lives every day

Canadian Tire Retail – Canada's leading hard goods retailer

Canadian Tire Retail operates 452 stores from coast to coast through our network of entrepreneurial Associate Dealers. Together, they offer customers a large selection of national and private-label brands through three 'stores' under one roof: automotive parts, accessories and service; sports and leisure products; and home products – each of which has a large share of the markets we compete in. Canadian Tire Retail's complementary online web store, canadiantire.ca, offers more than 13,000 products for sale via the Internet and serves as an important communication channel to customers. Canadian Tire also operates 39 PartSource stores, offering automotive parts to commercial installers, serious "do-it-yourselfers" and automotive enthusiasts.

Canadian Tire Petroleum – Canada's largest independent retailer of gasoline

Canadian Tire Petroleum has 232 independently operated gasoline sites that pump twice the gasoline volume of the average gas bar site in Canada. Petroleum also operates 47 car washes, 222 convenience stores and kiosks and multiple propane and quick lube stations across the country. Petroleum is an important component of our total value proposition, offering Canadian Tire 'Money' rewards to our customers and discounts on Canadian Tire store merchandise.

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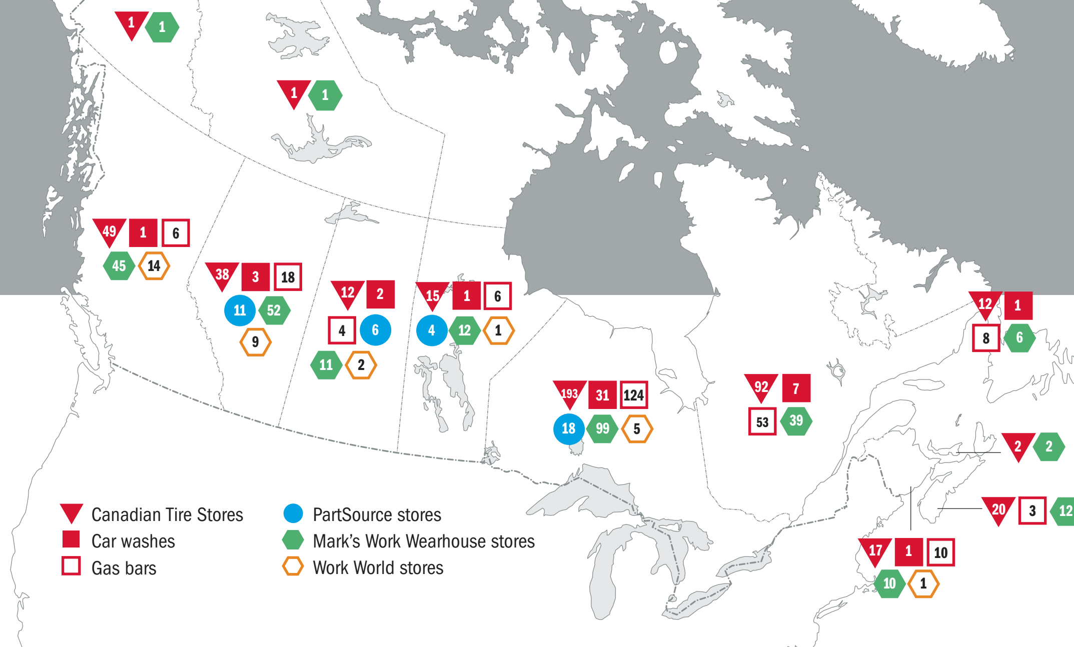


Canadian Tire Financial Services – launched Canadian Tire Bank

Under the direction of Canadian Tire Bank, Financial Services offers Canadian Tire–branded credit cards that give Canadian Tire customers a choice of payment options, as well as increased loyalty rewards. The division also markets a variety of insurance and warranty products, in addition to operating an emergency roadside service. Financial Services also offers the Company's loyalty program, Canadian Tire 'Money,' to Canadian Tire credit card customers.

Mark's Work Wearhouse – one of the largest specialty retailers in Canada

Mark's is one of the largest specialty retailers in Canada, offering primarily men's and ladies' clothing, footwear and accessories for business casual and industrial work environments, as well as for recreational use or relaxation. Canadian Tire now operates 322 corporate and franchise stores across Canada under the Mark's Work Wearhouse and Work World banners, and the L'Équipeur brand in Quebec.

Financial Highlights

(Dollars in millions except for per share amounts)	2003	2002	% Change
Consolidated			
Gross operating revenue	**$ 6,552.8**	$ 5,944.5	10.2%
Earnings before income taxes and minority interest	**373.8**	313.6	19.2%
Income taxes	**118.5**	103.8	14.2%
Net earnings	**246.6**	202.4	21.8%
Cash generated from operations	**542.0**	462.3	17.2%
Cash generated from operating activities	**518.6**	444.3	16.7%
Dividends	**32.2**	31.6	1.9%
Per share			
Net earnings	**$ 3.06**	$ 2.56	19.5%
Diluted earnings	**3.02**	2.53	19.4%
Cash generated from operations	**6.72**	5.85	14.9%
Cash generated from operating activities	**6.43**	5.62	14.4%
Dividends	**0.40**	0.40	0.0%
Shareholders' equity	**25.18**	22.63	11.3%
Number of shares outstanding – weighted average	**80,605,607**	79,055,846	
Ratios[1]			
Current ratio	**1.4**	1.5	
Canadian Tire Retail inventory turnover	**9.9**	9.3	
Long-term debt to total capitalization	**31.9**	38.1	
Interest coverage	**5.4**	4.8	
Return on equity	**12.8**	11.9	

Strategic Plan key metrics[1]	Performance to date[2]	Target
Return on invested capital	8.3%[3]	10% after tax (minimum)
Basic earnings per share	17.4%[4]	12%–15% compound annual growth rate
EBITDA[5] and minority interest	9.8%[4]	10%–15% compound annual growth rate
Gross operating revenue	8.0%[4]	10% minimum compound annual growth rate
Canadian Tire Retail comparable store sales	2.8%[3]	3%–4% per annum

[1] Formulae for ratios and metrics can be found in the glossary on pages 80 and 81.
[2] Performance from the beginning of fiscal 2001 to the end of fiscal 2003.
[3] Average of 2003, 2002 and 2001 percentages.
[4] Plan goals and performance for these metrics are expressed in terms of a compound annual growth rate (CAGR).
[5] Earnings before interest, income taxes, depreciation and amortization. See note on non-GAAP measures at the end of the Management's Discussion and Analysis section of this report.

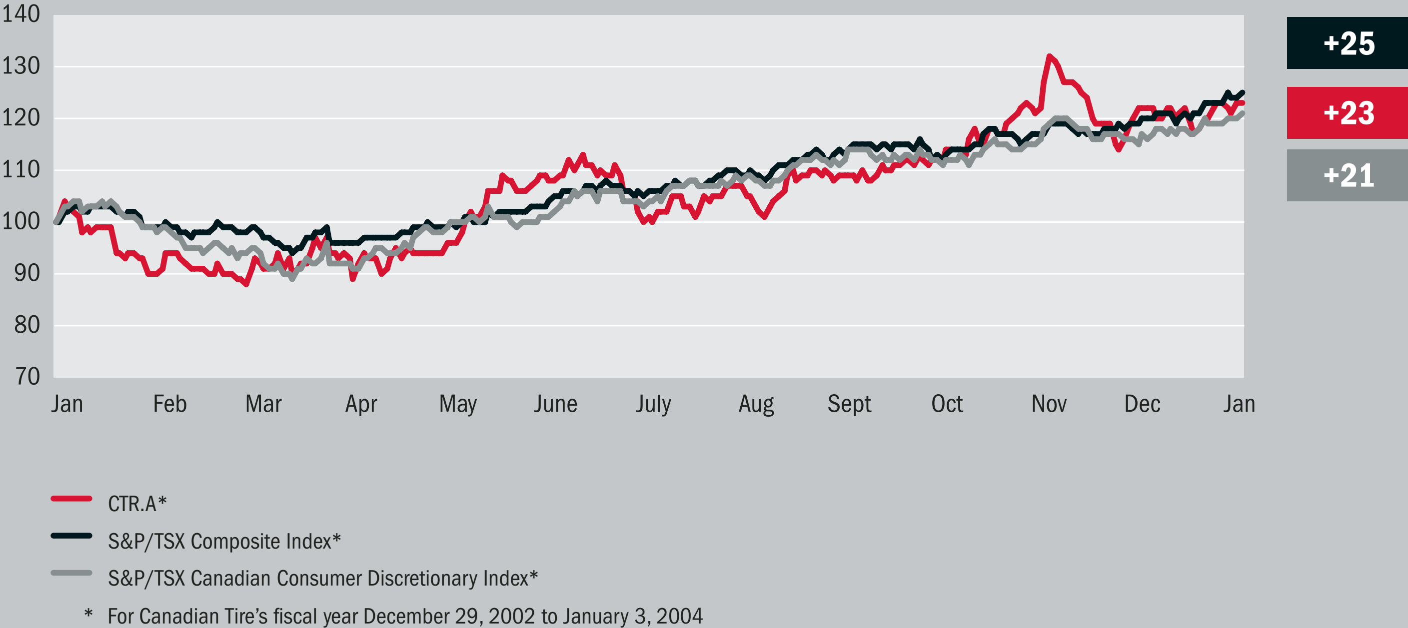
Canadian Tire Retail	2003
	% change versus 2002
Retail sales	**7.0%**
Comparable store sales	**4.7%**
Net shipments	**7.0%**
Gross operating revenue	**7.0%**
Earnings before income taxes and minority interest	**17.5%**

Canadian Tire Petroleum	2003
	% change versus 2002
Gasoline sales volume (in litres)	**8.7%**
Convenience sales	**18.5%**
Car wash sales	**60.6%**
Gross operating revenue	**15.2%**
Earnings before income taxes	**18.1%**

We are growing and continuing to deliver on the overall objective of our Strategic Plan, which is to achieve top-quartile performance among North American retailers. In 2003, as in 2002, Canadian Tire met this goal. We fully expect that the successful implementation of our Plan will ensure that Canadian Tire maintains this ranking through 2005, the end of the Plan period.

2003

2003 Class A Non-Voting Shares (CTR.A) stock price appreciation versus the S&P/TSX Composite Index and Canadian Consumer Discretionary Index



CTR.A*
S&P/TSX Composite Index*
S&P/TSX Canadian Consumer Discretionary Index*
* For Canadian Tire's fiscal year December 29, 2002 to January 3, 2004

Canadian Tire Financial Services	2003
	% change versus 2002
Net managed portfolio of credit charge receivables	**26.5%**
Gross operating revenue	**23.6%**
Earnings before income taxes	**23.6%**

Mark's Work Wearhouse	2003
	% change versus 2002
Retail sales	**8.6%**
Comparable store sales	**6.6%**

Chairman's Letter to Shareholders

Over the last 12 months, legislators and securities regulators in Canada and the United States have imposed an impressive array of new rules and requirements on publicly traded corporations. The flurry of regulatory activity is a response to recent high-profile corporate failures in North America. Although the preponderance of the failures involved American companies, the unpleasant fact is that every one of the U.S. "meltdowns" could just as easily have occurred in Canada.

In common with most people involved in the governance of corporations, I have a few quibbles with the new rules; that being said, I believe that those new rules represent an entirely appropriate regulatory reaction to the unacceptable board and management behaviour which precipitated or permitted the meltdowns. The question remains, however, whether investors in North American public companies should conclude that the possibility of future corporate failures has been eliminated or significantly reduced by the introduction of the new rules. For the reason which I will explain below, I am convinced that the answer to that question is clearly "no."

The reason for my pessimistic expectations of the new regulatory regime is that the new rules, of necessity, deal only with structure and process. For example, boards of directors, and audit committees in particular, will be required to consist of specified numbers of independent directors (a structural issue); as well, boards and audit committees must now conduct their deliberations in compliance with detailed prescriptions and restrictions (process issues). Regrettably, rules and regulations cannot create the behaviour and attitudes which are vital to long-term corporate success: honest and ethical conduct; diligent performance of duties; rigorously analytical decision-making; full, timely and fair disclosure of good news and bad; genuine acceptance of accountability.

As an aside, I am concerned that some corporate boards and their management teams, having instituted the mandated structure and process changes, will be tempted to conclude that the job is done. The reality is that improvements in structure and process can only set the stage for adoption and maintenance of the crucial behaviour and attitudes which I described above.

Canadian Tire shareholders are probably and understandably wondering how the new governance rules will affect the Company. In my judgement, the effect will be minimal because Canadian Tire has been actively improving its governance structure and processes for some time. Let me elaborate: the bulk of the new governance rules require changes to the structure and processes of audit committees. The required changes are implemented by amending and expanding the terms of audit committee charters. Canadian Tire's Audit Committee charter, which was restated three years ago, is attached to the management information circular accompanying this annual report. Changes made to the charter in order to comply with the new rules are highlighted in the

Investors can continue to count on the Board and management to demonstrate honesty, integrity, diligence, rigour, fairness, transparency and genuine acceptance of accountability.

charter. Even a cursory review of the charter will reveal that the changes are minor in number and substance. My point here is that, three years ago, Canadian Tire's Audit Committee charter addressed substantially all of the recently imposed new requirements. Further, I believe that the Company's anticipation and adoption of audit committee best practices is reflective of Canadian Tire's overall earlier commitment to improvement of its governance processes. In short, the recently imposed new rules respecting governance structures and processes won't have much effect on Canadian Tire because the Company implemented most of those structures and processes years ago.

What will significantly affect Canadian Tire is the continuing commitment of the Board and management to the behaviour and attitudes which I described above and which simply cannot be legislated. Based on my observation, I believe that investors can continue to count on this Board and management team to demonstrate honesty, integrity, diligence, rigour, fairness, transparency and genuine acceptance of accountability.

I invite you to read this year's management information circular, which is prefaced by a table of contents to assist readers in finding corporate governance information. Included in that information are a number of new disclosures. In particular, I draw your attention to the information about our directors and their records of attendance at Board and Board committee meetings. I would also encourage you to review the expanded disclosure of executive compensation.

Last, but most certainly not least, I want to express the Board's congratulations to management on Canadian Tire's outstanding results for 2003.

(SIGNED) Gilbert S. Bennett
Chairman of the Board

Wayne C. Sales
President & Chief Executive Officer

We are growing.

2003 was a year marked by an unwavering commitment to the initiatives that will deliver the goals of our five-year Strategic Plan. We produced record results and are financially stronger. We are delivering on our foremost priority – superior shareholder returns. And we are growing.

To our shareholders

There are few accomplishments in the tenure of a CEO that are as rewarding as leading an extraordinary team of people to deliver consistently strong performance across an entire network of businesses. I had that pleasure in 2003.

Our team not only delivered record results for the second year in a row – posting year-over-year improvements in each of our businesses – but also made excellent progress in the execution of the key initiatives that together comprise our five-year Strategic Plan. On a consolidated basis, we produced improvements on each of the financial targets we established with the introduction of our Strategic Plan in 2001. We are delivering what we set out to achieve. Since the adoption of the Plan, we have recorded a compound average annual total return to shareholders of about 30 percent, a first-quartile ranking among North America's largest retailers.

STRATEGIC PLAN KEY METRICS

	Annual Strategic Plan goals 2001 to 2005	Beginning of fiscal 2001 to the end of fiscal 2003 performance	2003 year-over-year performance
Comparable store sales[1]	3 to 4%[2]	2.8%[2]	4.7%
Gross operating revenue	at least 10%[3]	8.0%[3]	10.2%
EBITDA[4] and minority interest	10 to 15%[3]	9.8%[3]	10.4%
Earnings per share	12 to 15%[3]	17.4%[3]	19.5%
After-tax return on invested capital	at least 10%[2]	8.3%[2]	9.0%

1 Represents sales growth at CTR only.

2 Average of 2003, 2002 and 2001 percentages.

3 Plan goals and performance for these metrics are expressed in terms of a compound annual growth rate (CAGR).

4 Earnings before interest, income taxes, depreciation and amortization. See note on non-GAAP measures at the end of the Management's Discussion and Analysis section of this report.

PERFORMANCE GOALS MET –
ACHIEVING OUR PLAN: CONCEPT 20/20

In 2003, we unveiled Concept 20/20 – our new generation of Canadian Tire stores – in four prime locations across Canada. Designed to generate 20 percent higher sales with 20 percent more selling space, these stores are destined to achieve much more. With better merchandising, lighting, display, signage, traffic flow and customer service components, they represent a major step forward in the shopping environment for all our customers.

In the past year, we advanced our initiatives to varying stages of completion. Project Accelerate – which converted holders of our Canadian Tire retail credit card to the superior *Options* MasterCard – is already delivering financial benefits. We are now ready to optimize the credit card portfolio for short- and longer-term growth. On the other hand, our highly promising new Canadian Tire Concept 20/20 store format is still in the early phase of its development. While these are only two examples, we continue to press forward with the implementation of identified strategies as well as the piloting and testing of new concepts, as we have learned that there exist considerable growth opportunities within each of our present businesses. In later sections of this report – including our comprehensive Management's Discussion and Analysis section – you will find very detailed information describing the unique capabilities of each of our businesses and the initiatives they are advancing in support of our overall strategic direction. In remaining focused on exceptional execution and on our end goal, we expect to harvest the benefits of our efforts as we progress through 2004 and 2005, the final stages of our current Plan.

I am more confident than ever that we have the right leaders in place to drive our businesses forward and that the strategies they are pursuing will enable us to reach all of our financial targets and provide a platform for future growth.

We grew in 2003.

Retail is a highly competitive business. With the continuing, aggressive expansion of national and international competitors, it is clear that only the strongest and the best will survive. We will persevere and thrive in competing.

In 2003, a massive power outage and health epidemics took a toll on the Canadian economy and challenged us further. Even so, Canadian Tire again proved its enduring offering to customers, its strong competitive position, value to shareholders and determination to succeed in any environment. We delivered the best results in our history and each of our four business segments made key contributions to this success with double-digit growth.

On a consolidated basis, we recorded a 10.2 percent rise in gross operating revenue and a 19.2 percent increase in earnings before income taxes and minority interest. Our net earnings continued to build momentum, increasing 21.8 percent over 2002's record 14.6 percent increase. And, at $3.06, earnings per share exceeded even our expectations for the year.

With the execution of each of our initiatives and improvements in the basic day-to-day running of our businesses, we step closer to the targets we established for the key financial metrics of our Plan. On a year-over-year basis, we met or exceeded the goals on four out of five of our Strategic Plan metrics in 2003.

PERFORMANCE GOALS MET –
ACHIEVING OUR PLAN: *OPTIONS* MASTERCARD

By successfully completing the conversion of our in-store card portfolio to the Canadian Tire *Options* MasterCard in 2003, we have unlocked new opportunities in Canada's large and growing credit card market. Even more important, through this process we have strengthened our Canadian Tire 'Money' loyalty program and launched Canadian Tire Bank, enhancing our relationship with customers.

2003 was a very good year in advancing progress toward consistently and annually meeting our Plan targets to which we are committed. Since the beginning of fiscal 2001, when we started to measure our performance against each of the Plan metrics, to the end of fiscal 2003:

- Comparable store sales at Canadian Tire Retail have grown an average of 2.8 percent annually – not yet within the target range of 3 to 4 percent, but a solid performance in a competitive and challenging environment.
- Gross operating revenue has increased by 8.0 percent on a compounded annual basis, nearing the target of greater than 10 percent.
- Earnings before interest, income taxes, depreciation and amortization (EBITDA) and minority interest has improved by 9.8 percent on a compounded annual basis, slightly below the target range of between 10 and 15 percent.
- Earnings per share have climbed 17.4 percent on a compounded annual basis since 2000, well above the target range of 12 to 15 percent.
- Last, but certainly not least, return on invested capital has averaged 8.3 percent on an annual basis over the last three years, edging closer to our target of at least 10 percent.

As a result of our success to date, we have been able to reward investors on two fronts, share price appreciation and dividends. At the end of fiscal 2000 a Canadian Tire Class A Non-Voting Share was valued at $18.60 and by the end of fiscal 2003, was valued at $39.65 – an increase of more than 113 percent. In gaining earnings momentum we have gained confidence that our strategic initiatives will produce sustainable growth. This confidence led our Board of Directors to approve a new dividend policy in early 2004 that increases our annual dividend payout by 25 percent to 50 cents a share, the first increase in 14 years.

We are growing with our customers, through our employees and for our shareholders.

Canadian Tire continues to scan the horizon for new avenues of growth while working closely with our existing businesses to optimize their growth potential. Our past success and our future growth stem largely from our core strengths and our ability to leverage them. Our trusted brand and the unique strengths of each of our businesses present significant opportunities. With considerable investment in our initiatives to date and those still in development, maintaining financial flexibility as we grow is key to our success and will continue to be a top priority.

PERFORMANCE GOALS MET –
ACHIEVING OUR PLAN: RE-BRANDING COMPETITORS' SITES

In 2003 we launched our initiative of re-branding competitors' gas bar sites to the Canadian Tire brand, completing 12 conversions. This capital-effective expansion of our Petroleum gas bar business has expanded our presence in important markets, increasing brand awareness and extending our Canadian Tire 'Money' loyalty program, while enhancing convenience for our customers.

While we have many initiatives that are intended to expand our existing businesses, few match the potential that we have yet to capture by continuing to improve the customer experience. We are making strides in this area with a variety of in-store improvements to enhance the shopping experience for our customers, improve our in-stock position and ensure that our front-line employees have access to eLearning programs that arm them with helpful product knowledge. Yet we still have steps to take.

By looking beyond one customer, one transaction, we can build lifetime relationships with our customers. We do this first and foremost by supporting the front-line team – the 40,000 employees who face our customers each and every day – and by doing our best to meet their needs. At the same time, our back-line employees – those who work in areas such as finance, information technology, supply chain, real estate, marketing, legal, human resources and communications – must all work in harmony to support our front-line employees in moving beyond basic service to extending a value-added offer to customers with confidence.

Getting customer service right requires a continuous effort but provides an unparalleled opportunity that will help us achieve a consistent customer experience across all of our business units and retain customers for life by providing more opportunities to touch the lives of more people in more ways every day.

Customers often cite employee satisfaction as a key measure of their own satisfaction with a business. As a CEO, developing employees and leaders, setting objectives and performance measures and ensuring that we have a world-class pool of succession talent within the organization are key priorities. Canadian Tire is ranked among the top Canadian employers, I believe, because of our commitment to developing and rewarding people. We have an exceptional team of leaders throughout the enterprise, including our officers, Associate Dealers, franchisees and Petroleum agents. I am fortunate to work with them every day.

The year ahead.

2004 brings the adoption of new corporate governance measures designed to ensure the continued confidence of investors in public companies. CEO/CFO certification is one such measure. As we prepare to certify, we have put in place an Enterprise Risk Management process – to identify, manage and continuously monitor the principal risks of the organization for its long-term health and stability. We work closely with our Board of Directors to ensure that they have confidence in the information supplied to them and to ensure that they are satisfied that the Company is responsibly managing all areas of the business.

PERFORMANCE GOALS MET –
ACHIEVING OUR PLAN: BUILDING THE MARK'S BRAND

The conversion of 77 Work World and Dockers stores to the Mark's Work Wearhouse banner in 2003 effectively completes this program. Through this initiative, Mark's has established a stronger, more extensive, more focused presence across Canada – reaching more customers with "Clothes that Work."

There has been a seismic shift in trust across many of society's institutions, both public and private. In response, many forces have coalesced and have led to the introduction of rules and regulations to prevent future breaches of trust and to restore confidence in capital markets and among investors and employees. At Canadian Tire, a commitment to operate with honesty, integrity and respect is central to our core values. While we annually review and update our Code of Business Conduct for employees and suppliers, and respond to best practices in corporate governance, we are driven to do so primarily because it is who we are and what we value most.

The reputation of a company rests largely on customer service and product quality – the most visible and easily judged attributes by the majority of people – as well as on ethical business practices and treatment of employees and the quality of management. Wider corporate responsibilities are also important – particularly in areas of environmental practices and social investments. As you review this annual report, I encourage you to read the sections which describe Canadian Tire's commitment to the environment, health and safety and the increasing impact we are having on communities across Canada through the work of our Foundation for Families.

We are blessed with a skilled and dedicated Board of Directors and with a team of exceptional people driving innovative strategies to sustain the growth of Canadian Tire and ensure its presence in the retail landscape of Canada for the long-term.

We are not coasting on momentum – we are driving it.

(SIGNED) Wayne C. Sales
President and Chief Executive Officer

2003 Performance Scorecard

Canadian Tire Retail

Mark Foote President, Canadian Tire Retail

Initiative	2003 Performance Goals
Revitalize store network	Build 20 new-format stores, many of which will open in the last half of the year.
Customer Values	Focus on supply chain improvements. Work closely with vendors to improve on-time shipments to stores.
	Promote the use of eLearning as an employee development tool. Adapt modules to shifts in merchandising offering.
CustomerLink supply chain improvements	Implement supply chain improvements at our A.J. Billes distribution centre.
Warehouse Space Reduction: Convert warehouse space to retail space	Continue to test and integrate improved inventory management principles into new merchandising programs.
Concept 20/20 (C20/20)	Test three to five new C20/20 stores in the fall of 2003. Test value-added services in select stores. Integrate value-added services into C20/20 upon successful test.
Improve execution through Certified Marketing programs	Roll out Automotive Certified Marketing programs in over 200 stores. Additional merchandising programs will be certified.
Exciting, New and Exclusive (ENE) Products (formerly named Innovation Dominance)	Increase sales of ENE products by 25%.
Grow auto service	Grow automotive service business by 7%.
Enhance automotive infrastructure	Complete commissioning of new Toronto prime auto parts distribution centre. Begin 18-month implementation of the changes associated with the NAPA agreements.
Support Canadian Tire online	Increase online sales and continue to develop new features. Launch online gift registry.

2003 Actual Performance	2004 Performance Goals	2004–2005 Strategic Goals
Opened 19 new-format stores, 18 of which replaced traditional stores.	Open 20 new-format stores.	Build 40 new-format stores, bringing the total store count to approximately 470 stores by the end of 2005.
Supply chain improvements continue as part of CustomerLink initiative. In-stock measures did not improve.	Improve in-stock position on promotional products.	Reduce out-of-stock on key promotional products. New improvement targets are being established.
As part of Customer Service Excellence program, 139 stores were gold-certified for high standards of customer service and employee product knowledge.	Continue eLearning initiative and formally recognize all stores and their employees that achieve gold certification.	All stores to achieve highest level of Customer Service Excellence program which sets specific training targets for store employees.
Multi-channel technology changes at A.J. Billes centre completed 2 weeks early. Project is on schedule and on budget, including an allowance for contingencies.	Implement supply chain improvements at Brampton distribution centre in 2004. Complete CustomerLink program by end of 2004.	
This initiative has been rolled out into the Concept 20/20 initiative.		
Opened 4 C20/20 stores in September 2003. Initial results were: - over 70% sales increase over replaced stores - sales 30% higher than expected in new-format store sales	Thirteen of the 20 new stores to open in 2004 will be C20/20 stores. Retrofit 5 existing new format stores with C20/20.	Roll out C20/20 in new stores and retrofits at a pace determined by success of tests.
Automotive remerchandizing plan fully implemented in store sizes A, B and C. Validated strategy for store sizes D and E.	Roll out automotive remerchandizing plan to 70 D and E stores. Extend program to back to school, lighting, giftables, storage and organization.	Certify all major merchandising programs by the end of 2005.
Introduced over 50 ENE products in 2003 and boosted sales within program by 50%.	Increase sales of ENE products by 25%.	Increase sales of ENE products by 25% each year.
Auto service sales rose 5.4%, based on a 2.3% increase in traffic. New training facility opened in Vaughan, ON.	Grow automotive service market share. Raise participation in customer call-back program.	Grow auto service market share from 5% to 10%, to match market share of CTR's auto service bays.
Completed the major phases of this project, with the opening of new central distribution hub and the closing of regional "attack" centres. Stores have changed ordering of lower-volume parts to NAPA.	Complete NAPA implementation program in 2004.	
Sales increased in 2003. Gift registry delayed until 2004.	Implement gift registry. Online marketing will continue to be a key part of Canadian Tire Retail operations, but will no longer be considered a strategic initiative.	

2003 Performance Scorecard

Mark's Work Wearhouse

Paul Wilson (left) President and COO, Mark's Work Wearhouse

Mike Lambert (right) President, Mark's Work Wearhouse and EVP, Canadian Tire

Initiative	2003 Performance Goals
Grow total comparable store sales	Total comparable store sales growth of 3.0%.
Superbranding: Convert all Work World stores to the Mark's Work Wearhouse banner	Convert 50–60 Work World Stores (approximately 25 franchise).
Build new stores and renovate select stores to the new format	Build 29 stores (two franchise). Renovate/relocate 22 stores to the new format (one franchise).
Search out opportunities for cost synergies with Canadian Tire Corporation	Leverage Canadian Tire's strengths and achieve cost savings from synergies of $6 million to $7 million.

Canadian Tire Financial Services

Tom Gauld President, Canadian Tire Financial Services

Initiative	2003 Performance Goals
Increase gross credit charge receivables	Target of $2.3 billion in gross credit charge receivables by the end of 2003.
Reduce operating expense ratio as a percentage of gross average credit charge receivables	Target operating expense ratio of 10.4%.
Maintain return on gross average credit charge receivables	Target return on gross average credit charge receivables of 5.2%.

Canadian Tire Petroleum

PartSource

Mike Medline Executive Vice-President, New Business Development

Initiative	2003 Performance Goals
Expand chain of gas bars	Build 20 gas bars.
Re-brand competitor sites to Canadian Tire banner	Complete the co-branding of 12 sites. Re-brand over 20 additional sites. Form additional partnerships.
Increase gasoline volume	Grow gasoline volume by 16% to 1.55 billion litres.
Build incremental car washes	Build 25 car washes.
Increase high-margin convenience sales	Increase convenience sales by 19%. Retrofit 30 convenience stores and upgrade 30 kiosks. Develop larger convenience store strategy.
Grow comparable store sales	Increase comparable store sales by 4% to 5%.
Expand store chain	Build 6 new stores.

2003 Actual Performance	2004 Performance Goals	2004–2005 Strategic Goals
Grew comparable sales by 5.0% on a 52-week comparable basis.	Grow comparable store sales by 2.5%, but by 10% at stores converted from Work World in 2003.	Increase annual comparable stores sales by 3% in 2004 and 2005.
Converted 77 stores, including 17 franchise stores, to the Mark's brand.	Convert approximately 80% of the remaining 32 Work World stores to the Mark's banner as opportunities exist and close the remainder as leases mature. This will no longer continue to be a key initiative.	
Opened 26 new stores, including three franchise stores. Renovated/relocated 26 stores, including four franchise stores.	Open between 17 and 22 new stores. Renovate between 15 and 20 stores.	Expand chain to 363 Mark's stores by the end of 2005 – 2.6 million in total retail square feet.
Realized $6.6 million of annual cost savings.	Realize between $6 million and $7 million of cost savings from synergies.	On a consolidated basis, realize between $8 million and $9 million in 2005, of which $7 million to $7.5 million will be allocated to Mark's.
Gross ending credit charge receivables grew by 25.9% to $2.5 billion at end of year.	Grow gross ending receivables to $2.8 billion.	Increase gross credit charge receivables to $3.1 billion by the end of 2005.
Lowered operating expense ratio to 10.3%.	Lower operating expense ratio to 9.7%.	Reduce operating expense ratio to 9.5% in 2005.
Achieved return on credit charge receivables of 5.8%.	Achieve return on credit charge receivables of 5.1%.	Target return on gross average credit charge receivables of 5.1% in 2005.
Nine new gas bars were opened, six existing gas bars replaced and one gas bar closed in 2003. A further two gas bars opened in January 2004.	Open between 8 and 12 new gas bars.	Petroleum plans to add approximately 10 new gas bars in 2004 and 2005.
Completed the re-branding of 12 additional sites, while adding one new partner to the project.	Re-brand 30 sites. Form additional partnerships.	Re-brand 30 sites per year.
Grew gasoline volume by 8.7% to 1.45 billion litres.	Grow gasoline volume by approximately 10%.	Increase gasoline volume pumped to over 1.8 billion litres by end of 2005.
Opened 16 car washes and closed two others. Three more car washes opened in January 2004.	Open between 10 and 15 new car washes.	Open at least 10 car washes in both 2004 and 2005.
Increased convenience sales by 18.5%. Petroleum's latest convenience store image was implemented at 32 sites. Further developed larger convenience store strategy.	Increase convenience sales by over 20%. As a test, open a larger convenience store.	Increase convenience store sales to $100 million by the end of 2005.
Comparable store sales were within or above the target range in every quarter and above the range for the full year.	Increase comparable store sales by 4% to 5%.	Annually increase comparable store sales by 4% to 5% in 2004 and 2005.
Opened 6 stores.	Open 8 new stores.	Grow the chain to between 50 and 60 stores by end of 2005.

Retail

"Canadian Tire Retail (CTR) is regaining earnings momentum with new opportunities for growth as we develop our customer relationships, enhance our unique product offering and look to the future with our new Concept 20/20 stores."

Mark Foote, President, Canadian Tire Retail

Market Trends Competition in Canada's retail market and in the sectors served by Canadian Tire has intensified over the past decade, with the aggressive expansion in Canada of both national and international retailers. But we have also seen consolidation in the marketplace with the demise of department stores, unfocused retailers, and many independents. To grow in this market, retailers must have a winning value proposition and respond to the changing demographics and lifestyles of Canadian consumers who demand an optimum combination of choice, convenience, value and service.

Unique Positioning Canadian Tire's unique positioning springs from our unique product offering – an offering that resonates among Canadians because it has evolved from the realities of this country's geography, climate, changing seasons and lifestyles. No other retailer replicates this product offering, although we face plenty of competition in almost every category we serve. Through the strength of our brand – an icon that is an indispensable part of the lives of millions of Canadians – and of our hugely popular Canadian Tire 'Money' loyalty program, we have built and maintained market leadership in the automotive, hardware, houseware, sporting goods and lawn and garden segments. We participate in 83 different retail categories in these segments, and we are the market leader in over half of those categories. Most significantly, we have become known as an innovator through our focus on introducing Exciting, New and Exclusive (ENE) Products. The vast majority of Canadians are customers of Canadian Tire, and over half shop in our stores at least monthly – a compelling competitive advantage.

Market Opportunities Our huge customer base and market leadership in core retail segments raises an obvious question: where do we grow from here? We see plenty of scope for growth – through basic market growth of the segments we serve, through market share gains which we can achieve in every category, and through development of new product categories in response to the changing needs of our customers. Realizing these opportunities rests on our ability to strengthen customer relationships – encouraging more visits to our stores and greater sales per visit. To achieve these goals we have been moving forward on all fronts – effectively pursuing strategies to build leadership in merchandising, promotions, store development, product line enhancements, service and customer fulfillment.

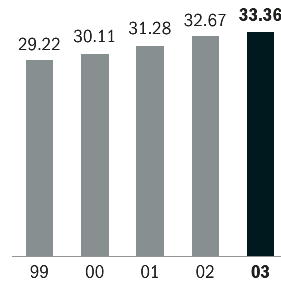
50% increase

Canadian Tire Retail increased sales of Exciting, New and Exclusive (ENE) Products, exceeding our objective. Customers recognize Canadian Tire stores as a source for innovative new products.

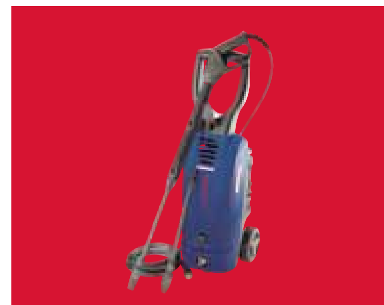
RETAIL
2003 PERFORMANCE VERSUS 2002

Retail sales (52-week basis)	+5.3%
Comparable store sales (52-week basis)	+3.2%
Net shipments	+7.0%
Gross operating revenue	+7.0%
Earnings before income taxes and minority interest	+17.5%

AVERAGE SALE VALUE PER CUSTOMER
1999–2003
$



During 2003, over 50 new and innovative products were launched through the ENE speed-to-market program, formerly known as “Innovation Dominance.” CTR increased sales of ENE products by approximately 50 percent in 2003, exceeding CTR’s 2003 goal of 25 percent, and has set an objective of a further 25 percent growth in 2004.



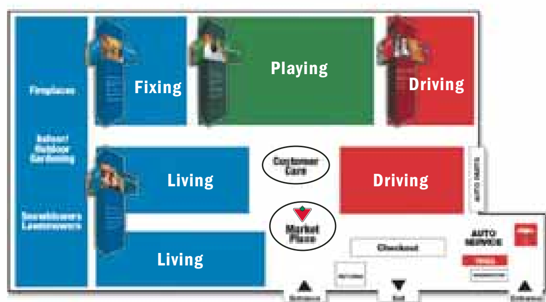
Concept 20/20

With Concept 20/20, we have designed a store to sell the way our customers want to buy.

Dynamic Format Concept 20/20 was designed to achieve 20 percent more floor space in our new-format stores, to drive 20 percent higher sales. But the concept is much more than extra space – it is a reinvention of our space. This represents a dynamic step forward – Concept 20/20 stores are more welcoming and customer friendly – with better traffic flow, better lighting and signage, better display, greater accessibility to customer service, and superior merchandising opportunities. The central marketplace area is designed to constantly evolve – by season and through the introduction of "Exciting, New and Exclusive" Products – providing customers with new experiences each time they visit. The new approach encourages more browsing and more opportunity for impulse purchases – leading to a larger basket with every visit. That is the concept – and based on customer response to our pilot Concept 20/20 stores, it is also the reality – Concept 20/20 is expected to drive greater sales and customer satisfaction.

Capital-light Expansion Concept 20/20 is a capital-light way of expanding our selling space while improving our store environments, as it was designed to fit the footprint of the new large-format stores we have been building over the last 10 years. Major construction is not required to retrofit existing new-format stores – the expanded space comes from conversion of on-site warehousing and storage space, and containment of outdoor space. The greatest change is in shelving, signage, lighting and fixtures – which means that retrofits can be achieved relatively quickly and cost effectively.

Moving Forward Response to our pilot stores has been exceptional – not just from customers but also from our Associate Dealers and from employees. We will be further testing the concept in 13 new store locations during the year. As we proceed, we are constantly testing and evolving the concept – ensuring that Canadian Tire stays at the forefront of Canadian retailing.



The Concept 20/20 (C20/20) store merchandising format introduces an updated store layout, new and expanded merchandise assortments, a customer care centre, new store signage and a revitalized exterior facade. The concept is presented with a focus on the key life activity themes of Driving, Fixing, Living and Playing and is strategically designed to boost sales in stores by 20 percent in the first year following a retrofit to the C20/20 format.

In 2003, the first four C20/20 stores opened in four distinct markets across Canada: Markham, Kitchener and Pembroke, Ontario and Prince George, British Columbia. While it is still early in the operation of these test stores, sales within the first 12 weeks were on average more than 30 percent higher than the sales CTR expects at a typical new-format store.

By the spring of 2004, five existing new-format stores will be retrofitted to C20/20 stores. Thirteen of the 20 new-format stores to be opened in 2004 will also be in the C20/20 format. Approximately 90 percent of CTR's existing new-format stores are expandable to the C20/20 format with modest capital investment.

"Our mission is to build lifetime customer relationships for Canadian Tire. Guided by our mission, we have focused on leveraging our distinctive assets and credit card capabilities to build a highly profitable financial services business with exceptional growth prospects."

Tom Gauld, President, Canadian Tire Financial Services

Market Trends Canadian Tire Financial Services competes primarily in the large and rapidly growing Canadian bank card market. At over $50 billion in outstanding loans and growing at over 10 percent annually, the Canadian bank card market remains an attractive industry despite the increasing competitive intensity. The market continues to be dominated by Canada's major banks but U.S.-based credit card issuers are gaining market share and redefining customer expectations. Faced with an increasing array of credit choices, customers are seeking relationships with organizations that offer strong value, exceptional service and programs that reward them for their loyalty.

Unique Positioning Canadian Tire Financial Services is uniquely positioned for sustained growth given the strength of the Canadian Tire brand, the appeal of the Canadian Tire 'Money' program, the low-cost customer acquisition opportunities available through our retail store network and the quality of our award-winning Customer Relationship Centre (call centre).

Our large customer database provides us with unique insights into the shopping behaviours and preferences of our cardholders. These insights enable us to improve our customer service, offer relevant promotions and products and make better lending and risk management decisions.

Market Opportunities Our unique success formula has enabled us to capture over 4 percent market share despite being a relatively recent entrant to the Canadian bank card market.

Our future growth prospects are excellent as we direct marketing programs to increase our average *Options* MasterCard balances of just over $1,300 per account to industry norms of over $2,000 per account. Balance transfer offers, the expansion of premium and lower rate cards, and strategies to increase credit limits are proven methods to achieve this goal.

Additionally, we will continue to enhance our presence in Canadian Tire stores to increase product awareness and acquire new cardholders at highly competitive costs.

Finally, based on customer needs, we will prudently explore the introduction of additional financial services such as lines of credit and installment loans designed and targeted for Canadian Tire customers.

As Financial Services grows, we are clearly contributing to the growth of Canadian Tire Retail and Petroleum by strengthening customer relationships and providing targeted marketing opportunities.

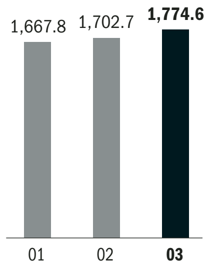
Competitive advantage

is gained through our low-cost program to acquire new credit customers – face-to-face at Canadian Tire stores and by phone at our award-winning call centre.

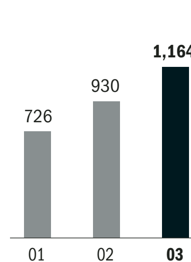
FINANCIAL SERVICES' 2003 PERFORMANCE VERSUS 2002

Net managed portfolio of credit charge receivables	+26.5%
Gross operating revenue	+23.6%
Earnings before income taxes	+23.6%

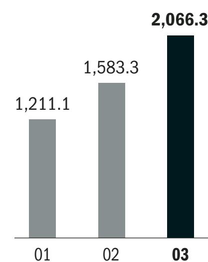
AVERAGE NUMBER OF ACCOUNTS WITH A BALANCE[1]
(thousands)



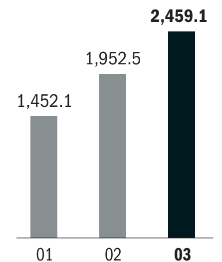
AVERAGE ACCOUNT BALANCES[1]
($)



GROSS AVERAGE RECEIVABLES[1]
($ millions)



GROSS ENDING RECEIVABLES AT END OF PERIOD[1]
($ millions)



[1] Includes all Canadian Tire-branded credit cards.

Petroleum

"Canadian Tire Petroleum is growing strongly through a series of initiatives which capitalize on the strengths of our brand, loyalty program and customer service."

Mike Medline, Executive Vice-President, New Business Development

Market Trends Canada's petroleum market is mature and relatively stable, but margins can be very volatile. Within this market, gas bars are evolving in response to changing lifestyles – Canadians are spending more time in their cars, require greater convenience and need to fill up with gas at least once a week. Thus, growth prospects within the market are being shaped by the development of other services, such as car washes, and by convenience options that leverage gas bar real estate and customer visits. Key drivers of this market are perceptions of value, incentives, convenience and trust – providing an advantage to chains with well-known brands.

Unique Positioning Canadian Tire Petroleum, Canada's largest independent gas bar chain, has a unique value proposition. The trust and awareness associated with the brand are reinforced by effective marketing and cross promotions with Canadian Tire stores and the Canadian Tire 'Money' loyalty program, which together form a competitive advantage for this business. We are leveraging this competitive advantage to grow sales and earnings by growing our gas business (with new gas bars and by re-branding competitors' sites) and by increasing the earnings contribution of our non-gas business (with car washes and convenience stores). In addition, our gas bars and loyalty program drive customers to more frequently shop Canadian Tire stores and use the Canadian Tire *Options* MasterCard.

Market Opportunities *New gas bars.* We aim to build on our gas bar leadership through expansion and through ongoing development of our existing sites with complementary services such as our convenience stores and car washes. Expansion of our business will be achieved, in part, by opening approximately 10 new gas bars per year. Some of these gas bars will take advantage of the real estate available at over 100 Canadian Tire store locations that have the space to add a gas bar for more capital-light expansion.

Re-branding. At the same time we will accelerate expansion of our presence across Canada through this very capital-effective initiative of re-branding competitor sites to the Canadian Tire banner. We see considerable re-branding potential among Canada's 13,000 gas bars. We've achieved excellent results in the early stages of this initiative and intend to increase the number of re-branding sites with our existing partners and to increase the number of competitors we partner with. Our growth will depend upon the number of sites competitors proffer to the program.

Car washes. To gain incremental revenues and growth, we plan to add to our chain of car washes through the Plan period and beyond. Car washes are high margin businesses which have the effect of drawing more customers to our gas bars while also generating incremental business from existing customers. In 2003, car wash sales were up 60.6 percent.

Convenience stores. We are also targeting growth in our convenience offering. With minimal investment in this business over the years, we operate below the industry average for the amount of convenience sales that gas bar customers usually generate. We have already begun the transformation of our convenience offering, and last year alone, implemented our latest convenience store image at 32 existing sites. In 2003, convenience sales were up 18.5 percent. We will also introduce a new store concept, "Project Leapfrog," which we plan to unveil in 2004, setting a new standard for convenience stores and opening up further opportunities in our markets.

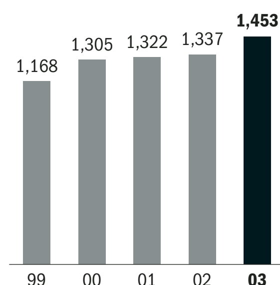
Convenience sales up 18.5%

through transformation of our convenience offering at 32 existing sites.

PETROLEUM
2003 PERFORMANCE VERSUS 2002

Sales volume (million of litres)	+8.7%
Gross operating revenue	+15.2%
Earnings before income taxes	+18.1%

GASOLINE SALES VOLUME
millions of litres



Petroleum's capability to sell more gasoline than its average competitor demonstrates the attractiveness of the Canadian Tire 'Money' loyalty program and the success of Petroleum's cross-merchandising programs with Canadian Tire stores. Gasoline sales volume is a key indicator of the performance of these programs and is a key contributor to earnings growth.

Mark's Work Wearhouse

"In another tough year in the apparel industry, Mark's Work Wearhouse focused on building its powerful brand and generating positive growth. In 2003, Mark's delivered record sales and earnings, and gained market share, leveraging our longstanding position of offering value to our customers. As part of our Superbranding strategy, we are taking that value proposition to ever more customers with over 100 store projects, including store conversions and new or relocated stores, a level of projects that will far exceed any other year in our history."

Mike Lambert, President, Mark's Work Wearhouse and Executive Vice-President, Canadian Tire, and
Paul Wilson, President and Chief Operating Officer, Mark's Work Wearhouse

Market Trends Canada's $20 billion apparel market has been impacted in recent years by the move from traditional business attire to business casual clothing in the workplace, and by the trend to more active lifestyles out of the office. In addition, traditional apparel retailers have been operating in a market that has been experiencing a decline in share of the consumers' wallet, intense competition from foreign and consolidating domestic competitors, and some price deflation. Nevertheless, growth opportunities still remain for retailers positioned to anticipate and meet the changing preferences and lifestyle needs of customers.

Unique Positioning Mark's Work Wearhouse has a strong, distinct and profitable niche in the apparel market as the clear and highly regarded leader in industrial workplace clothing and safety footwear, and has reached #6 overall in men's apparel sales in Canada. Having built high awareness and trust as a bold, innovative brand distinguished by high service levels and a reputation for the quality, durability, comfort, reliability, and value of our "Clothes that Work," Mark's stands out in the crowded retail marketplace. Private label clothing and footwear brands exclusive to Mark's – including WindRiver, Denver Hayes and Dakota – compete directly with national brands and tap into the growing demand for active wear.

Market Opportunities While Mark's has been a leader in industrial workplace clothing and footwear in Canada, we see further scope in this niche through increasing dominance of our leadership position, and through development of targeted business-to-business segments, such as the health care industry. At the same time, we have been developing new markets by ongoing expansion into other categories that leverage our brand reputation – business casual, weekend outdoor wear, and related women's wear. Innovative products such as nanocare stain-resistant fabrics, breathable waterproof fabrics, expandable waistbands and metal-free safety boots are creating new opportunities in these categories while reinforcing Mark's leadership position. Having focused the brand and increased Mark's presence nationally through our "Superbranding" strategy, we see further potential for expansion of the chain, within a range of 14 to 28 net new store openings planned per year. Further, we believe we have only begun to leverage the growth opportunities arising from the Canadian Tire network. To date, cross promotion tests have yielded outstanding results, and we see considerable potential to build traffic further through the Mark's/Canadian Tire combination stores that will be tested this year in a minimum of three small market locations in western Canada. The objective of these combination stores is to bring the high customer traffic of a Canadian Tire store directly to a Mark's store and to lower on-site construction costs when both stores are built in the same structure.

34% increase in sales

after conversion from a Work World banner to the Mark's banner in 82 stores that were not expanded.

MARK'S 2003 PERFORMANCE VERSUS 2002

Retail sales (52-week basis)	+7.0%
Comparable store sales (52-week basis)	+5.0%
Earnings before income taxes	$25.0 million

Superbranding includes many initiatives at Mark's to elevate customer awareness, brand loyalty and market share. One of these initiatives is the conversion of Work World stores to Mark's stores and introducing Mark's primary private label brands of Denver Hayes, Dakota and WindRiver to these converted sites. These conversions simplify Mark's business model by creating a single store format and also allow Mark's to generate higher sales and earnings.

PartSource is a chain of specialty automotive hard parts stores that serve serious "do-it-yourselfers" and, increasingly, commercial installers. PartSource is a growing business that in 2003 continued to deliver comparable store sales growth above the targeted range of 4 to 5 percent for the year.

"We are extremely pleased with the ever-increasing success of PartSource, our automotive parts specialty retail and wholesale store. Based on its financial performance and high level of customer approval, we will continue to expand this business across Canada."

Mike Medline, Executive Vice-President, New Business Development

Market Trends After several flat years, steady annual growth in the 1 to 3 percent range is forecast in the Canadian automotive parts aftermarket, reflecting the high volume of new cars sold and leased in the mid- to late nineties. Within that market, we see increasing demand for specialty parts for serious car buffs and emergency service turnaround to meet the needs of commercial customers. This market niche has become a major and highly competitive business in the United States, but is far less developed in Canada.

Unique Positioning PartSource is uniquely positioned based on the store format and value proposition we offer, and we have staked out market leadership in a niche with solid growth potential. We have added incremental business especially with commercial customers – not previously served by Canadian Tire – through our comprehensive product range of national brands, emergency parts sourcing and delivery, and specialized, knowledgeable service in our stores. While still a relatively small business with just 39 stores across Canada, we have the advantage of being part of the Canadian Tire network – with purchasing power, distribution capabilities, real estate strengths and resources far beyond the scope of other small chains.

Market Opportunities The PartSource concept has achieved strong market acceptance, as evidenced by superior comparable stores sales growth in the flat and negative markets of recent years. With the recovery of the aftermarket, we expect to gain further ground. We see excellent growth potential in the commercial customer base and ongoing opportunities for expansion into promising market areas. We plan to build on our national presence further with eight new stores in the year ahead, capturing business previously untapped by Canadian Tire; the new stores represent a more than 20 percent increase in the total number of PartSource stores.

Letter from the Chief Financial Officer

Dear shareholder:

I am pleased to have this opportunity to provide you with my thoughts on issues that are key to the Company's financial well-being and strategic success.

We are growing in a balanced, sustainable way As I noted in last year's report, Canadian Tire is dedicated to growing in a balanced and careful way – achieving our Strategic Plan while strengthening the balance sheet and enhancing our financial flexibility. I am pleased to report that while delivering record revenues and earnings in 2003, we made further gains on return on invested capital. Improvement in this key metric indicates that growth is indeed balanced and sustainable – that our funding of growth initiatives is firmly based on responsible capital allocation.

We are improving financial flexibility Financial flexibility is a strategic imperative of our five-year Plan, as we believe it is fundamental to achieving sustainable long-term growth. During the year, we made further strides in continuing to improve the Company's debt to equity ratio, capital position, working capital utilization and liquidity.

We are responding proactively to rapidly changing standards and expectations The rate of change in rules and regulatory guidelines for financial reporting, accounting practices, disclosure and corporate governance – and the quantity of that change – has been unprecedented. While keeping abreast of these new guidelines is challenging, we are committed to the principles of good disclosure and we consistently set high standards for ourselves. We have a skilled team of people who work extremely hard to ensure we provide the best possible communication to our shareholders. Our leadership in this area was recognized for the second year running with the Canadian Institute of Chartered Accountants' 2003 award for excellence in annual reporting.

We are holding ourselves accountable During 2003, we took further steps to act on our commitment to hold ourselves fully accountable:

- In keeping with new regulations, we are ready to implement management's certification of our financial statements.
- We completed the loop of expensing all of our compensation programs by initiating the expensing of stock options.
- We established a management disclosure committee to review all of our financial disclosure and provided greater disclosure on variable interest entities and guarantees, while continuing to enhance our restructured MD&A, to provide as clear a picture as we possibly can of our performance.

On behalf of all the people of Canadian Tire who are involved in preparing, approving and communicating our financial performance, I assure you of our commitment to ongoing improvement, and to ensuring that we meet and exceed changing regulatory guidelines and continue to earn the confidence of our shareholders.

Canadian Tire is dedicated to growing in a balanced and careful way – achieving our Strategic Plan while strengthening the balance sheet and enhancing our financial flexibility.

(SIGNED) Huw Thomas
Executive Vice-President, Finance and Administration
& Chief Financial Officer

Management's Discussion and Analysis

March 11, 2004

Forward-looking statements

Management's discussion and analysis contains certain forward-looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risks outlined in the Risk Management section at the end of the discussion, factors which could cause actual results or events to differ include, but are not limited to: the impact of competition; consumer confidence and spending levels; general economic conditions; interest and currency exchange rates; unseasonal weather patterns; customer preferences regarding in-store and online product offerings; conditions affecting the acquisition and development of real estate properties; the cost and availability of capital; and the ability of Canadian Tire to attract and retain quality employees, Associate Dealers, PartSource and Mark's Work Wearhouse franchisees and Petroleum agents. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Notes:

- A glossary of terms used in this section and in the Consolidated Financial Statements is provided on pages 80 to 81 of this annual report to enhance the clarity of financial disclosure.
- All operating and financial results contained within this document are reported on a 53-week period in 2003 and compared to a 52-week period in 2002, unless otherwise noted.

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1. Corporate Overview

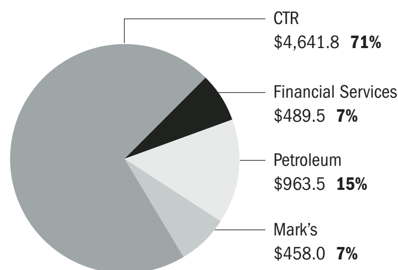
1.1 Overview of the business

Canadian Tire is a growing, innovative network of interrelated businesses that includes:

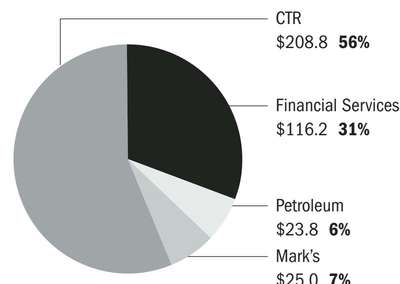
- Canadian Tire Retail (CTR);
- Canadian Tire Petroleum (Petroleum);
- Mark's Work Wearhouse (Mark's); and
- Canadian Tire Financial Services (Financial Services).

CTR is Canada's leading hard goods retailer with a network of Canadian Tire stores that are operated by Associate Dealers, as well as a chain of specialty automotive hard parts stores that are run by franchisees and operate under the name of PartSource. Petroleum is Canada's largest independent retailer of gasoline with an agent-run chain of gas bars, convenience stores and kiosks, car washes and propane stations. Mark's is one of Canada's largest specialty footwear and apparel retailers, specializing in industrial work wear and business casual apparel with corporate and franchise stores operating under the Mark's Work Wearhouse and Work World banners, and L'Équipeur in the province of Quebec. Financial Services markets the Canadian Tire retail card, *Options* MasterCard, insurance products, commercial credit cards, various warranties and an emergency roadside assistance service called Canadian Tire Auto Club. Canadian Tire Bank, a federally regulated bank that forms part of Financial Services, manages and finances credit card accounts related to customers' use of their *Options* MasterCards and Canadian Tire retail cards.

Gross operating revenue by business segment
($ millions)



Earnings before income taxes and minority interest by business segment
($ millions)



1.2 Strategic Plan objective

Canadian Tire's Strategic Plan (the Plan) was introduced in 2001 as a roadmap for the Company's growth over the 2001 to 2005 Plan period. The Plan's primary objective was, and continues to be, to achieve long-term top-quartile performance among North American retailers in total return to shareholders.[1] Since the beginning of the Plan period on December 31, 2000 to January 3, 2004, Canadian Tire's annualized total return to shareholders was 29.9 percent, which ranked Canadian Tire in the first quartile of North American retailers with respect to this metric.

[1] Total return to shareholders is measured by the change in stock price during the period plus dividends, all of which is then divided by the stock price at the beginning of the period. The comparison group includes North American retailers listed in the major consumer product indices on the Toronto Stock Exchange, The NASDAQ Stock Market and the New York Stock Exchange.

1.3 Strategic Plan performance indicators

Management set out five financial goals with the adoption of the Plan. Management believes the Company will continue to deliver top-quartile total return to shareholders over the 2001 to 2005 Plan period through successful execution of its Plan and achievement of its financial goals. Periodic fluctuations in the Company's performance or its stock price may, however, occur.

The following table shows how the Company has performed against its long-term objectives and also illustrates how the Company's 2003 performance has contributed to the accomplishment of those objectives. The right-hand column of the table shows the Company's 2003 performance with certain adjustments to meet the needs of some analysts and investors who regard these adjusted figures as more meaningful measures of operating results. The adjustments include a $6.8 million charge related to an automotive parts supply chain restructuring in the fourth quarter of 2002 and gains and losses arising from the sales of credit charge receivables and dispositions of property and equipment.

Strategic Plan key metrics	Annual Strategic Plan goals 2001 to 2005	Beginning of fiscal 2001 to the end of fiscal 2003 performance	**2003 year-over-year performance**	**2003 year-over-year performance, excluding non-operating items**[1]
Comparable store sales[2]	3 to 4%[3]	2.8%[3]	**4.7%**	**4.7%**
Gross operating revenue	at least 10%[4]	8.0%[4]	**10.2%**	**10.2%**
EBITDA[5] and minority interest	10 to 15%[4]	9.8%[4]	**10.4%**	**9.9%**
Earnings per share	12 to 15%[4]	17.4%[4]	**19.5%**	**16.5%**
After-tax return on invested capital	at least 10%[3]	8.3%[3]	**9.0%**	**8.6%**

[1] Non-operating items include gains and losses on the sales of credit charge receivables and the dispositions of property and equipment and a charge resulting from agreements with NAPA Canada made in the fourth quarter of 2002 which did not repeat in 2003.

[2] Represents sales growth at CTR only.

[3] Average of 2003, 2002 and 2001 percentages.

[4] Plan goals and performance for these metrics are expressed in terms of a compound annual growth rate (CAGR).

[5] Earnings before interest, income taxes, depreciation and amortization. See note on non-GAAP measures at the end of this MD&A.

1.4 Corporate results

Consolidated sales and financial performance

($ in millions except per share amounts)	**Q4 2003**	Q4 2002	Change	**2003**	2002[1]	Change
Retail sales[2]	**$ 2,371.4**	$ 2,109.1	12.4%	**$ 7,865.7**	$ 7,240.8	8.6%
Gross operating revenue	**1,907.3**	1,679.0	13.6%	**6,552.8**	5,944.5	10.2%
EBITDA[3] and minority interest	**204.9**	162.3	26.2%	**612.8**	555.1	10.4%
Earnings before income taxes and minority interest	**139.6**	96.8	44.2%	**373.8**	313.6	19.2%
Effective tax rate	**31.4%**	31.9%		**31.7%**	33.1%	
Net earnings	**93.6**	63.9	46.7%	**246.6**	202.4	21.8%
Basic earnings per share	**$ 1.16**	$ 0.80	43.8%	**$ 3.06**	$ 2.56	19.5%

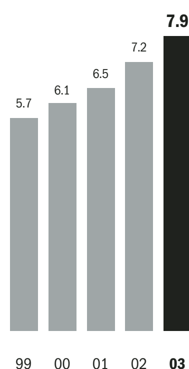
[1] Mark's was acquired by Canadian Tire on February 1, 2002.

[2] These figures represent retail sales at Mark's corporate stores and gasoline sales, as well as sales of the Company's Associate Dealers, Petroleum agents and Mark's and PartSource franchisees.

[3] See note on non-GAAP measures at the end of this MD&A.

1.5 Explanation of corporate results

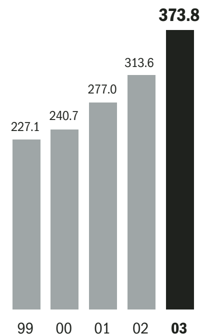
Consolidated annual retail sales
($ billions)



Retail sales. Each of Canadian Tire's businesses contributed to growth in the Company's consolidated retail sales; an increase of 8.6 percent in 2003 over 2002 compared to an increase of 11.6 percent in 2002 over 2001. Sales and financial performance of each of the Company's business segments are discussed in detail in further sections of this MD&A.

Gross operating revenue. The advancement of Canadian Tire's strategic initiatives combined with growth in all of its businesses increased Canadian Tire's gross operating revenue by 10.2 percent for 2003 over 2002. A 7.0 percent increase in shipments to Canadian Tire stores, a 26.5 percent increase in credit charge receivables, an 8.7 percent improvement in gasoline sales volume and a 14.8 percent increase in sales at Mark's corporate stores all contributed to higher gross operating revenue in 2003. In the fourth quarter, gross operating revenue increased by 13.6 percent compared with the same period in 2002.

Consolidated earnings before income taxes and minority interest
($ millions)



EBITDA. The Company's EBITDA increased by 26.2 percent in the fourth quarter and 10.4 percent for 2003. The increase in EBITDA in 2003 primarily resulted from higher revenues and credit charge receivables. EBITDA also improved in the fourth quarter of 2003, due to higher gains from the sales of credit charge receivables. In 2002, EBITDA would have been higher had it not been for a one-time $6.8 million charge resulting from agreements with NAPA Canada to augment CTR's automotive parts supply chain.

Net earnings. The Company's consolidated net earnings for the fourth quarter and for 2003 increased by 46.7 percent and 21.8 percent, respectively. In the fourth quarter, net earnings increased due to the same factors that affected EBITDA, as described in the paragraph above. Although all businesses contributed positively in the quarter, the most significant contributions were made by CTR, with an increase in pre-tax earnings of $21 million or 50.6 percent, and Financial Services, with a pre-tax earnings increase of $17 million or 61.5 percent.

To clarify the financial impact of gains and losses on the sales of credit charge receivables, the agreement with NAPA Canada and the dispositions of property and equipment, earnings excluding these items are shown in the following tables on a pre-tax and after-tax basis.

Adjusted consolidated earnings before income taxes and minority interest

($ in millions)	**Q4 2003**	Q4 2002	Change	**2003**	2002[1]	Change
Earnings before income taxes and minority interest	**$ 139.6**	$ 96.8	44.2%	**$ 373.8**	$ 313.6	19.2%
Less pre-tax adjustments for:						
Gain on sales of credit charge receivables[2]	**14.2**	8.1		**16.8**	12.2	
Gain on disposals of property and equipment[3]	**0.6**	1.1		**4.3**	4.4	
Charge resulting from agreements with NAPA Canada	**–**	(6.8)		**–**	(6.8)	
Adjusted earnings before income taxes and minority interest[4]	**$ 124.8**	$ 94.4	32.3%	**$ 352.7**	$ 303.8	16.1%

1 Mark's was acquired by Canadian Tire on February 1, 2002.
2 More information is provided later in this report under the heading "Canadian Tire Financial Services."
3 More information is provided later in this report under the headings "Canadian Tire Retail" and "Canadian Tire Petroleum."
4 See note on non-GAAP measures at the end of this MD&A.

Adjusted consolidated net earnings

($ in millions except per share amounts)	**Q4 2003**	Q4 2002	Change	**2003**	2002[1]	Change
Net earnings	**$ 93.6**	$ 63.9	46.7%	**$ 246.6**	$ 202.4	21.8%
Less after-tax adjustments for:						
Gain on sales of credit charge receivables[2]	**8.8**	5.0		**10.6**	7.5	
Gain on disposals of property and equipment[3]	**0.4**	0.8		**2.9**	2.9	
Charge resulting from agreements with NAPA Canada	**–**	(4.2)		**–**	(4.2)	
Adjusted net earnings[4]	**$ 84.4**	$ 62.3	35.3%	**$ 233.1**	$ 196.2	18.8%
Basic earnings per share	**$ 1.16**	$ 0.80	43.8%	**$ 3.06**	$ 2.56	19.5%
Adjusted basic earnings per share[4]	**1.05**	0.79	32.7%	**2.89**	2.48	16.5%

1 Mark's was acquired by Canadian Tire on February 1, 2002.
2 More information is provided later in this report under the heading "Canadian Tire Financial Services."
3 More information is provided later in this report under the headings "Canadian Tire Retail" and "Canadian Tire Petroleum."
4 See note on non-GAAP measures at the end of this MD&A.

The following table shows the Company's quarterly financial performance over the last two fiscal years. For each measure in every period shown, the 2003 numbers showed growth compared to the same period in 2002. The Company does experience some seasonality of sales, with the strongest results in the fourth and second quarters, primarily due to the timing of CTR's strongest seasonal merchandise offering. In addition, the fourth quarter is becoming increasingly important to the consolidated results due to:

> The concentration of Mark's sales and earnings in that quarter;

> The increasing contribution by holders of Canadian Tire *Options* MasterCards as they purchase holiday-related gifts at Canadian Tire and other retailers; and

> Special fourth quarter sales promotions as described in the CTR section of this MD&A.

Consolidated quarterly results

($ in millions, except per share amounts)	**Q4 2003**	**Q3 2003**	**Q2 2003**	**Q1 2003**	Q4 2002	Q3 2002	Q2 2002	Q1 2002
Gross operating revenue	**$ 1,907.3**	**$ 1,561.7**	**$ 1,785.1**	**$ 1,298.7**	$ 1,679.0	$ 1,455.0	$ 1,613.0	$ 1,197.5
Net earnings	**93.6**	**56.6**	**64.4**	**32.0**	63.9	49.6	58.6	30.3
Basic earnings per share	**1.16**	**0.70**	**0.80**	**0.40**	0.80	0.63	0.74	0.39
Diluted earnings per share	**1.14**	**0.69**	**0.79**	**0.40**	0.79	0.62	0.74	0.38

2. Business Segment Performance

2.1 Canadian Tire Retail (CTR)

2.1.1 Strategy update and outlook

Canadian Tire's first priority continues to be to strengthen and accelerate growth and performance in CTR with the implementation of the strategic initiatives described below.

New-format stores. In 1994, Canadian Tire began replacing its network of traditional Canadian Tire stores with new-format stores that have been key drivers of growth in CTR's comparable store sales and total sales. The following table shows the number of new-format stores by size that have been opened in each year.

New-format stores opened by year

													Planned for 2004		
Size range in retail square feet	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Store size changes '94–'03[1]	**Total at end of 2003**	New-format store openings[2]	Store size changes[1]	Total stores
A greater than 47,950	3	9	12	5	6	16	12	9	5	6	4	**87**	6	4	97
B 36,000 – 47,950	–	1	2	7	8	11	8	10	7	2	(2)	**54**	3	(2)	55
C 25,000 – 35,999	5	16	13	17	10	12	12	7	5	6	(3)	**100**	4	(2)	102
D 19,000 – 24,999	–	1	5	7	4	3	6	7	–	5	1	**39**	3		42
E 13,000 – 18,999	–	–	–	–	6	9	7	4	3	–		**29**	1		30
Total new-format stores	8	27	32	36	34	51	45	37	20	19	–	**309**	17	–	326
Cumulative new-format stores	8	35	67	103	137	188	233	270	290			**309**			326
Total traditional stores	415	389	359	327	293	244	208	180	161			**143**			130
Total new-format and traditional stores	423	424	426	430	430	432	441	450	451			**452**			456
Total retail square footage (millions)	7.1	7.7	8.5	9.2	9.8	10.8	11.8	12.7	13.1			**13.5**			14.1

[1] These columns show the number of new-format stores by size that have been or will be retrofitted to a different size to better meet customers' needs in that local market.

[2] This column shows the number of new-format stores that will open as new stores, replacements or expansions of traditional stores.

CTR opened 19 new-format stores in 2003, 10 in the fourth quarter. This brought CTR's total store count to 452 stores, 309 of which are new-format stores. CTR plans to open another 20 stores in 2004, 13 of which will be Concept 20/20 stores. Three of the 20 stores expected to open in 2004 are planned expansions or replacements of existing new-format stores and, along with Concept 20/20 retrofits, will not increase the total number of new-format stores.

Concept 20/20. The Concept 20/20 (C20/20) store merchandising format introduces an updated store layout, new and expanded merchandise assortments, a customer care centre, new store signage and a revitalized exterior facade. The concept is designed to boost sales in stores by 20 percent in the first year following a retrofit to the C20/20 format. A key component of C20/20 is the reduction of warehouse space within the store to create incremental retail space.

In 2003, the first four C20/20 stores opened in four distinct markets across Canada: Markham, Kitchener and Pembroke, Ontario and Prince George, British Columbia. These C20/20 stores range in size from 61,000 to 71,000 retail square feet. While it is still early in the operation of these test stores, sales within the first 12 weeks were on average more than 30 percent higher than the sales CTR expects at a typical new-format store. By the spring of 2004, five existing new-format stores will be retrofitted to C20/20 stores. Thirteen of the 20 new-format stores to be opened in 2004 will also be in the C20/20 format. Approximately 90 percent of CTR's existing new-format stores are expandable to the C20/20 format with modest capital investment.

Exciting, New and Exclusive (ENE) Products. Customers recognize Canadian Tire stores as a source for innovative new products. During 2003, over 50 new and innovative products were launched through the ENE speed-to-market program, formerly known as "Innovation Dominance." CTR increased sales of ENE products by approximately 50 percent in 2003, exceeding CTR's 2003 goal of 25 percent, and has set an objective of a further 25 percent growth in 2004.

Auto service. Capturing a greater share of the automotive service market continues to be a focus for CTR. Auto service inspections and regular customer follow-up phone calls to gauge customer satisfaction and respond to customer concerns have been implemented in selected stores across the chain. Currently, CTR has approximately a 7 percent share of the automotive service market. The Company's goal is to capture 10 percent of the market, equivalent to CTR's share of automotive after-market service bays in Canada. In the fourth quarter of 2003, CTR increased auto service sales by 11.4 percent and the number of service visits by 7.3 percent compared with the same period in 2002. In 2003, CTR increased auto service sales by 5.4 percent and the number of service visits by 2.3 percent.

Automotive infrastructure. Improving order fulfillment and lowering the costs for automotive parts distribution to Canadian Tire stores is the primary goal of the automotive infrastructure project. In 2003, CTR opened a new prime auto parts distribution centre in Vaughan, Ontario to complement the new centres commissioned in Calgary, Alberta and Montreal, Quebec in 2002. Also, in 2002, CTR signed five-year agreements with NAPA Canada to share their technology and to supply Canadian Tire stores with low-velocity parts more efficiently. The supply agreement with NAPA comprises about 15 percent of the Company's automotive hard parts business.

Customer Values. Customer service remains a high priority for CTR. Having product in stock and knowledgeable employees in the stores are significant components of CTR's customer value focus. In the first full year of a network-wide initiative to recognize high standards for customer service and employee product knowledge, 139 stores have been gold-certified under CTR's Customer Service Excellence program. Gold-certification is awarded to stores where employees in every department have completed a required number of eLearning training lessons, which pertain to customer service, product knowledge and store operations.

Maintaining a high on-time service level of order fulfillment at distribution centres is critical for CTR to improve the in-stock position in Canadian Tire stores. On-time service levels to Canadian Tire stores were 90.8 percent in 2003, a strong performance during the implementation of critical phases of CTR's CustomerLink supply chain project described in the following section. Service levels were 92.0 percent in 2002.

CustomerLink. CustomerLink is a multi-year supply chain upgrade program aimed at reducing distribution costs as a percentage of sales and allowing CTR to improve service levels for merchandise shipments to Canadian Tire stores. The initiative is on schedule and on budget, including a planned allowance for project contingencies. As of the end of 2003, CTR had invested $235 million in CustomerLink and expects to spend another $42 million to complete the project.

Beginning in 2004, the CustomerLink improvements are scheduled to become operational in CTR's two Brampton, Ontario distribution centres. With CustomerLink fully implemented, management expects that supply chain costs as a percentage of retail sales will be more than 100 basis points lower than otherwise expected.

New Dealer contract. In September 2003, CTR and the Associate Dealers who operate Canadian Tire stores reached an agreement in principle on a new commercial contract between the parties covering important financial, strategic and operational changes. Further discussion of the agreement is contained under the heading "Dealer Contracts" in section 4.1 of this MD&A.

PartSource. PartSource is a chain of specialty automotive hard parts stores that serve serious "do-it-yourselfers," and increasingly, commercial installers. PartSource is a growing business that in 2003 continued to deliver comparable store sales growth above the targeted range of 4 to 5 percent for the year.

PartSource opened one additional store in the fourth quarter of 2003, bringing the total opened in 2003 to six stores. With an average store age of just over three years, there are now 39 stores open. PartSource plans to open eight additional stores in 2004.

2.1.2 Capability to deliver results

Canadian Tire has many core capabilities that contribute to the success of its strategies.

Brand equity. Brand equity is most prevalent in the Canadian Tire name and logo, which have been fixtures in Canadian retailing for over 80 years. The "red triangle" logo enjoys almost universal recognition among Canadian consumers. The Canadian Tire brand, and the products and services that the Company offers under that brand, attracts approximately 50 to 60 percent of all Canadians into Canadian Tire stores every month.

Within CTR, strong, long-standing brands such as MotoMaster and Mastercraft have been joined by new proprietary brands such as Yardworks, Simoniz, Hero and Persona which have contributed to customer loyalty and which are themselves becoming recognizable and respected brands. Together, CTR's retail brands comprise approximately 30 percent of annual sales.

Loyalty. Canadian Tire's highly recognized loyalty program rewards customers with Canadian Tire 'Money.' Customers who pay by cash have received Canadian Tire 'Money' for over 40 years. By using their *Options* MasterCards, customers earn more 'Money' than when paying with cash when shopping at Canadian Tire and also earn 'Money' at any other location that accepts MasterCard. The prime goal of the loyalty program is to encourage Canadians to shop at Canadian Tire stores.

Real estate. Canadian Tire has a core competency in real estate development. CTR has opened 309 new-format Canadian Tire stores since 1993 and disposed of most of the surplus properties related to the traditional stores that were replaced during that period. CTR employs a rigorous approval process to ensure that it places the right size store in the right market on a consistent and cost-effective basis.

Special relationships. In addition to the long-standing relationship of trust that CTR has with its customers, CTR also has developed special relationships with its Associate Dealers and vendors. Associate Dealers bring motivated and committed in-store leadership to CTR's retail offering. They are the local experts that help select the right product mix for their individual markets and provide objective feedback from the front line on CTR's strategies. Further discussion of the Company's relationship with its Associate Dealers is discussed in section 4.1 of this MD&A, under the heading "Dealer Contracts." Additionally, CTR has established effective relationships with many of its vendors, particularly for categories in which Canadian Tire has a significant market share.

Supply chain. CTR's supply chain is a complex system that in 2003 delivered approximately 134 million cubic feet of merchandise to the 452 Canadian Tire stores from CTR's two primary distribution centres in Brampton, Ontario, its regional centres in Calgary, Alberta, and Montreal, Quebec, and directly from vendors. In addition, strategically placed auto parts depots facilitate the fulfillment of orders from both Canadian Tire and PartSource stores. The CustomerLink and automotive infrastructure initiatives will leverage CTR's supply chain capabilities to improve efficiency even further and add capacity for growth.

2.1.3 Key performance indicators

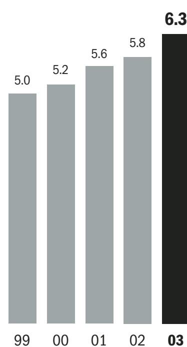
The program to open new stores has been, and continues to be, an important contributor to CTR's results. The pace of store openings is an indicator of the overall growth of retail sales and shipments. In addition, comparable store sales growth, a measure of the ability to boost sales in existing stores, is a key indicator of relative performance among all retailers.

2.1.4 CTR's financial results

CTR retail sales growth

(percent change over prior year)	**Q4 2003 14 weeks compared to 13 weeks**	**Q4 2003 13 weeks compared to 13 weeks**	Q4 2002 13 weeks compared to 13 weeks	**2003 53 weeks compared to 52 weeks**	**2003 52 weeks compared to 52 weeks**	2002 52 weeks compared to 52 weeks
Total retail sales	**12.2%**	**6.4%**	(0.4)%	**7.0%**	**5.3%**	4.7%
Comparable store sales	**9.4%**	**3.8%**	(2.5)%	**4.7%**	**3.2%**	1.4%

Annual CTR retail sales ($ billions)



Factors contributing to higher total retail sales in 2003 include improved execution of basic merchandising and special promotions. Total retail sales for CTR for the 14-week fourth quarter of 2003 were $1.86 billion, up 12.2 percent compared to $1.66 billion of sales in the 13-week fourth quarter of 2002. On a more comparable 13-week basis, total sales in 2003 were $1.76 billion, up 6.4 percent over 2002 sales. Several factors contributed to the increase in sales, including special events and promotions, such as flyers and television advertising for innovative products. Seasonal products and a planned shift to higher margin goods did not deliver the expected sales performance in the fourth quarter of 2002, further improving the comparison to sales in the fourth quarter of 2003.

The strongest categories in the fourth quarter of 2003 were sporting goods (up 15.5 percent), hardware (up 13.4 percent) and automotive (up 13.1 percent).

On an annual basis, total retail sales for CTR for the 53 weeks of 2003 were $6.25 billion, up 7.0 percent compared to the $5.84 billion of sales in the 52-week period of 2002. On a more comparable 52-week basis, total sales in 2003 were $6.16 billion, up 5.3 percent over 2002 sales. The strongest categories in 2003 were lawn and garden (up 10.6 percent), automotive (up 7.1 percent) and sporting goods (up 7.3 percent).

The following table shows retail sales in each of CTR's major product divisions for 2003, all of which had higher sales compared to 2002.

Retail sales by product division[1]

($ in millions)	**2003**	2002	Change
Home	**$ 2,615.6**	$ 2,469.6	5.9%
Leisure	**1,682.2**	1,548.2	8.7%
Automotive	**1,650.2**	1,538.0	7.3%
Total retail	**$ 5,948.0**	$ 5,555.8	7.1%

1 To directly compare the performance of sales divisions in the stores, the above figures exclude online sales and the labour portion of auto service sales.

Other common measures of the performance of retailers include average sales per store and average sales per square foot. Canadian Tire's performance on these metrics is shown in the following tables.

Average retail sales per Canadian Tire store[1]

($ in millions)	**2003**	2002	2001
Traditional stores	**$ 8.2**	$ 8.2	$ 8.3
New-format stores	**15.2**	15.0	15.1

1 Retail sales are shown on a comparable 52-week basis in each year and exclude online sales and the labour portion of auto service sales.

Comparable store sales growth in new-format stores continues to outpace sales growth in traditional stores. The larger size, more convenient layout and substantially greater selection in new-format stores create a more enjoyable shopping experience for customers. The result is more customer visits and much higher average spending per visit.

Average sales per square foot of Canadian Tire retail space[1,2]

($)	**2003**	2002	2001
Traditional stores	**$ 499**	$ 495	$ 498
New-format stores	**423**	419	421

1 Retail sales are shown on a comparable 52-week basis in each year and exclude online sales and the labour portion of auto service sales.

2 Retail space excludes warehouse, garden centre and auto service areas.

As expected, average sales per square foot in new-format stores has been lower than in traditional stores due to the larger retail square footage.

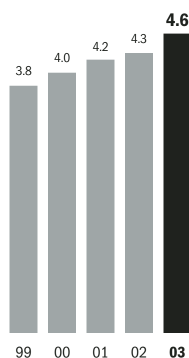
CTR's net shipments and financial performance

($ in millions)	Q4 2003	Q4 2002	Change	2003	2002	Change
Net shipments[1] (increase over prior year)	**11.9%**	2.0%		**7.0%**	3.7%	
Gross operating revenue	**$ 1,317.9**	$ 1,175.7	12.1%	**$ 4,641.8**	$ 4,338.8	7.0%
EBITDA[2] and minority interest	**118.3**	97.4	21.5%	**415.8**	385.2	8.0%
Earnings before income taxes and minority interest	**61.1**	40.6	50.6%	**208.8**	177.8	17.5%
Less adjustments for:						
Charge resulting from agreements with NAPA Canada	**–**	(6.8)		**–**	(6.8)	
Gain on disposals of property and equipment	**1.8**	1.2		**6.1**	6.4	
Adjusted earnings before income taxes and minority interest[2]	**$ 59.3**	$ 46.2	28.3%	**$ 202.7**	$ 178.2	13.8%

[1] Net shipments are the gross value of merchandise delivered to Canadian Tire retail stores, less discounts, returns and other items.

[2] See note on non-GAAP measures at the end of this MD&A.

CTR's gross operating revenue
($ billions)



2.1.5 Explanation of results

Gross operating revenue up 7.0 percent in 2003, 12.1 percent in the fourth quarter. The increase in gross operating revenue tracked the increase in shipments of 7.0 percent for the year and 11.9 percent in the fourth quarter.

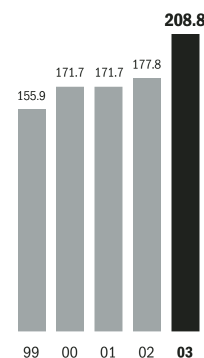
CTR's fourth-quarter performance also benefited from special events and promotions, such as the effective marketing of Exciting, New and Exclusive (ENE) Products through television advertisements and weekly flyers. These events and promotions were particularly effective in drawing more consumers into Canadian Tire stores and creating incremental sales.

CTR's earnings before income taxes and minority interest improved by 17.5 percent in 2003. CTR improved earnings in 2003. The business performed well and many of the division's strategic initiatives made a stronger contribution. During the year, management was confident that CTR offered customers the right combination of products and competitive pricing supported by effective advertising.

The continued introduction of ENE products and more effective merchandising increased customer traffic and improved profitability. By increasing the penetration of new-format stores within the store chain, CTR has broadened its platform from which to roll out its merchandising programs, such as ENE, in a consistent manner. The Customer Values initiative is contributing to improved customer service through increased staff knowledge and improved in-stock position.

Pre-tax earnings in the fourth quarter increased due to the improvement in gross operating revenue, lower net advertising expenses, solid cost management and a favourable comparison to the fourth quarter of 2002, which included a $6.8 million charge related to the agreements with NAPA Canada described earlier.

CTR's earnings before income taxes and minority interest
($ millions)



2.2 Canadian Tire Petroleum (Petroleum)

2.2.1 Strategy update and outlook

The Company's Strategic Plan addresses the pursuit of unexploited opportunities in its network of interrelated businesses, including the initiatives listed below for Petroleum.

In 2003, Petroleum made progress on all of its strategic initiatives to expand its chain of gas bars, car washes and convenience stores through new construction, conversions, upgrades and the development of new site concepts. Petroleum's growth initiatives all leverage the Company's high-value proposition, which is based on the popular Canadian Tire 'Money' loyalty program, strong customer service and cross-promotions with Canadian Tire stores.

Increase gasoline volume. ***Total gasoline sales volume up 8.7 percent in 2003, 14.8 percent in the fourth quarter.*** As the primary driver of Petroleum growth, increased gasoline sales volume in litres is an overriding goal of most Petroleum initiatives. Sales volume of 1.45 billion litres of gasoline in 2003 was 8.7 percent higher than in 2002. In 2003, gasoline sales volume at comparable sites, open for more than a year, was up 0.7 percent over the prior year.

In the fourth quarter, gasoline volume increased to 396 million litres, up 14.8 percent compared to the same period last year. The healthy increase in gasoline volume in the quarter and year-to-date resulted primarily from the addition of new and re-branded gas bars over the last year.

With further plans to expand the number of its gas bars, Petroleum expects to increase gasoline volume by approximately 10 percent in 2004.

New gas bars. ***Fourteen gas bars added in 2003, five in the fourth quarter.*** Significant activity occurred in the fourth quarter with the opening of six new sites, including three replacement sites and the closing of one gas bar. During the year, nine new gas bars were opened and six existing gas bars were replaced. Canadian Tire now has 232 gas bars operating under its banner, including 15 re-branded sites. Petroleum plans to open eight to 12 gas bars in 2004.

Re-brand competitors' gas bars. ***Twelve site conversions in 2003, eight in the fourth quarter.*** Petroleum continued to make progress on its strategy to re-brand competitors' petroleum sites, leveraging the drawing power of Canadian Tire's brand and loyalty programs. Canadian Tire signed an agreement with Irving Oil Limited in October 2003 to re-brand 16 sites to the Canadian Tire banner and as of the end of 2003 had completed re-branding seven of those sites. In addition, in 2002, Petroleum re-branded three Imperial Oil Limited gas bars and, in 2003, completed 10 of the 12 sites to be co-branded with Alimentation Couche-Tard Inc. (Couche-Tard). To date, gas bars at five Couche-Tard sites have been re-branded as Canadian Tire. Convenience stores at five Canadian Tire sites have been re-branded as Couche-Tard, although the gas bars continue to operate under the Canadian Tire banner.

Since conversion, the re-branded sites have performed above expectations. On average, sites open over six months have delivered an increase in gasoline sales volume of over 70 percent.

In 2004, Petroleum will remain focused on increasing its presence in the marketplace by expanding its network with the capital-light re-branding initiative. Petroleum continues to seek out opportunities to re-brand additional competitor sites with new and existing joint venture partners.

On March 10, 2004 Petroleum announced an agreement with Shell Canada Products that will see 10 Shell retail locations re-branded and operated by Canadian Tire.

New car washes. ***Fourteen car washes opened in 2003, sales up 60.6 percent.*** Complementary to Petroleum's gasoline business, car washes drive traffic to gas bars. Car washes also allow Petroleum to generate higher-margin sales from customers that already frequent those gas bars. Petroleum opened 16 new car washes in 2003 and closed two others, which brought the total to 47. Three of these sites were acquired as a result of the re-branding initiative. During the fourth quarter, Petroleum opened five new car washes and closed one.

In 2003, total car wash sales were up 60.6 percent and comparable car wash sales were up 4.4 percent compared to 2002.

Petroleum plans to open between 10 and 15 car washes in 2004. Each new Petroleum site is evaluated for the opportunity to open a car wash with the gas bar. Car washes are also planned at gas bar sites opened in prior years.

Convenience store strategies. ***Sales in 2003 up 18.5 percent.*** Petroleum continued to focus on enhancing the division's margins by executing strategies geared to increase convenience store sales. In 2003, total sales at convenience stores and sales at comparable convenience stores were up 18.5 percent and 10.9 percent, respectively, compared to the same period in 2002.

In 2003, the Petroleum division added 15 new convenience stores, six of which were replacements. Petroleum closed one store, but acquired seven others through the re-branding initiative. The division ended 2003 with a total of 222 convenience stores at the 232 gas bars operating under the Canadian Tire banner. Ten of the Canadian Tire gas bars are paired with owner-operated convenience stores and have not been counted under the Canadian Tire banner.

In 2004, Petroleum plans to open a convenience store at each new gas bar. Petroleum believes the future of its convenience offering lies with a new concept of larger-format stores, which will better serve customers with new and innovative products and services that will help drive sales. This new format, called "Project Leapfrog," will be tested in 2004.

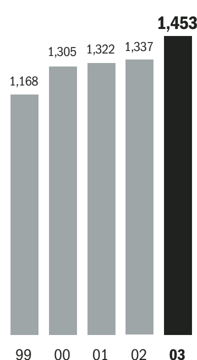
2.2.2 Capability to deliver results

Brand equity. The Canadian Tire logo on Petroleum gas bars generates confidence among customers and signifies the strong affiliation with Canadian Tire stores.

Loyalty. While the prime goal of the Canadian Tire 'Money' loyalty program is to encourage Canadians to shop at Canadian Tire stores, the loyalty program also drives customers to buy gas from Canadian Tire. With various promotions, including a program of coupons that multiply the Canadian Tire 'Money' rewards for customers, Petroleum pumps twice the industry average volume of gasoline per site.

Service. In an industry that is predominately comprised of self-serve operations, Petroleum has been recognized for its customer service and ease of access. Petroleum has placed a special focus on helping those motorists who are physically challenged and require assistance to refuel their vehicles at self-serve gas bars.

Petroleum's gasoline sales volume
(millions of litres)



2.2.3 Key performance indicators

Increases in the pre-tax earnings of Petroleum are achieved through improvements in gasoline sales volume, costs and margins. Margins are increasing from the rapid growth of the higher-margin, non-gas business.

Petroleum's capability to sell more gasoline than its average competitor demonstrates the attractiveness of the Canadian Tire 'Money' loyalty program and the success of Petroleum's cross-merchandising programs with Canadian Tire stores. Gasoline sales volume is a key indicator of the performance of these programs and is a key contributor to earnings growth.

While the continual price and cost volatility of gasoline make both revenue and earnings hard to predict in the short term, volume increases and tighter cost controls tend to improve earnings over the long term. Petroleum's low-cost operating model for gas bar operations is a key element of Petroleum's initiatives to add to its network of high-volume efficient gas bars.

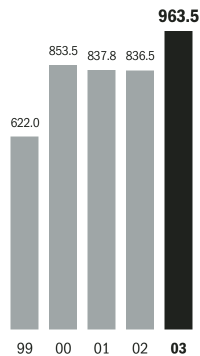
2.2.4 Petroleum's financial results

Petroleum's sales and financial performance

($ in millions, except where noted)	**Q4 2003**	Q4 2002	Change	**2003**	2002	Change
Sales volume (millions of litres)	**395.6**	344.6	14.8%	**1,453.1**	1,337.2	8.7%
Gross operating revenue	**$ 249.8**	$ 225.7	10.7%	**$ 963.5**	$ 836.5	15.2%
EBITDA[1]	**11.1**	6.9	59.8%	**34.6**	28.8	19.9%
Earnings before income taxes	**7.9**	4.6	71.5%	**23.8**	20.1	18.1%
Less adjustment for:						
Gain (loss) on disposals of property and equipment	**(0.5)**	(0.4)		**(0.7)**	(2.0)	
Adjusted earnings before income taxes[1]	**$ 8.4**	$ 5.0	66.8%	**$ 24.5**	$ 22.1	10.9%

[1] See note on non-GAAP measures at the end of this MD&A.

Petroleum's gross operating revenue
($ millions)

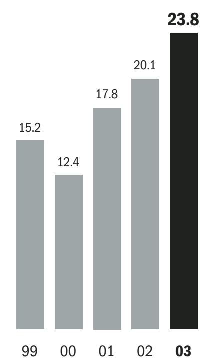


2.2.5 Explanation of results

Revenue up 15.2 percent due to increases in gasoline litre volume and non-gas sales. Petroleum's strong revenue performance in 2003 was due to an 8.7 percent increase in gasoline sales volume compared to 2002, higher non-gasoline sales and a 5.9 percent increase in gasoline pump prices that were particularly high in the first quarter. During the fourth quarter, revenues were up 10.7 percent due to a 14.8 percent increase in gasoline sales volume that was partially offset by lower average pump prices.

Pre-tax earnings up 18.1 percent and EBITDA up 19.9 percent in 2003. In an environment of margin volatility in 2003, Petroleum increased pre-tax earnings and EBITDA primarily due to increased sales and improved net margins. In addition, the loss on dispositions of property and equipment was lower than in 2002, positively impacting Petroleum's earnings. Petroleum continued to pursue strategies to increase higher-margin non-gasoline sales.

Petroleum's earnings before income taxes
($ millions)



2.3 Mark's Work Wearhouse (Mark's)

2.3.1 Strategy update and outlook

Mark's is one of the largest specialty retailers in Canada, offering primarily men's and ladies' clothing, footwear and accessories for business casual and industrial work environments, as well as for recreational use or relaxation. Specifically, Mark's is a market leader in the retailing of men's industrial apparel and industrial footwear, and is a significant player in the retailing of men's casual apparel and footwear. Mark's has several strategies designed to improve sales and profitability, as described below.

Superbranding. ***Converted stores delivered average sales increase of 37 percent in 2003.*** The Superbranding strategy includes many initiatives at Mark's to elevate customer awareness, brand loyalty and market share. One of these initiatives is the conversion of Work World stores to Mark's Work Wearhouse stores and introducing Mark's primary private label brands of Denver Hayes, Dakota, and WindRiver to these converted sites. These conversions simplify Mark's business model by creating a single store format and also allow Mark's to generate higher sales and earnings by extending these brands under the Mark's banner to more locations across Canada.

In 2003, Mark's completed the conversion of 77 Work World stores to the Mark's Work Wearhouse banner, which brought the total number of converted stores to 86. In the fourth quarter, seven stores were converted compared with only two stores in the same quarter of 2002. Four of the converted stores were also expanded and have had sales improvements ranging from 40 to 250 percent during their first 12 months following their conversion. Excluding the four expanded stores, comparable store sales for the remaining 82 converted stores increased in the first 12 months or less following their conversion by 34 percent.

Mark's plans to convert 14 additional Work World stores to the Mark's banner in 2004.

New stores. ***Opened 26 new stores in 2003, nine in the fourth quarter.*** Mark's continues to see multiple opportunities to grow into new markets across Canada while leveraging Canadian Tire's strength in real estate management. Twenty-six new stores were opened in 2003, including three franchise stores, which brought the total number of corporate and franchise stores to 322, 60 of which were franchise stores. At the end of 2002, Mark's had a total of 306 stores, 78 of which were franchise stores. Mark's plans to open between 17 and 22 new stores in 2004.

In 2003, Mark's relocated or renovated 26 of its existing stores, 10 of which were completed in the fourth quarter. Mark's plans to renovate between 15 and 20 stores in 2004, of which five are Work World stores being converted to Mark's stores.

Franchise buyback. ***Bought back a net 17 franchise stores in 2003.*** Franchise models can vary significantly from one business to the next. In the case of Mark's, based on past performance and the current outlook, management determined that the best model for Mark's is corporate-owned stores. Through 2002 and 2003, Mark's has actively pursued its initiative to buy back franchised stores as opportunities arose through store conversions or retirements of franchise owners. In addition to the 15 franchise stores bought back in 2002, 17 franchise stores became corporate stores in 2003. The buyback program will slow down as a majority of the Work World franchise stores have been converted to Mark's franchise stores or bought back. Mark's current plan is to buy back only two to four franchise stores in 2004.

Category expansion. ***Growing sales contribution from ladies' casual wear, business-to-business work wear and health care apparel.*** In 2003, corporate store sales in ladies' casual wear, business-to-business work wear and health care apparel increased year-over-year by 25.4 percent, 13.7 percent, and 37.6 percent, respectively, providing a strong contribution to Mark's overall sales performance. Mark's objective is to expand each of these potentially high-growth categories by an additional 15 percent in 2004 and 2005. Expansion of these categories is expected to boost annual growth in comparable store sales over the Plan period.

Cost synergies. ***$6.6 million in synergies realized in 2003, $2.1 million in the fourth quarter.*** In 2003, Mark's realized $6.6 million in cost savings from post-acquisition synergies after being acquired by Canadian Tire in February 2002. This was within Mark's target range of cost savings of between $6 million and $7 million for the year. The cost savings have been derived primarily from synergies in supply chain, merchandise procurement, advertising and treasury, and from the elimination of costs associated with being a public company.

Mark's expects to achieve annual cost savings from the above synergies with Canadian Tire in the range of $6 million to $7 million again in 2004 and over $7 million in 2005. On a consolidated basis, including reductions in corporate expenses from combined purchasing power, Canadian Tire expects to achieve annual cost savings from synergies in the range of $8 million to $9 million.

2.3.2 Capability to deliver results

Brand equity. Mark's has established powerful brand equity. For example, recent research conducted by Mark's in its major markets determined that 95 percent of Canadians over 30 years of age who live in Ontario and western Canada are aware of Mark's. Approximately two-thirds of these Canadians had shopped in Mark's stores during the 12 months prior to the research. Mark's operates under the banner L'Équipeur in Quebec.

Private labels. Mark's has established private labels such as WindRiver, Denver Hayes and Dakota that have built trusted reputations with customers, as well as market shares in excess of many national brands.

Smaller store formats. Mark's has effectively reached new customers by expanding its store network with smaller new stores and converted Work World stores.

Loyalty. The many Canadians who shop at Mark's are loyal customers. The combination of selection, quality, value and excellent customer service is appreciated by customers, who reward Mark's with repeat visits to the stores.

Product development. Mark's continues to introduce new apparel and footwear products to meet its customers' needs and to continually advance its "Clothes that Work" proposition. In late 2002 and in 2003, Mark's introduced products such as metal-free safety boots, the Yard Shoe for safety at home and stain-resistant khakis. In 2004, Mark's will add to its product offering by launching stain-resistant healthwear, tagless T-shirts, vibration-resistant gel work gloves and revolutionary PrimaLoft winter outerwear. Innovative new product lines have helped Mark's expand into the business of selling health care apparel and the business-to-business sector. Additionally, innovative products allow Mark's to continue to grow by creating consumer consumption and increased store traffic.

2.3.3 Key performance indicators

Mark's is focused on creating value for its customers by driving sales in basic categories, increasing its retail square footage and expanding its ladies' wear products, men's business casual apparel and casual footwear as well as providing assortments to the health care industry and business-to-business customers. As stated earlier, Mark's is a market leader in men's industrial apparel and industrial footwear and is a significant player in the retailing of men's casual apparel and footwear. It maintains that leadership primarily through ongoing product development and innovation. The business remains seasonal with most of the earnings occurring in the fourth quarter. Total retail sales and comparable store sales are key measurements of the growth of this business.

The integration of Mark's into the Canadian Tire network of businesses has gathered momentum in the two years since the acquisition took place. Initially, the focus was to implement the key cost synergies that had been identified. To expand the integration benefits to increase revenue, Mark's has now participated in one distribution of a CTR catalogue that was delivered to over 10 million Canadian homes and in two regional flyer distributions in one urban market. This testing of combined marketing further evolved into special promotional events, such as the Company's fourth-quarter event, One Magic Night, when all of the Company's businesses participated in coordinated cross-merchandising programs.

In a minimum of three small market locations in western Canada, in 2004 Mark's and CTR plan to test combination stores, with a Mark's store and a Canadian Tire store under one roof. In these test stores, a Canadian Tire Associate Dealer will operate the Canadian Tire store and Mark's will operate their outlet as a corporate store to create a seamless one-stop shopping experience for hard goods, apparel and footwear. The objective of these combination stores is to bring the high customer traffic of a Canadian Tire store directly to a Mark's store and to lower on-site construction costs when both stores open for business in the same locale.

2.3.4 Mark's financial results

Mark's retail sales growth

(percent change over prior year)	**Q4 2003 14 weeks compared to 13 weeks**	**Q4 2003 13 weeks compared to 13 weeks**	Q4 2002 13 weeks compared to 13 weeks	**2003 53 weeks compared to 52 weeks[1]**	**2003 52 weeks compared to 52 weeks[1]**	2002 48 weeks compared to 48 weeks[2]
Total retail sales	**16.8%**	**12.7%**	(1.5)%	**8.6%**	**7.0%**	0.6%
Comparable store sales	**12.0%**	**7.9%**	(1.6)%	**6.6%**	**5.0%**	(0.9)%

1 Mark's was not part of Canadian Tire prior to February 1, 2002.

2 Although Mark's was only part of Canadian Tire for 47 weeks in 2002, data is shown for 48 weeks to be consistent with the comparable period in Mark's 2001 fiscal calendar.

Comparable store sales (on a comparable week basis) rose 7.9 percent in the fourth quarter and 5.0 percent in 2003. Growth in several key product categories, the conversion of Work World stores to the Mark's banner and the addition of new stores resulted in Mark's positive total sales performance in a challenging retail men's apparel market. According to information published by Statistics Canada for the period of January to December 2003, the men's clothing market was down by about 6.1 percent.

In 2003, the categories demonstrating the strongest year-over-year growth in Mark's corporate stores were: industrial outerwear, up 26.1 percent; ladies' casual wear, up 25.4 percent and industrial footwear, up 23.8 percent. In the fourth quarter of 2003, corporate store sales growth compared to the fourth quarter in 2002 was strongest in industrial footwear, up 37.2 percent; men's casual footwear, up 35.7 percent; industrial outerwear, up 27.2 percent and ladies' casual wear, up 27.2 percent.

Sales increases in the year and fourth quarter reflect strategic success and advantageous weather conditions. Mark's sales for corporate and franchise stores for the 53 weeks of 2003 were $558 million, up 8.6 percent compared to $514 million of sales in the 52-week period of 2002. On a comparable 52-week basis, total sales in 2003 were $550 million, up 7.0 percent over 2002 sales. Increased sales reflected stronger performance in Mark's stores that had recently been converted from Work World stores, a planned outcome of the Superbranding strategy. As well, the early arrival of winter weather conditions in western Canada encouraged customers to shop for Mark's assortment of casual and industrial footwear and outerwear.

The 14-week fourth quarter of 2003 was particularly strong as total sales rose 16.8 percent from the 13-week fourth quarter of 2002. On a comparable 13-week basis, by leaving out the last week of the 2003 fourth quarter, year-over-year fourth quarter sales were up 12.7 percent, reflecting the success of the converted stores and the favourable weather conditions in western Canada.

Average retail sales per corporate store[1]

($ in thousands)	**2003**	2002	2001
Corporate stores	**$ 1,929.2**	$ 1,928.9	$ 1,976.8

1 Dockers stores, which were closed or sold in 2002, are excluded from this data.

Average corporate store sales per square foot[1]

($)	**2003**	2002	2001
Corporate stores	**$ 254**	$ 248	$ 256

1 Dockers stores, which were closed or sold in 2002, are excluded from this data.

Mark's financial performance

($ in millions)	**Q4 2003**	Q4 2002	Change	**2003**	2002[1]	Change[2]
Gross operating revenue	**$ 195.2**	$ 160.3	21.7%	**$ 458.0**	$ 373.3	N/A
EBITDA[3]	**31.3**	28.4	10.1%	**41.0**	34.6	N/A
Earnings before income taxes	**27.0**	24.6	9.5%	**25.0**	21.7	N/A

1 Mark's was acquired by Canadian Tire on February 1, 2002. Performance for the month of January 2002 is not included in these figures.

2 The Company does not consider these two periods to be comparable, therefore, the percent change has not been provided.

3 See note on non-GAAP measures at the end of this MD&A.

2.3.5 Explanation of results

Double-digit increase in gross operating revenue in 2003. Mark's growth in gross operating revenue reflected the increase in comparable store sales, the addition of incremental stores and the conversion of franchise stores to corporate stores. Gross operating revenue reflects sales in corporate stores, which increased by 14.8 percent in 2003.

Converting stores to Mark's banner contributes to 2003 pre-tax earnings of $25 million. Mark's improved earnings performance in 2003 was primarily due to an increase in gross operating revenue and an improved gross margin rate, a large portion of which resulted from the conversion of Work World stores to Mark's. In January 2002, Canadian Tire did not own Mark's and therefore did not incur the loss that Mark's normally experiences in that month. Reporting that loss in January 2003, but not in 2002, reduced the growth in comparative earnings.

With 86 Work World stores converted under the Superbranding strategy, the conversion has had a positive impact on gross operating revenue and gross margins. Mark's margins are superior to Work World margins because of a higher percentage of sales in private label brands. Private label brands represent approximately 75 percent of Mark's retail sales and generate higher margins than national brand products.

Pre-tax earnings also benefited from higher cost savings from synergies associated with the acquisition of Mark's by Canadian Tire. Mark's realized $6.6 million in cost savings from synergies in the full year, compared to $3.8 million in 2002.

The year-over-year improvement in gross margin was partly offset by higher front-line expenses associated with the conversion of franchise stores to corporate stores, the conversion of smaller Work World stores to Mark's stores and a greater number of corporate stores at the end of 2003 compared to the same period of last year. In the fourth quarter, Mark's gross margin rate more than offset the increase in front-line expenses in corporate stores.

Earnings and sales for Mark's are typically concentrated in the fourth quarter of each year due to the strong emphasis on cold-weather apparel and footwear in Mark's seasonal product offerings and the increase in customer purchases for Christmas gift giving.

2.4 Canadian Tire Financial Services (Financial Services)

2.4.1 Strategy update and outlook

Financial Services is a strong contributor to Canadian Tire's overall success, enhancing customer loyalty and driving traffic to Canadian Tire stores. With the completion of the conversion of retail credit accounts to the *Options* MasterCard in 2003, Financial Services is now focused on growing account balances and on its in-store MasterCard acquisition program to drive portfolio growth.

Project Accelerate and in-store acquisition. ***Converted 318,000 retail card accounts to* Options *MasterCard and acquired 651,000 new accounts in 2003.*** During 2003, Financial Services completed Project Accelerate, the program in which qualifying retail card accounts were converted to *Options* MasterCard accounts. As well, the division increased its customer base by focusing on the generation of new accounts through Canadian Tire's low-cost in-store acquisition program. In the fourth quarter, Financial Services converted 25,000 retail card accounts to *Options* MasterCard accounts and acquired 146,000 new accounts.

Bank licence. ***Canadian Tire Bank began operations on July 1, 2003.*** During 2003, Financial Services' application for a bank charter was approved by the Office of the Superintendent of Financial Institutions and as a result, Canadian Tire Bank began operations on July 1, 2003. Canadian Tire Bank operates as a wholly owned subsidiary of Canadian Tire Financial Services Limited and owns and operates the retail and *Options* MasterCard credit card businesses. Operating the credit card businesses under Canadian Tire Bank enables the Company to offer credit card services consistently across the country. Credit card marketing programs are now streamlined under a common regulatory framework across Canada. This is expected to reduce marketing costs and complexity while increasing Financial Services' overall competitiveness.

Marketing of additional services. ***Warranty products, insurance and Auto Club offerings continue to increase.*** Financial Services markets a variety of products to Canadian Tire customers, including creditor, accident and life insurance, product warranties and an emergency roadside assistance program called Canadian Tire Auto Club. Some of these products are offered as a complement to Canadian Tire credit cards. These products are offered through Financial Services' in-store acquisition program, customer call centre and by direct mail, as well as Canadian Tire's web site. Many of these products are billed directly to Canadian Tire credit cards. Financial Services expects the earnings contribution of these products to continue to increase.

2.4.2 Capability to deliver results

Brand equity. The Canadian Tire logo on Financial Services' credit cards generates confidence among customers and signifies the strong affiliation with Canadian Tire stores.

Loyalty. Customers who shop with their Canadian Tire credit cards are rewarded with Canadian Tire 'Money.' By using their *Options* MasterCards, customers earn more 'Money' than by paying with cash when shopping at Canadian Tire and also earn 'Money' on sales from any other location that accepts MasterCard. The loyalty program encourages Canadians to shop at Canadian Tire stores and to use the *Options* MasterCard.

Call centre. The Financial Services call centre has once again been recognized by Service Quality Measurement Group Inc. as one of the best call centres in Canada for its delivery of world class customer service. In credit industry studies, credit card holders consistently cite customer service as the primary reason for selecting which credit card they use. Customer service is a factor in Financial Services' capability to attract and retain customers.

2.4.3 Key performance indicators

Growth of credit charge receivables. Growth in the total managed portfolio of credit charge receivables (principally *Options* MasterCard and Canadian Tire retail card) is a key contributor to Financial Services' earnings growth. Growth in receivables is generated by increasing the number of accounts that carry a balance and by increasing the average balance per account. The term "total managed portfolio" refers to the sum of the credit charge receivables held by the Company and the credit charge receivables that are securitized as described under the heading "Credit charge receivables" in section 3.2 of this MD&A.

Growth in accounts with a balance is achieved by acquiring new accounts, primarily via the low-cost, in-store acquisition program and then encouraging use of the cards through a variety of marketing activities including customer retention programs.

Growth in average balances has, over the last three years, been achieved by converting low balance retail accounts to the *Options* MasterCard, which, because of universal acceptance, attracts higher usage and higher balances. Low rate balance transfers and targeted credit limit increases are also key strategies employed to increase account balances.

Growth in average balance represents the most significant opportunity to grow Financial Services' earnings. The industry average balance at the end of 2003 for standard bank cards was $1,875. Over the next 24 to 36 months, Financial Services expects to narrow the gap between average balances on its accounts and the industry average.

Financial Services' managed portfolio of credit charge receivables

($ in millions, except where noted)	**Q4 2003**	Q4 2002	Q4 2001	**2003**	2002	2001[1]
Average number of accounts with a balance (thousands)	**1,803.2**	1,737.0	1,708.8	**1,774.6**	1,702.7	1,667.8
Average account balance ($)	**$ 1,265**	$ 1,032	$ 768	**$ 1,164**	$ 930	$ 726
Gross average receivables (GAR)	**$ 2,281.7**	$ 1,792.6	$ 1,313.0	**$ 2,066.3**	$ 1,583.3	$ 1,211.1
Gross ending receivables (at end of period)				**$ 2,459.1**	$ 1,952.5	$ 1,452.1

[1] 2001 has been restated to exclude certain third party credit charge receivables held by a subsidiary that was sold in early 2001.

Portfolio profitability. Credit card account activity and receivable volumes are the key contributors to the gross margin, operating expense and earnings trends at Financial Services. As such, the financial performance trends are tracked as percentages of gross average receivables for a given period.

Gross margin is the net of Financial Services' revenues less direct variable expenses associated with the credit cards and ancillary businesses, which include the marketing of insurance, warranty and auto club services to Canadian Tire customers. The most significant direct expenses are interest, loyalty and the provision for losses associated with the credit card business.

Over the last three years gross margin rates have declined due to the conversion of high yield retail cards to lower yield MasterCards. It is anticipated that this trend will continue in 2004 as the receivables portfolio matures, but the impact will be largely offset by the continued reduction in operating expenses ratios.

Operating expenses include call centre and credit card operating costs, marketing and administrative costs to support Financial Services' businesses.

Return on managed receivables is earnings before taxes expressed as a percentage of gross average receivables. Financial Services has a target range for return on receivables of between 4.5 and 5.0 percent for 2004. Including adjustments for the gain on sales of credit charge receivables the target range would be between 5.0 and 5.5 percent.

Portfolio profitability

	2003	2002	2001
Total revenue as a % of GAR[1]	**27.12%**	28.42%	32.01%
Gross margin as a % of GAR[1]	**15.09%**	16.61%	20.42%
Operating expenses as a % of GAR[1]	**10.28%**	11.45%	15.05%
Return on credit charge receivables as a % of GAR[1,2]	**4.81%**	5.17%	5.37%

[1] Excludes the gain on sales of credit charge receivables.

[2] Return is calculated as earnings before taxes as a % of GAR.

Portfolio quality. Net write-off expense is the sum of receivable balances over 180 days past due, bankrupt account amounts less any recoveries of previously written off amounts. This net expense, expressed as a percent of gross average receivables, is the net write-off rate.

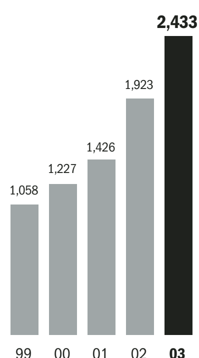
Financial Services' credit risk strategy is to maintain a write-off rate in the range of between 5 and 6 percent of gross average receivables. Fluctuations within this range are expected in response to external economic influences as well as the impacts of portfolio management strategies such as new account approvals and credit limit management. In 2003 industry trends and an increase in Canadian personal bankruptcies resulted in an increase in write-off rates at Financial Services, albeit within the division's target range. Financial Services expects that its write-off rate for the managed portfolio will improve somewhat in 2004.

Aging is the measure of the percentage of credit card balances that are less than 30 days past their payment due date. Aging of the Financial Services' portfolio improved during the last quarter of 2003 and is generally considered to be a leading indicator of future write-off trends.

Portfolio quality

	2003	2002	2001
Net write-off rate	**5.90%**	5.03%	5.43%
Aging of account balances which are less than 30 days at end of period	**96.45%**	95.69%	95.42%

Financial Services' ending credit charge receivables
($ millions)



2.4.4 Financial Services' financial results

Financial Services' financial performance

($ in millions)	**Q4 2003**	Q4 2002	Change	**2003**	2002	Change
Net managed portfolio of credit charge receivables				**$ 2,433.3**	$ 1,923.4	26.5%
Gross operating revenue	**$ 144.4**	$ 117.3	23.0%	**489.5**	395.9	23.6%
EBITDA[1]	**49.6**	34.9	41.9%	**140.3**	124.3	12.8%
Earnings before income taxes	**43.6**	27.0	61.5%	**116.2**	94.0	23.6%
Less adjustment for:						
Pre-tax gain on sales of credit charge receivables	**14.2**	8.1		**16.8**	12.2	
Adjusted earnings before income taxes[1]	**$ 29.4**	$ 18.9	55.9%	**$ 99.4**	$ 81.8	21.6%

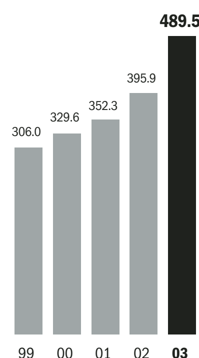
[1]See note on non-GAAP measures at the end of this MD&A.

2.4.5 Explanation of results

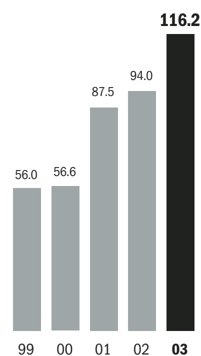
Net managed portfolio was up 26.5 percent at the end of 2003. The success of Canadian Tire's in-store acquisition program and its initiative to convert retail card accounts to *Options* MasterCard accounts continued to increase credit charge receivables and gross operating revenue. Higher revenues from ancillary products also contributed to the rise in gross operating revenue.

As of the end of the year, the Company's net managed portfolio of credit charge receivables was $2.4 billion, 26.5 percent higher than at the end of 2002. Year-over-year annual gross operating revenue was up by 23.6 percent.

Financial Services' gross operating revenue
($ millions)



Financial Services' earnings before income taxes
($ millions)



In 2003, pre-tax earnings grew 23.6 percent. Financial Services' rise in pre-tax earnings for the year was primarily attributable to higher credit charge receivables, increases in the sales of insurance, product warranties and Auto Club memberships and a focus on operating expenses, as well as a $16.8 million gain on the sales of credit charge receivables.

As demonstrated by historical trends, it takes up to 12 months for balances on new and converted accounts to climb to the average balance of a mature *Options* MasterCard account. As balances on the new *Options* MasterCard accounts have increased, the higher balances have more than compensated for lower yields and generated higher earnings for the division overall.

Growth in average balances contributed to fourth quarter earnings that were 61.5 percent higher than in the same period last year. The fourth quarter also benefited from a $14.2 million gain on sales of credit charge receivables, primarily due to the completion of a securitization financing that raised $570 million to fund credit charge receivables growth through Glacier Credit Card Trust (GCCT). GCCT is described in more detail under the heading "Credit charge receivables" in section 3.2 of this MD&A.

Financial Services experienced a rise in cardholder bankruptcies in 2003, which was consistent with the trend across the credit card industry in Canada in the period. While higher bankruptcies increased the division's write-off rates, performance remained within the acceptable range of 5 to 6 percent and the business was able to significantly grow its portfolio and earnings.

As a result of focused credit management and effective collection strategies, the aging of Financial Services' accounts improved over the prior year; 96.5 percent of accounts were current versus 95.7 percent at the same time in 2002. Current accounts are defined as accounts that have no debt greater than 30 days past due.

2.5 New Business Development (NBD)

As the Company's strategies are implemented and earnings improve, management is increasingly confident that it can deliver the results that will meet most of the financial goals of the Plan. In addition, management expects its existing businesses to drive growth beyond the five-year Plan time frame as part of the next leg of its growth agenda. To accelerate the growth of the Company, the NBD team has outlined a pipeline of opportunities that are compatible with the Company's existing businesses.

The work of the NBD team is centred on retail and retail-related businesses that would complement the existing network of businesses. The team is analyzing and prioritizing a focused list of those opportunities with the greatest potential. Only those opportunities that meet the team's rigorous criteria will be pursued further.

3. Capital Structure and Financing

3.1 Capital structure

Canadian Tire continues to have ready access to debt markets at competitive interest rates.

Capital structure

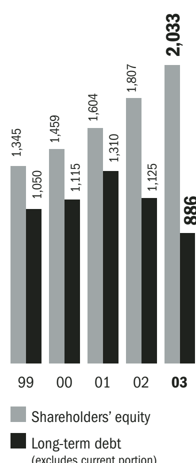
(composition of total structure)	**At January 3, 2004**	At December 28, 2002
Shareholders' equity	**57.5%**	51.6%
Minority interest	**8.5%**	8.6%
Short-term debt	**0.0%**	0.0%
Long-term debt[1]	**31.9%**	38.1%
Employee future benefits	**1.0%**	0.9%
Future income taxes	**1.1%**	0.8%
	100.0%	100.0%

[1] Long-term debt includes current portion.

One of the imperatives of the Company's Strategic Plan is to enhance financial flexibility, which includes initiatives to improve working capital and to seek opportunities to de-leverage the Company's capital structure over the long term. The Company ended 2003 in the following financial condition:

- $727 million in cash and cash equivalents;
- No short-term debt;
- $610 million in committed lines of credit;
- The flexibility to use existing cash reserves to pay the $245 million of long-term debt that is due in 2004;
- The flexibility to access capital markets to refinance corporate debt with more favourable terms; and
- $2.2 billion of book value in unencumbered real estate.

Shareholders' equity and long-term debt
($ millions)



Equity. The book value of Common and Class A Non-Voting Shares at the end of 2003 was $25.18 per share compared to $22.63 at the end of 2002.

During 2003, the Company issued 1,506,720 Class A Non-Voting Shares under its stock purchase, stock option, dividend reinvestment and various employee profit-sharing plans. In 2002, 1,586,023 of these shares were issued under the above plans.

The increase in the number of Class A Non-Voting Shares was partially offset in 2003 by the purchase of 600,000 of these shares under the Company's normal course issuer bid on the Toronto Stock Exchange.

Canadian Tire has a policy of repurchasing Class A Non-Voting Shares to offset the dilutive effects of shares issued to fulfill the Company's obligations under various employee profit-sharing, stock option and share purchase plans and the dividend reinvestment plan. In the long term, these purchases are expected to offset the issuance of new shares.

On February 12, 2004, the Company announced its intention over the 12-month period ending February 18, 2005 to make a normal course issuer bid to purchase up to 1.8 million or approximately 2.5 percent of the public float of the issued and outstanding Class A Non-Voting Shares.

Shares outstanding. At January 3, 2004 there were 77,337,718 Class A Non-Voting Shares and 3,423,366 Common Shares outstanding. This compares to 76,430,998 Class A Non-Voting Shares and 3,423,366 Common Shares outstanding at December 28, 2002.

Minority interest. In November 2001, Canadian Tire formed a partnership to raise $300 million of capital with the Company as the general partner. A third party group invested $300 million for a limited partnership interest with preferential rights to the distribution of income and capital from a portfolio of new-format store properties owned by the Company's real estate subsidiary. The partnership has an indefinite life, but could be liquidated in certain circumstances, including shortfalls in cash flows generated by the retail properties. Under certain circumstances, including the Company's credit rating falling below investment grade, none of which are expected to occur, the flow of funds from the Company's real estate subsidiary to its parent could be restricted.

Dividends. Dividends of $32.5 million were declared in 2003 on Common and Class A Non-Voting Shares, a slight increase from the same period in 2002 as the average number of shares outstanding was higher. In 2003, the annual dividend rate on both classes of shares was $0.40 per share.

On February 12, 2004, Canadian Tire announced a new policy to maintain dividend payments equal to approximately 15 to 20 percent of the prior year's normalized basic net earnings per share, after giving consideration to the period end cash position, future cash flow requirements and investment opportunities. Normalized earnings are considered by the Company to exclude gains and losses on the sales of credit charge receivables and other non-recurring items, but to include gains and losses on the disposals of property and equipment.

Based on the new policy, and reflecting management's increasing confidence in the Company's ability to sustain earnings growth over and beyond the life of the Plan, the Company declared a 25 percent increase in the annual dividend payment rate from $0.40 per share to $0.50 per share. The increase takes effect June 1, 2004 for shareholders of record as of April 30, 2004. Dividends are paid quarterly to holders of both Common and Class A Non-Voting Shares.

Short-term debt. The Company has a commercial paper program with an $800 million authorized limit. No commercial paper was outstanding at January 3, 2004 or at the end of 2002.

Credit ratings for the Company's commercial paper are "R-1(low)" from Dominion Bond Rating Service Limited (DBRS) and "A-1(low)" from Standard & Poor's (S&P). In 2003, both agencies confirmed their ratings on short- and long-term debt with a stable outlook.

At January 3, 2004 the Company had $610 million in committed lines of credit, which have not been drawn upon.

Long-term debt. To maintain good and timely access to debt markets, Canadian Tire has filed a shelf prospectus with all provincial and territorial securities commissions for the issuance of up to $750 million of medium term notes. This program is evaluated every two years. The most recent shelf prospectus renewal was completed in December 2002. Long-term debt, including the current portion, was $1.13 billion at January 3, 2004 compared to $1.33 billion at the end of 2002.

As of the end of 2003, long-term debt included $8.5 million of capital leases.

Like most borrowers, Canadian Tire has provided covenants to certain of its lenders. All of the covenants were complied with during 2002 and 2003.

Early in 2004, the Company issued $200 million of 30-year medium term notes under the shelf prospectus. Management expects to use the proceeds of this transaction towards the payment of medium term notes that are maturing in 2004 and subsequent years. This financing increases the average term of the Company's debt to more closely match the long-term life of its real estate assets. Taking advantage of current market conditions, the Company secured this 30-year financing at a rate of 6.32 percent.

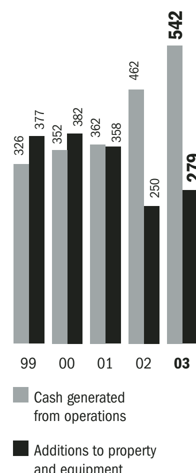
The Company's long-term debt is currently rated "A(low)" by DBRS and "BBB+" by S&P.

3.2 Funding program

Funding requirements

The Company's capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and share purchases under the normal course issuer bid, are funded from a combination of sources. In 2003, the primary sources of funding were $628 million of cash on hand, $542 million of cash generated from operations and $532 million from the sales of credit charge receivables.

Cash flow versus capital expenditures
($ millions)



2003 capital expenditures

Canadian Tire's capital expenditures totalled $112 million in the fourth quarter for a total of $279 million in 2003. This was $29 million more than the $250 million invested during 2002, but significantly less than management's original 2003 budget of $380 million. The reduction in planned expenditures resulted from the Company's continuing focus on managing capital utilization. In 2003, management deferred to 2004 some site development for new stores and gas bars and postponed, for the short term, some investments in the CustomerLink program. CustomerLink remains on schedule and, including an allowance for contingencies, within budget.

Capital expenditures during the fourth quarter included: $42 million for CTR of which $33 million was for real estate projects associated with the rollout of new-format stores; $17 million for Petroleum gas bars and car washes; $13 million for the CustomerLink program; $8 million for Mark's; and $5 million for Financial Services.

Capital expenditures in 2003 included: $130 million for CTR of which $105 million was for real estate projects associated with the rollout of new-format stores; $39 million for Petroleum gas bars and car washes; $34 million for the CustomerLink program; $25 million for Mark's; and $12 million for Financial Services.

2004 capital program

Canadian Tire's 2004 capital requirements, which are determined on a consolidated basis, are expected to total approximately $300 million. Of that, CTR has been allocated approximately $230 million, of which $170 will be invested in real estate projects including the rollout of new-format stores. Within its total allocation, CTR plans to invest $30 million in CustomerLink to complete the technology and infrastructure improvements in the Brampton, Ontario distribution centres. Petroleum has been allocated $36 million to open new gas bars, car washes and convenience stores and to re-brand competitors' gas bars. Mark's intends to invest $21 million in new stores, store relocations and renovations, franchise repurchases, computer systems and other miscellaneous projects. Financial Services is expected to invest $13 million to improve its customer relationship management systems and enhance its operations infrastructure.

In addition, Financial Services expects to continue its program to securitize credit charge receivables by selling approximately $350 million of receivables in 2004. This program is described in more detail later in this section of the MD&A.

Sources of liquidity

Canadian Tire has access to funding well in excess of its estimated 2004 requirements.

In 2004, the Company has the following sources from which to fund its capital program:

> Existing cash reserves;
> Cash flow from operations;
> Improvements in working capital;
> The use of both commercial paper ($800 million available) and medium term note programs ($550 million available);
> Additional sales of credit charge receivables; and
> Proceeds from the dispositions of surplus property and equipment.

Working capital

As part of the Company's plan to improve financial flexibility, the long-term reduction of working capital continues to be a priority. The table below shows the values of working capital components for the Company at the end of 2003 and 2002.

Comparable working capital components

($ in millions)	**At January 3, 2004**	At December 28, 2002	Increase (decrease) in working capital
Accounts receivable	**$ 489.4**	$ 584.1	$ (94.7)
Merchandise inventories	**493.9**	503.0	(9.1)
Prepaid expenses and deposits	**27.9**	19.1	8.8
Accounts payable and other	**(1,266.6)**	(1,294.7)	28.1
Income taxes payable	**(96.5)**	(80.7)	(15.8)
			$ (82.7)

During 2003, the Company decreased its working capital by $83 million. Accounts receivable, one of the major components of working capital, was reduced during the last 12 months primarily due to the continued impact of changes in CTR's seasonal replenishment processes to more closely match shipments with customer demand. These changes are also leading to stronger sales in CTR. The decrease in accounts receivable at CTR also reflected the securitization of a portion of Dealer receivables at year end and more than offset a $3.5 million increase in accounts receivable at Mark's.

On a consolidated basis, merchandise inventories were $9.1 million lower. Although at several times during 2003 year-over-year comparisons were unfavourable, CTR's inventory levels at the end of 2003 were approximately $25 million lower than at the end of 2002 as a result of supply chain improvements and tighter inventory controls. Mark's inventory increased by $17.1 million to accommodate its aggressive plans for sales in the 60 Work World corporate stores converted to Mark's in 2003, 23 new corporate store openings and the buyback of 17 more franchise stores. The decrease in accounts payable reflected timing changes in payments to key vendors.

CTR has been consistently recording gains on the disposals of property and equipment as part of its ongoing program of replacing its traditional store network. With 143 traditional store properties still held in its network and based on the value of these properties, CTR expects to record further gains on disposals of property and equipment. In addition, over the next few years CTR expects to monetize several large real estate holdings such as the Toronto site surrounding CTR's Sheppard distribution centre. All of the Company's real estate assets are reported at book value.

Cash and cash equivalents. At January 3, 2004, Canadian Tire held $727 million in cash and cash equivalents compared to $628 million at December 28, 2002. Short-term investments included Canadian and U.S. government-guaranteed securities and high quality commercial paper.

Credit charge receivables. The Company's securitization program for credit charge receivables is intended to provide Financial Services with a cost-effective, alternative source of funding.

Net managed portfolio of credit charge receivables

($ in millions)	**At January 3, 2004**	At December 28, 2002
Securitized credit charge receivables	**$ 1,870.5**	$ 1,343.6
Unsecuritized credit charge receivables	**562.8**	579.8
Net managed portfolio	**$ 2,433.3**	$ 1,923.4

The net managed portfolio of credit charge receivables continued to increase in 2003, as customers' use of the *Options* MasterCard grew. The majority of credit charge receivables are securitized through the sale of co-ownership interests to a trust. Canadian Tire Receivables Trust changed its name to Glacier Credit Card Trust (GCCT) on June 30, 2003 to comply with federal regulatory requirements, following approval from the Office of the Superintendent of Financial Institutions for the formation of Canadian Tire Bank.

Details of the outstanding asset-backed notes issued by GCCT are listed in the table below. As GCCT is not controlled by Canadian Tire, GCCT's financial statements have not been consolidated with those of the Company.

Glacier Credit Card Trust (formerly Canadian Tire Receivables Trust) asset-backed notes outstanding

($ in millions)	**At January 3, 2004**	At December 28, 2002
Series 1997-1 Commercial Paper Notes[1]	**$ 99**	$ 86
7.83% Series 1995-2 Senior Notes[2]	**–**	81
6.26% Series 1999-1 Senior Notes[2]	**200**	200
6.665% Series 2000-1 Senior Notes[2]	**200**	200
6.163% Series 2001-1 Senior Notes[2]	**300**	300
4.82% Series 2002-1 Senior Notes[2]	**450**	450
4.44% Series 2003-1 Senior Notes[2]	**542**	–
8.46% Series 1995-2 Subordinated Notes[3]	**–**	1
Floating Rate Series 1999-1 Subordinated Notes[3,4]	**4**	4
Floating Rate Series 2000-1 Subordinated Notes[3,4]	**4**	4
7.203% Series 2001-1 Subordinated Notes[3]	**15**	15
5.88% Series 2002-1 Subordinated Notes[3]	**23**	23
5.03% Series 2003-1 Subordinated Notes[3]	**28**	–
Total	**$ 1,865**	$ 1,364

[1] The notes will mature on a business day 364 days or less from the date of issuance.

[2] On January 5, 2004, November 20, 2004, April 1, 2006, September 1, 2007 and August 1, 2008, respectively, for the Series 1999-1, Series 2000-1, Series 2001-1, Series 2002-1 and Series 2003-1 Notes, the process for repayment of principal will commence, subject to earlier prepayment in certain events, from allocations to GCCT in the previous month. Final payment dates of August 5, 2004, June 20, 2005, July 21, 2006, December 20, 2007 and November 20, 2008, respectively, are estimated based upon certain assumptions regarding the performance of the credit charge receivables pool and other factors.

[3] Repayment of the principal amount of the subordinated notes will not begin until all principal owing under the related series of senior notes has been fully repaid.

[4] Interest on the Series 1999-1 Subordinated Notes and Series 2000-1 Subordinated Notes is payable at Bankers' Acceptance rates plus 1.25%.

In 2004, the Company expects its total credit charge receivables to grow as the number and use of *Options* MasterCards increase. Financial Services expects to fund most of this growth from the sales of credit charge receivables to GCCT.

The success of these securitization programs is due primarily to GCCT's ability to obtain funds by issuing most of its debt instruments at the highest credit rating. As of January 3, 2004, GCCT's asset-backed commercial paper program had a rating of "R-1(high)" from DBRS. The senior notes received a rating of "AAA" from S&P and DBRS. In both cases, these are the rating services' highest categories. The subordinated notes have a rating in the range of "A" to "A(high)" from DBRS and the range of "A" to "AA" from S&P.

3.3 Financial ratios

Canadian Tire continues to have a strong balance sheet and healthy financial ratios. These allow the Company relatively easy access to funding from financial markets. It is the Company's long-standing policy that the ratio of long-term debt to total capitalization not exceed 50 percent. Long-term debt as a percentage of total capital decreased to 31.9 percent at January 3, 2004 from 38.1 percent at the end of 2002, primarily due to debt repayment and the increased earnings that were reinvested in the Company.

The ratio of current assets to current liabilities at the end of 2003 was 1.4:1 compared to 1.5:1 at the end of 2002. At the end of 2003, interest coverage calculated on a rolling 12-month basis using earnings before interest, income taxes and minority interest was 5.4 times compared to 4.8 times a year earlier.

3.4 Funding costs

The following table summarizes the Company's total funding costs excluding those of GCCT and including the impact of interest rate swaps, part of Canadian Tire's risk management program, which is discussed below.

Interest expense[1]

($ in millions)	**2003**	2002
Long-term interest expense	**$ 82.4**	$ 80.3
Short-term interest expense	**2.6**	2.7
Total	**$ 85.0**	$ 83.0
Effective blended cost of debt	**6.8%**	6.3%

[1] Interest expense is increased or decreased by the interest rate differentials paid or received on interest swap contracts.

The effective average blended cost of debt increased from 2002 to 2003 largely due to the maturity of lower cost debt and the marking to market of an interest rate swap contract in 2003.

4. Risk Management

Canadian Tire approaches the management of risk strategically in keeping within its objective to improve total return to shareholders. To ensure that it has an effective risk management strategy, the Company has embarked upon the development of an enterprise risk management (ERM) framework.

The ERM framework sets out principles, processes and tools for evaluating and mitigating risks across the organization in an effective and consistent manner. The ERM process will help the business managers focus on those risks that are most likely to threaten the achievement of strategic and operating objectives. Once fully implemented, an effective ERM program mitigates risk and protects assets, cash flow, earnings and shareholder value.

ERM is a disciplined and integrated Company-wide approach to managing risks. The first step in ERM is to develop a perpetual process for the identification and assessment of the Company's principal risks. Management expects to have the initial risk assessment completed during 2004 and to reflect the findings of this review in the MD&A for the 2004 annual report.

4.1 Business risk

Canadian Tire is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance.

Retail competitive risk. Canadian Tire competes against international, national and regional retailers such as department stores, mass merchandisers, home-improvement warehouse operators, petroleum retailers and specialty marketers which currently operate in one or more of the Company's business segments. These retailers represent a competitive risk to the Company's ability to attract customers and operate successfully in its markets.

The Company actively monitors and analyzes competitive and economic developments in its markets to determine its competitiveness within each market or business segment. Canadian Tire has unique assets that provide advantages within its markets, including: brand equity, significant real estate investments, a strong loyalty program, MasterCard credit offering for its customers, a best-in-class customer call centre, a highly efficient distribution system and solid vendor relationships.

Canadian Tire also has core strengths that reduce competitive risk. Foremost is the network of Associate Dealers, agents and franchisees whose investment and commitment to their retail operations provide a significant competitive advantage. In addition, another key strength is the convenient location of the 452 Canadian Tire stores, 322 Mark's Work Wearhouse stores, 232 Petroleum stations, 39 PartSource stores and 47 car washes.

Internal and independent consumer surveys indicate that customers have exceptionally high awareness of, and loyalty to, CTR. In addition, Canadian Tire stores hold strong market-share positions in many product categories. This is particularly evident in automotive and hardware lines and in selected seasonal and sporting goods categories.

The strengths discussed above are reinforced by continuous strategic and operational reviews of core product categories, providing a comprehensive and up-to-date awareness of CTR's market position, opportunities and threats. This knowledge facilitates ongoing innovation at Canadian Tire, such as new-format stores, new merchandising concepts, PartSource and the development of CTR's online offering, CT Direct, all of which are expected to contribute to long-term growth in revenues, market share and profitability.

Specific initiatives designed to enhance CTR's competitive position, and thus reduce the Company's retail competitive risk, have been described in the discussion of CTR that begins on page 32 of this report.

Environmental risk. Environmental risk at Canadian Tire is primarily associated with the handling of gasoline, oil and propane within the Company's Petroleum business and with the handling and recycling of certain materials, such as paint, oil and lawn chemicals, sold in Canadian Tire and PartSource stores. Responsible companies establish and follow comprehensive environmental policies and practices to avoid putting their reputations and their licence to operate at risk. Canadian Tire's management believes that its environmental protection programs are in the forefront of the retail industry. The Company's procedures for the identification and mitigation of environmental risk, as well as its record of accomplishment in this area, have enabled it to purchase environmental insurance coverage at very favourable premiums.

In 2003, the Company continued to ensure that management systems were in place to address environmental issues, policies and procedures. The Canadian Tire Board of Directors and its Audit and Social Responsibility Committees receive quarterly and annual reports on environmental, health and safety issues, policies and procedures.

Canadian Tire carries out regular assessments of facilities and procedures to determine whether its operations meet regulatory and corporate requirements. In addition, the Company has initiated many proactive programs that set new standards of environmental management. These programs are discussed in more detail under "Environmental, Health and Safety Stewardship" on page 82 of this report.

Commodity price risk. The operating performance of any non-integrated petroleum retailer can be affected by the fluctuations of the refiner-driven commodity cost of gasoline. CTR and Petroleum are directly affected by this risk. During the past five years, Petroleum has significantly reduced its operating costs, making it less vulnerable to these fluctuations and, thus, more profitable. Petroleum also has a very competitive contract with a major supplier to purchase gasoline.

Seasonality risk. Businesses that derive a significant amount of their revenues from the sale of seasonal merchandise have a degree of risk from unseasonable weather patterns.

CTR's offering features many seasonal products and as a result, CTR experiences seasonal variances in its business. In most years the Company records stronger gross operating revenues and consolidated earnings before income taxes in the second and fourth quarters. Revenue and earnings in the first quarter are typically the lowest. To lessen these variances, CTR works with its suppliers to plan the timing of shipments and, where possible, to shorten lead times on product orders. Nevertheless, it is impossible to entirely remove the risks and uncertainties associated with the seasonal nature of CTR's product offering.

Similarly, Mark's business remains very seasonal, with the fourth quarter typically producing about 40 percent of total annual retail sales and most of the annual profits, resulting from the general increase in consumer apparel spending in that period. Detailed sales reporting and merchandise planning modules assist Mark's in mitigating the risk and uncertainties associated with seasonal programs, but cannot remove them completely, as inventory orders, especially for a significant portion of merchandise purchased offshore, must be placed well ahead of the season.

Dealer contracts. The success of Canadian Tire, particularly the CTR division, is closely tied to the success of Canadian Tire stores. Associate Dealers (Dealers) operate the retail business of these stores. The relationship between the Company and the Dealers combines the flexibility of an independent business with the advantages of a central marketing and purchasing organization. The combined experience of the Dealers is a valuable source of assistance to fellow Dealers and to the Company as it develops and implements new merchandising and marketing concepts. Most importantly, the Company depends on the Dealers to successfully execute retail programs and strategies.

To maintain controls over the brand and the quality and range of products and services offered at Canadian Tire stores, each Dealer agrees to purchase merchandise from, or approved by, the Company. In addition, each Dealer agrees to comply with the policies, marketing plans and operating standards prescribed by the Company. These obligations are specified under Dealer contracts, which expire at various times for individual Dealers. Certain schedules of the contracts expire in June 2004.

CTR and the Associate Dealers reached an agreement in principle in September 2003 that will guide the establishment of a new commercial contract between the parties covering important financial, strategic and operational changes. The agreement defines a new contract that would result in a positive contribution to the future earnings of the Company while continuing to offer an attractive incentive for Associate Dealers to build, maintain and grow the business of their stores. Most terms of the new commercial contract will extend for a 10-year period beginning July 2004, although the financial terms will be reviewed after five years.

4.2 Capital management risk

It is important to note that, in implementing financial strategies to reduce risk, Canadian Tire's treasury department does not operate as a profit centre. Controls are in place to detect and prevent speculative activity.

Financial products risk. It is the Company's policy to identify and manage currency, interest-rate and commodity-price risk proactively and conservatively.

There are typically two parties to a financial transaction. The successful completion of the transaction and the mitigation of risk depend on the ability of both parties to meet their financial commitments in the transaction. In the case of Canadian Tire, counterparty credit risk is considered to be negligible as the Company restricts the counterparties that it deals with to highly rated financial institutions. The Company also ensures that there is no undue concentration with any single counterparty.

Foreign exchange risk. As a significant importer of foreign goods and services, the Company has a proactive and conservative policy to mitigate the risk of sudden fluctuations in currency exchange rates. The Company's policy is to hedge a minimum of 75 percent of expected purchases of foreign goods and services on a rolling four- to six-month basis. As management deems appropriate, the Company extends its currency hedging a further six months or even longer. This hedging program has the effect of reducing any near term impact of favourable or detrimental fluctuations in exchange rates. The impact of fluctuations in exchange rates on the cost of goods sold is also reduced by a financial arrangement with Associate Dealers to share margin with the Company.

Credit charge receivables risk. Canadian Tire, through its Financial Services business, grants credit to its customers on Canadian Tire and *Options* MasterCard credit cards to increase the loyalty of these customers and the Company's profitability. With the granting of credit, the Company assumes certain credit risks.

Financial Services has minimized those credit risks in the following three areas of the credit process, improving the quality of its credit charge portfolio:

- When granting credit, sophisticated automated credit scoring models are used to determine the creditworthiness of each customer. These credit scoring processes are constantly improved based on new information;
- When monitoring the credit charge portfolio, Financial Services uses the latest technology to make more accurate credit decisions for each customer account, thereby limiting credit risk exposure; and
- When collecting credit charge receivables, Financial Services has adopted a collection modelling technology that has significantly improved the effectiveness of the collection process.

The Financial Services card base comprises more than 4.3 million cardholders across Canada, with about 70 percent in Ontario and Quebec.

Financial Services has used securitization as a source of funding over the past several years as a normal part of financing growth in credit charge receivables. At the end of 2003, Financial Services had securitized about 77 percent of the net managed portfolio of credit charge receivables. Securitization involves the sale of credit charge receivables to Glacier Credit Card Trust (GCCT), and is an important source of funding for Canadian Tire.

Securitization risk. Securitization protects shareholders from risk associated with the portfolio of credit charge receivables as a result of any significant unexpected changes, such as an economic downturn. However, should such changes occur, further securitization could become more difficult and costly.

Interest rate risk. The Company's sensitivity to movements in interest rates is substantially limited to its cash and short-term investments, commercial paper and medium term notes. A 1 percent change in interest rates would not materially affect the Company's earnings, cash flow or financial position.

All of the Company's long-term debt has been issued at fixed rates and, as described in Note 6 to the Consolidated Financial Statements, is not sensitive to interest rate movements. From time to time the Company enters into interest rate swaps to manage its current and anticipated exposure to fluctuations in interest rates and market liquidity. The Company monitors, on an ongoing basis, market conditions and the impact of interest rate fluctuations on its fixed to floating interest rate exposure mix.

The Company also reviews interest rate sensitivity by business unit. Most of Financial Services' revenue is not interest rate sensitive as it is generated from the *Options* MasterCard and Canadian Tire's retail cards, each of which carries fixed interest rates appropriate to customer groups with common credit ratings. Financial Services' funding requirements were reduced during 2003 primarily by the sale of credit charge receivables through the securitization program described on page 49. However, the balance of Financial Services' funding requirements in 2003 was met with the issuance of floating rate debt, which makes the business results somewhat sensitive to changes in interest rates. Canadian Tire constantly monitors the potential impact of interest rate fluctuations on its fixed/floating rate exposure and has managed its overall balance between fixed and floating rate debt to reduce the magnitude of this exposure. As the success of Financial Services is dependent upon its ability to access capital markets at favourable rates, and given the rapid growth of the managed portfolio of credit charge receivables, maintaining the quality of the securitized receivables is a priority of Financial Services.

5. New Accounting Pronouncements

5.1 Expensing of stock options

Effective December 29, 2002, the Company elected early adoption, on a prospective basis, of the new recommendations issued by the Canadian Institute of Chartered Accountants (CICA) relating to stock-based compensation. In accordance with the new standard, stock options granted after adoption of the standard are measured on grant date using a fair-value based method and expensed over the vesting period. The earnings impact of options issued in 2003 at Canadian Tire using the fair-value based method was $0.01 per share, or 0.33 percent of the reported earnings of $3.06 per share. The offsetting accounting entry is recorded as contributed surplus. Any consideration paid by employees on exercise of stock options or purchase of shares is credited to share capital.

The Company has provided pro forma disclosure in Note 9 to the Consolidated Financial Statements, which indicates the impact on earnings had the options granted in 2002 also been expensed.

Taking into account the movement by many issuers away from stock options as an appropriate form of compensation to align management and investor interests, Canadian Tire in recent years has been using other forms of long-term incentives, such as restricted share units and performance share units. These alternate forms of compensation are full value share plans that more directly align management performance and shareholder value. These share plans are described in Note 9 to the Consolidated Financial Statements. All of the Company's compensation plans are expensed.

5.2 Variable interest entities (VIEs)

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG-15). Taking into account a recent announcement by the CICA, which deferred the effective dates of this guideline, AcG-15 requires consolidation of certain "variable interest entities" (VIEs) beginning in the first quarter of 2005 (for companies with calendar fiscal years). A VIE is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. The Company has identified potential VIEs and is currently reviewing AcG-15 to determine to what extent, if at all, consolidation or note disclosure will be required. The rules are complex and views on interpretation are still evolving. Further clarification is expected and amendments to AcG-15 are forthcoming.

Based on the Company's current understanding of AcG-15, it has determined that the independent financing trusts described below that provide cost-effective funds to the Company and its Associate Dealers are VIEs that would likely have to be consolidated with the Company unless structural changes are undertaken. In addition, certain corporations owned and operated by independent Associate Dealers, Mark's Work Wearhouse and PartSource franchisees and Petroleum agents may also be VIEs, a small number of which may have to be consolidated.

One such trust, GCCT, was formed in 1995 to purchase credit charge receivables from the Company. GCCT issues debt to third party investors to fund its receivables purchases. Financing outstanding through GCCT at January 3, 2004 was $1,865 million (December 28, 2002 – $1,364 million) as detailed earlier in this MD&A. In accordance with current CICA requirements (pre-AcG-15), sales of credit charge receivables to GCCT are recorded as sales in the Company's financial statements and the financial statements of GCCT are not consolidated with those of the Company. Disclosure of these transactions can be found in Note 2 to the Company's Consolidated Financial Statements.

In 1995, a major Canadian bank established another such trust (Trust) to facilitate financing for franchise operations. The Trust raises funds in public markets to finance loans it makes to franchisees. In 1997, the Trust began making loans to Associate Dealers to facilitate their purchase of inventory and fixed assets. Such loans at January 3, 2004 were $893 million (December 28, 2002 – $952 million). Several major Canadian banks have provided standby letters of credit in favour of the Trust to enable the Trust to maintain a high credit rating on the debt it issues to fund Associate Dealer loans. The Company has agreed to reimburse the banks for any amount drawn on those standby letters of credit to a maximum of $271 million as at January 3, 2004 (December 28, 2002 – $271 million) and to indemnify the Trust, and certain other parties dealing with the Trust, with respect to certain events. Those standby letters of credit have never been drawn. In accordance with current CICA requirements (pre-AcG-15), the financial statements of the Trust are not consolidated with those of the Company. Disclosure of these arrangements can be found in Note 13 to the Company's Consolidated Financial Statements.

As part of the transaction described in Note 16 of the Company's Consolidated Financial Statements, whereby the Company formed a limited partnership to raise $300 million of capital in relation to a portfolio of its retail properties, a third party investor group formed a trust to hold the limited partnership interest, which is currently shown as minority interest on the Company's Consolidated Financial Statements. The Company may have a variable interest in this trust. In accordance with current CICA requirements (pre-AcG-15), the trust is not currently consolidated with the Company. Consolidation of the trust with the Company, if required, would effectively mean that substantially all of the $300 million minority interest would be re-characterized as long-term debt.

The Company is currently assessing whether to pursue structural changes to these VIEs. In any event, management believes that consolidation would not result in any material change in the underlying tax, legal or credit risks facing the Company.

5.3 Asset retirement obligations

The CICA issued Accounting Handbook Section 3110 (Section 3110), "Asset Retirement Obligations," which requires the recognition of the fair value of a liability for an asset retirement in the period in which it is incurred and can be reasonably estimated. An asset retirement obligation would be incurred as a result of a legal obligation associated with the retirement of a tangible long-lived asset that results from its acquisition, construction, development or normal operation.

Initial recognition of a liability arising from an asset retirement obligation would require the liability to be established and to be added to the carrying cost of the related long-lived asset. The liability would be allocated to expense using a systematic and rational method over the asset's useful life, which typically reflects the depreciation method for that asset.

These accounting standards are applicable for fiscal years beginning on or after January 1, 2004. The Company will comply with the standards of Section 3110 in the first quarter of 2004. The Company is currently working to determine the financial impact of this section.

5.4 Financial instruments

On March 31, 2003, the CICA issued three exposure drafts: "Financial Instruments – Recognition and Measurement," "Hedges" and "Comprehensive Income," which will increase harmonization with U.S. accounting standards. Although they are not final, these exposure drafts primarily establish how financial assets are to be classified on the Company's balance sheets.

The final accounting standards are expected to be effective for fiscal years beginning on or after October 1, 2005.

5.5 Hedging relationships

The CICA has issued Accounting Guideline 13, "Hedging Relationships," which is effective for fiscal years beginning on or after July 1, 2003. This guideline establishes certain conditions for when hedge accounting may be applied. The Company will implement the standards in the first quarter of 2004.

5.6 Vendor rebates

In January 2004, the CICA issued EIC-144, "Accounting by a Customer (including a reseller) for Certain Consideration Received from a Vendor," which provides guidance on how a customer (including a reseller) of a vendor's products should account for cash consideration received from a vendor. This EIC is effective for fiscal and interim periods ending after August 15, 2004. The Company is determining if any accounting changes will be required.

5.7 Guarantees

In the normal course of its business, Canadian Tire enters into numerous agreements that incorporate the provision of certain guarantees to other parties by the Company. Effective December 29, 2002, the Company implemented Accounting Guideline 14, "Disclosure of Guarantees," issued by the CICA that requires additional disclosure of guarantees. Accordingly, the Company has reviewed its significant agreements and has disclosed relevant guarantees in Note 13 to the Company's Consolidated Financial Statements for 2003.

6. Non-GAAP Measures

The following two measures included in this report do not have a standardized meaning under Canadian generally accepted accounting principles (GAAP) and, therefore, are unlikely to be comparable to similar measures presented by other companies:

- EBITDA (earnings before interest, income taxes, depreciation and amortization); and
- All references made to adjusted earnings.

EBITDA. The Company considers EBITDA to be an effective measure of each business' contribution to the Company on an operational basis, before allocating the cost of income taxes and capital investments. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of the success of any business.

A reconciliation of EBITDA to the most comparable GAAP measure (earnings before income taxes and minority interest) is provided below:

Reconciliation of EBITDA to GAAP measures[1]

($ in millions)	**Q4 2003**	Q4 2002	**2003**	2002
EBITDA and minority interest				
CTR	**$ 118.3**	$ 97.4	**$ 415.8**	$ 385.2
Financial Services	**49.6**	34.9	**140.3**	124.3
Petroleum	**11.1**	6.9	**34.6**	28.8
Mark's	**31.3**	28.4	**41.0**	34.6
Eliminations	**(5.4)**	(5.3)	**(18.9)**	(17.8)
Total EBITDA and minority interest	**$ 204.9**	$ 162.3	**$ 612.8**	$ 555.1
Less: Depreciation and amortization expense				
CTR	**$ 30.5**	$ 33.0	**$ 116.5**	$ 122.0
Financial Services	**3.2**	4.1	**13.7**	17.7
Petroleum	**3.2**	2.3	**10.8**	8.7
Mark's	**3.6**	3.2	**13.0**	10.1
Total depreciation and amortization expense	**$ 40.5**	$ 42.6	**$ 154.0**	$ 158.5
Interest expense				
CTR	**$ 26.7**	$ 23.8	**$ 90.5**	$ 85.4
Financial Services	**2.8**	3.8	**10.4**	12.6
Mark's	**0.7**	0.6	**3.0**	2.8
Eliminations	**(5.4)**	(5.3)	**(18.9)**	(17.8)
Total interest expense	**$ 24.8**	$ 22.9	**$ 85.0**	$ 83.0
Earnings before income taxes and minority interest				
CTR	**$ 61.1**	$ 40.6	**$ 208.8**	$ 177.8
Financial Services	**43.6**	27.0	**116.2**	94.0
Petroleum	**7.9**	4.6	**23.8**	20.1
Mark's	**27.0**	24.6	**25.0**	21.7
Total earnings before income taxes and minority interest	**$ 139.6**	$ 96.8	**$ 373.8**	$ 313.6

[1] Differences may occur due to rounding

References to adjusted earnings. References are made throughout this report to adjusted pre-tax and after-tax earnings before the impact of certain non-operating items, specifically, gains and losses on the sales of credit charge receivables, the dispositions of surplus property and equipment and a charge related to changes in CTR's supply chain for automotive parts. The Company believes that the performance of each business can be best assessed by excluding non-operating gains and losses, such as those mentioned above, from its earnings because the timing and magnitude of such gains and losses are inconsistent from quarter to quarter. Further, the Company believes that exclusion of these items from earnings provides a clearer depiction of its operational performance in the period, on a consolidated and segmented basis.

Management's Responsibility for Financial Statements

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

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

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

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, who were appointed by shareholder vote at the annual shareholders' meeting. Their report is presented below.

(SIGNED) Wayne C. Sales
President and
Chief Executive Officer
March 11, 2004

(SIGNED) J. Huw Thomas
Executive Vice-President, Finance and Administration
Chief Financial Officer

Auditors' Report

To the Shareholders, Canadian Tire Corporation, Limited

We have audited the Consolidated Balance Sheets of Canadian Tire Corporation, Limited as at January 3, 2004 and December 28, 2002 and the Consolidated Statements of Earnings and Retained Earnings and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at January 3, 2004 and December 28, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(SIGNED) Deloitte & Touche LLP
Chartered Accountants
Toronto, Ontario
March 11, 2004

Consolidated Statements of Earnings and Retained Earnings

For the years ended (Dollars in millions except per share amounts)	**January 3, 2004 (53 weeks)**	December 28, 2002 (52 weeks)
Gross operating revenue	**$ 6,552.8**	$ 5,944.5
Operating expenses		
Cost of merchandise sold and all other operating expenses except for the undernoted items	**5,916.3**	5,369.5
Interest		
Long-term debt	**82.4**	80.3
Short-term debt	**2.6**	2.7
Depreciation and amortization	**154.0**	158.5
Employee profit sharing plan (Note 9)	**23.7**	19.9
Total operating expenses	**6,179.0**	5,630.9
Earnings before income taxes and minority interest	**373.8**	313.6
Income taxes (Note 10)		
Current	**107.5**	96.6
Future	**11.0**	7.2
Total income taxes	**118.5**	103.8
Net earnings before minority interest	**255.3**	209.8
Minority interest (Note 16)	**8.7**	7.4
Net earnings	**$ 246.6**	$ 202.4
Basic earnings per share	**$ 3.06**	$ 2.56
Diluted earnings per share (Note 8)	**$ 3.02**	$ 2.53
Weighted average number of Common and Class A Non-Voting Shares outstanding	**80,605,607**	79,055,846
Retained earnings, beginning of year	**$ 1,138.0**	$ 973.1
Net earnings	**246.6**	202.4
Dividends	**(32.5)**	(31.6)
Repurchase of Class A Non-Voting Shares (Note 8)	**(17.9)**	(5.9)
Retained earnings, end of year	**$ 1,334.2**	$ 1,138.0

Consolidated Statements of Cash Flows

For the years ended (Dollars in millions)	**January 3, 2004 (53 weeks)**	December 28, 2002 (52 weeks)
Cash generated from (used for):		
Operating activities		
Net earnings	**$ 246.6**	$ 202.4
Items not affecting cash		
Depreciation and amortization of property and equipment	**149.6**	146.1
Net provision for credit charge receivables	**147.9**	107.8
Future income taxes	**11.0**	7.2
Amortization of other assets	**4.4**	12.4
Employee future benefits (Note 7)	**2.9**	3.0
Stock-based compensation expense	**0.7**	–
Gain on sales of credit charge receivables (Note 2)	**(16.8)**	(12.2)
Gain on disposals of property and equipment	**(4.3)**	(4.4)
Cash generated from operations	**542.0**	462.3
Changes in other working capital components (Note 11)	**(23.4)**	(18.0)
Cash generated from operating activities	**518.6**	444.3
Investing activities		
Investment in credit charge receivables	**(646.3)**	(596.7)
Additions to property and equipment	**(278.7)**	(249.7)
Purchases of franchise stores (Note 18)	**(11.2)**	(10.4)
Long-term receivables and other assets	**58.2**	(12.8)
Proceeds on disposition of property and equipment	**40.2**	31.2
Purchase of subsidiary (Note 17)	**–**	(112.7)
Cash used for investing activities	**(837.8)**	(951.1)
Financing activities		
Securitization of credit charge receivables	**532.2**	446.6
Sale of Associate Dealer receivables (Note 11)	**98.7**	150.9
Class A Non-Voting Share transactions (Note 8)	**21.6**	33.0
Issuance of long-term debt	**5.8**	–
Repayment of long-term debt	**(208.5)**	(42.7)
Dividends	**(32.2)**	(31.6)
Cash generated from financing activities	**417.6**	556.2
Cash generated in the year	**98.4**	49.4
Cash and cash equivalents, beginning of year	**628.2**	578.8
Cash and cash equivalents, end of year (Note 11)	**$ 726.6**	$ 628.2

Consolidated Balance Sheets

As at (Dollars in millions)	January 3, 2004	December 28, 2002
ASSETS		
Current assets		
Cash and cash equivalents (Note 11)	**$ 726.6**	$ 628.2
Accounts receivable (Note 11)	**489.4**	584.1
Credit charge receivables (Note 2)	**562.8**	579.8
Merchandise inventories	**493.9**	503.0
Prepaid expenses and deposits	**27.9**	19.1
Total current assets	**2,300.6**	2,314.2
Long-term receivables and other assets (Note 3)	**64.1**	126.7
Goodwill (Note 4)	**40.6**	32.8
Intangible assets (Note 4)	**52.0**	52.0
Property and equipment (Note 5)	**2,443.4**	2,349.7
Total assets	**$ 4,900.7**	$ 4,875.4
LIABILITIES		
Current liabilities		
Accounts payable and other	**$ 1,266.6**	$ 1,294.7
Income taxes payable	**96.5**	80.7
Current portion of long-term debt (Note 6)	**244.5**	208.2
Total current liabilities	**1,607.6**	1,583.6
Long-term debt (Note 6)	**886.2**	1,125.2
Employee future benefits (Note 7)	**34.2**	31.3
Future income taxes (Note 10)	**39.4**	28.4
Total liabilities	**2,567.4**	2,768.5
Minority interest (Note 16)	**300.0**	300.0
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**700.5**	661.0
Contributed surplus	**0.7**	–
Accumulated foreign currency translation adjustment	**(2.1)**	7.9
Retained earnings	**1,334.2**	1,138.0
Total shareholders' equity	**2,033.3**	1,806.9
Total liabilities, minority interest and shareholders' equity	**$ 4,900.7**	$ 4,875.4

(SIGNED) Gilbert S. Bennett
Director

(SIGNED) Maureen J. Sabia
Director

1. Significant Accounting Policies

Basis of consolidation The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries and partnership (the "Company").

Fiscal year The fiscal year of the Company consists of a 52- or 53-week period ending on the Saturday closest to December 31. The fiscal years for the Consolidated Financial Statements and Notes presented for 2003 and 2002 are the 53-week period ended January 3, 2004 and the 52-week period ended December 28, 2002, respectively.

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

Revenue recognition The Company's shipments of merchandise to Associate Dealers (retail store owner-operators) are recorded as revenue when delivered and are net of returns. Revenue on the sale of gasoline by Canadian Tire Petroleum ("Petroleum") is recorded upon sale to the customer. Revenue for Mark's Work Wearhouse Ltd. ("Mark's") is recognized at the time goods are sold by its corporate-owned stores to its customers and is net of returns. Merchant fees on credit charge receivables are taken into revenue at the time new receivables are recorded. Service charges on credit card receivables are accrued each month on balances outstanding at each account's billing date.

Franchise royalties Royalties, based on sales by Mark's franchisees, are recorded as income as they are earned.

Cash and cash equivalents For purposes of the Consolidated Financial Statements, cash and cash equivalents is defined as cash and short-term investments less bank indebtedness. Short-term investments held include Canadian and United States government securities and notes of other creditworthy parties due within three months.

Credit charge receivables Credit charge receivables are recorded at cost net of allowances for credit losses and fraud. The allowance for credit losses is calculated using the historical loss experience of account balances based on their aging and arrears status and with certain adjustments for other relevant circumstances influencing the recoverability of the loans. The allowance for fraud is based on three months of the average monthly fraud charge-offs, which is calculated using historical fraud charge-off data for the past 12 months. Credit charge receivables in arrears for over 180 days are written off.

Effective July 1, 2001, the Company adopted the Canadian Institute of Chartered Accountants' Accounting Guideline 12 ("AcG-12"), "Transfers of Receivables." Under the new policy, the Company is required to recognize gains or losses on its credit card securitizations subsequent to June 30, 2001 that qualify as sales. Sales of credit charge receivables prior to July 1, 2001 were accounted for under the accounting guidelines in effect at that time. The gain or loss on the sale of the credit charge receivables depends in part on the previous carrying amount of the receivables involved in the sale. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair value at the date of sale. The Company estimates fair value based on the present value of future expected cash flows using management's estimates of the key assumptions.

Merchandise inventories Merchandise inventories are valued at the lower of cost and estimated net realizable value, with cost being determined using the average cost method, except for the merchandise inventories of Mark's, which are accounted for by the retail method, and are carried at the lower of the anticipated selling price (less an expected average gross margin) and the estimated cost.

Goodwill and intangible assets Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

Intangible assets which have indefinite lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any. Intangible assets with finite useful lives are amortized over their useful life.

Property and equipment Property and equipment are stated at cost. The cost of real estate includes all direct costs, financing costs on specific and general corporate debt relating to major projects and certain pre-development costs. Depreciation is provided for using the declining balance method commencing in the month that the equipment or facilities are placed into service. Amortization of leasehold improvements is provided for on a straight-line basis over the terms of the respective leases. Purchased computer software, including direct implementation costs, is amortized on a straight-line basis over a period of up to five years. Depreciation relating to each capital lease for fixtures and equipment and computer software is provided for on a straight-line basis over the term of the lease. If property and equipment are subject to permanent impairment, additional depreciation or a writedown is provided.

Debt discount and other issue expenses Debt discount and other issue expenses are included in "Long-term receivables and other assets" on the Consolidated Balance Sheets and are amortized over the term of the respective debt issues.

Deferred expenses The Company capitalizes both direct and indirect costs with respect to ventures which are in the development stage. Capitalization of costs continues until formal operations have commenced, at which time the deferred costs are amortized over a three-year period. Should a venture be abandoned during the development stage, all capitalized costs are immediately expensed. The Company defers costs pertaining to the acquisition of most new businesses. These acquisition costs are amortized over the terms of the related contracts. All of the above costs are included in "Long-term receivables and other assets" on the Consolidated Balance Sheets.

Translation of foreign currencies The components of the Consolidated Statements of Earnings related to foreign subsidiaries are translated to Canadian dollars using average currency exchange rates in effect during the accounting period, and assets and liabilities are translated at the exchange rates in effect at the end of the accounting period. Gains and losses on translation are included in net earnings, except for the exchange gains or losses related to investments in self-sustaining foreign operations, which are included in a separate component of shareholders' equity.

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each accounting period end date. Exchange gains or losses are included in the determination of net earnings.

Stock-based compensation plans Stock-based awards made to non-employees are measured and recognized using a fair-value based method. Previously, the Company used a fair-value based method for all stock-based awards made to employees except for awards that call for settlement by granting equity instruments such as stock options. Effective December 29, 2002, the Company changed its method of accounting for stock-based compensation and adopted the fair-value based method of accounting for all its stock-based compensation. The Company adopted these changes using the prospective application transitional alternative. Accordingly, stock options granted after adoption of the standard are measured on grant date using a fair-value based method and expensed over the vesting period. The counterpart is recorded as contributed surplus. When employees exercise their stock options, the share capital is increased by the sum of the consideration paid by employees together with the related portion previously added to contributed surplus when compensation costs were charged against income. Prior to the adoption of the fair-value based method, the Company recorded no compensation cost on the grant of stock options to employees. Accordingly, the Company discloses pro forma net earnings and earnings per share as if the fair-value based method had been used for stock options granted since December 29, 2001 (see Note 9).

Compensation expense is recognized for the Company's contributions under the Employee Profit Sharing Plan, the Employee Stock Purchase Plan, the Deferred Share Unit Plan, the Restricted Share Unit Plan and the Performance Share Unit Plan (see Note 9).

Interest-only strip The interest-only strip represents the present value of the Company's share of the spread to be earned over the collection period on the credit charge receivables sold (see Note 2). The spread is equal to the yield earned, less the net write offs and interest expense on the credit charge receivables sold. The interest-only strip is amortized into income over the collection period based on the projected collection rate.

Employee future benefits The Company provides certain health care, dental care, life insurance and other benefits, but not pensions, for certain retired employees pursuant to Company policy. The Company accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The most recent actuarial valuation of the obligation was performed for January 1, 2002.

Earnings per share Basic earnings per share is calculated using the weighted average number of shares outstanding during the accounting period. The diluted earnings per share calculation uses an increased number of shares, determined using the treasury stock method.

Guarantees Effective December 29, 2002, the Company implemented the Canadian Institute of Chartered Accountants' Accounting Guideline 14 ("AcG-14"), "Disclosure of Guarantees," which expands previously issued accounting guidance and requires additional disclosure by a guarantor in its financial statements for fiscal periods beginning on or after January 1, 2003 for certain guarantees (see Note 13).

Derivative financial instruments Derivative financial instruments are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company also enters into equity contracts to hedge certain future stock-based compensation expenses.

The Company documents the relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Company enters into foreign exchange contracts, primarily in U.S. dollars, to hedge future purchases of foreign currency denominated goods and services.

1. Significant Accounting Policies (continued)

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge future purchases are recognized as an adjustment of cost when the purchase is recorded.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest. Interest to be paid or received under such swap contracts is recognized over the life of the contracts as adjustments to interest expense. Unrealized gains or losses resulting from market movements are not recognized.

Equity contracts are used to hedge the anticipated exposure relating to restricted share units. The amount to be paid at the expiration of the restriction period is included in compensation expense over the life of the hedge period. Unrealized gains or losses resulting from market movement are not recognized.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Site restoration costs Liabilities are recognized both for known site restoration costs and for probable site restoration costs that can be reasonably estimated.

Use of estimates The preparation of the Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used when accounting for items such as impairment of assets, employee benefits, product warranties, inventory provisions, amortization, uncollectible credit charge receivables, environmental provisions and the liability for the Company's loyalty programs.

2. Credit Charge Receivables

During the year ended January 3, 2004, the Company sold undivided co-ownership interests in certain pools of credit charge receivables (the "Receivables") to an independent trust, Glacier Credit Card Trust ("GCCT"), formerly known as Canadian Tire Receivables Trust, in transactions known as securitizations. The securitization transfers to GCCT an ownership interest in certain pools of the Receivables previously wholly owned by the Company that provides GCCT with (i) ownership of a share of the service charges generated by the pool up to a stipulated amount, and (ii) ownership of a share of the principal payments generated by the pool, both computed on a monthly basis. The Company retains any income in excess of GCCT's share of service charges on the Receivables. In these transactions, the Company also assumes responsibility for servicing the Receivables for which it will not receive any direct compensation. GCCT's recourse to the Company is generally limited to its income earned on the Receivables.

As the Company does not control GCCT, it has not been consolidated in these financial statements. The Company has reflected the transfer of the co-ownership interest to GCCT as a sale in accordance with AcG-12 "Transfers of Receivables," which became effective on July 1, 2001. In accordance with this Guideline, the proceeds of the sale to GCCT were deemed to be the cash received from GCCT plus the estimated fair value of the Company's retained interest in the service charges of the pool, net of the servicing obligation assumed. The excess of the estimated fair value of the proceeds over the carrying value of the interests in Receivables sold is reflected in these financial statements as a gain on the date of disposition. For the year ended January 3, 2004, the Company has recognized pre-tax gains of $16.8 million (2002 – $12.2 million) on such securitization transactions. The Company recognizes gains from securitization transactions prior to July 1, 2001, as the service charges are realized.

For transfers of Receivables occurring after July 1, 2001, the Company has computed the estimated fair values of its retained interest by discounting the expected future cash flows from the retained interest.

2. Credit Charge Receivables (continued)

Quantitative information about credit charge receivables managed by the Company is as follows:

	Total principal amount of receivables		Average balances	
(Dollars in millions)	**2003**	2002	**2003**	2002
Total net managed portfolio	**$ 2,433.3**	$ 1,923.4	**$ 2,035.2**	$ 1,556.8
Receivables sold[1]	**(1,870.5)**	(1,343.6)	**(1,475.5)**	(1,039.3)
Receivables held	**$ 562.8**	$ 579.8	**$ 559.7**	$ 517.5

[1] Includes receivables sold via co-ownership before and after adoption of AcG-12 "Transfers of Receivables" on July 1, 2001.

Net credit losses for the year ended January 3, 2004 were $121.9 million (2002 – $79.7 million). Net credit losses are charge-offs net of recoveries and are based on the total managed portfolio.

The carrying amount of the fair value of future cash flows at January 3, 2004 was $44.4 million (2002 – $27.6 million).

The following table shows the key economic assumptions used in measuring the retained interests at the date of securitization resulting from securitizations completed during the year. The table also displays the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in the 2003 key economic assumptions.

	Assumptions	Effects of adverse change on $100 million of GCCT debt[1]		Assumptions
(Dollars in millions)	**2003**	10%	20%	2002
Yield	**17.01%**	$ (0.7)	$ (1.4)	17.33%
Liquidation rate (% of sold receivables per month)[2]	**24.53%**	(0.5)	(1.0)	22.29%
Expected credit losses	**5.85%**	–	–	5.27%
Discount rate	**12.00%**	–	–	12.00%
Service costs[3]	**2.00%**	(0.1)	(0.2)	2.00%

[1] These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent or 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower payments and increased credit losses), which might magnify or counteract the sensitivities.

[2] Based on historical patterns the full receivable is estimated to be collected in 12 months.

[3] The servicing liability as at January 3, 2004 was $8.8 million (2002 – $5.7 million).

Details of cash flows from securitizations[1]:

(Dollars in millions)	**2003**	2002
Proceeds from new securitizations	**$ 570.0**	$ 472.5
Proceeds from collections reinvested in previous credit card securitizations	**3,870.0**	2,633.5
Other cash flows received on retained interest[2]	**953.6**	1,024.4

[1] Cash flows from securitizations include securitizations before and after the adoption of AcG-12 on July 1, 2001.

[2] Retained interests represent receivables held by the Company in addition to those sold to the Trust.

3. Long-term Receivables and Other Assets

(Dollars in millions)	**2003**	2002
Interest-only strip	**$ 26.1**	$ 17.7
Loans receivable	**12.2**	10.0
Mortgages receivable	**9.3**	6.9
Long-term debt issue costs	**8.3**	11.3
Other assets	**8.2**	5.8
Long-term portfolio investment, at cost	**–**	75.0
	$ 64.1	$ 126.7

Long-term portfolio investment Long-term portfolio investment was an investment in preferred shares of a creditworthy third party. These preferred shares were redeemed at cost in 2003.

Loans receivable Loans receivable include interest-free housing and relocation loans of $1.6 million (2002 – $1.7 million) that have been provided to certain senior executives. These loans have various maturity dates extending to 2012.

4. Goodwill and Intangible Assets

The change in the carrying amount of goodwill is as follows:

(Dollars in millions)	Canadian Tire Retail	Mark's	Total
Balance, December 28, 2002	$ 8.6	$ 24.2	$ 32.8
Goodwill acquired (Note 18)	–	7.8	7.8
Balance, January 3, 2004	**$ 8.6**	**$ 32.0**	**$ 40.6**

The following intangible assets were acquired on February 1, 2002:

(Dollars in millions)	
Mark's Work Wearhouse/L'Équipeur store banner	$ 46.0
Mark's private label brands	4.0
Mark's Franchise Agreements	2.0
	$ 52.0

These intangible assets are considered to have indefinite lives because they are expected to generate cash flows indefinitely.

5. Property and Equipment

(Dollars in millions)	2003 Cost	2003 Accumulated depreciation and amortization	2003 Net book value	2002 Cost	2002 Accumulated depreciation and amortization	2002 Net book value	Depreciation amortization rate/term
Land	**$ 620.4**	**$ –**	**$ 620.4**	$ 613.9	$ –	$ 613.9	
Buildings	**1,882.5**	**607.1**	**1,275.4**	1,806.3	558.8	1,247.5	4%–10%
Fixtures and equipment	**441.3**	**291.5**	**149.8**	392.9	270.5	122.4	10%–33%
Leasehold improvements	**185.9**	**58.9**	**127.0**	179.2	57.2	122.0	Term of lease
Computer software	**192.3**	**134.0**	**58.3**	172.4	116.9	55.5	Up to 5 years
Assets under capital lease	**24.0**	**12.2**	**11.8**	23.5	7.2	16.3	Term of lease
Work in progress	**200.7**	**–**	**200.7**	172.1	–	172.1	
	$ 3,547.1	**$ 1,103.7**	**$ 2,443.4**	$ 3,360.3	$ 1,010.6	$ 2,349.7	

Included in property and equipment are land and buildings held for disposal with a cost of $75.1 million (2002 – $87.0 million) and accumulated depreciation of $31.3 million (2002 – $37.3 million). The Company capitalized interest of $2.6 million (2002 – $3.6 million) on indebtedness related to property and equipment under construction.

6. Long-term Debt

(Dollars in millions)	2003	2002
Medium term notes		
5.40% due February 24, 2003	**$ –**	$ 135.0
Bankers' Acceptance plus 0.55% due November 20, 2003	**–**	65.0
5.25% due June 1, 2004	**85.0**	85.0
6.25% due December 1, 2004	**150.0**	150.0
5.65% due January 16, 2006	**200.0**	200.0
7.05% due May 18, 2006	**225.0**	225.0
5.70% due June 9, 2008	**150.0**	150.0
6.25% due April 13, 2028	**150.0**	150.0
Debentures, 12.10% maturing May 10, 2010	**150.0**	150.0
Capital lease obligations	**8.5**	17.7
Other	**12.2**	5.7
Total long-term debt	**1,130.7**	1,333.4
Less: amounts due within one year	**244.5**	208.2
Total – net of current portion	**$ 886.2**	$ 1,125.2

Medium term notes Certain of the medium term notes are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption. In 2003, medium term notes totalling $200.0 million matured and were repaid.

Debentures The debentures are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption. Commencing with the quarter ended October 1, 1994 and for each subsequent quarter, the Company may (subject to availability and pricing) be required to purchase up to 1.15 percent of the debentures outstanding at the beginning of such quarter. To date, no such purchases have been made.

6. Long-term Debt (continued)

Capital lease obligations The fixtures and equipment and computer software under capital leases are the security for the respective obligations. The leases have an average interest rate of 8.83 percent and an average term of 25 months.

Debt covenants The Company has provided covenants to certain of its lenders. All of the covenants were complied with during 2003 and 2002.

Repayment requirements

(Dollars in millions)	2004	2005	2006	2007	2008	Thereafter	Total
Medium term notes	$ 235.0	$ –	$ 425.0	$ –	$ 150.0	$ 150.0	$ 960.0
Debentures	–	–	–	–	–	150.0	150.0
Capital lease obligations	3.5	2.7	1.8	0.5	–	–	8.5
Other	6.0	3.0	1.3	0.7	0.6	0.6	12.2
	$ 244.5	$ 5.7	$ 428.1	$ 1.2	$ 150.6	$ 300.6	$ 1,130.7

On February 24, 2004, the Company completed an issuance of $200.0 million of unsecured medium term notes, which mature on February 24, 2034, and bear interest at 6.32 percent.

7. Employee Future Benefits

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

(Dollars in millions)	**2003**	2002
Accrued benefit obligation, beginning of year	**$ 41.2**	$ 31.3
Current service cost	**1.2**	1.1
Interest cost	**2.7**	2.5
Benefits paid	**(1.5)**	(1.2)
Actuarial losses	**1.2**	7.5
Accrued benefit obligation, end of year[1]	**44.8**	41.2
Unamortized net actuarial loss	**(10.6)**	(9.9)
Accrued benefit liability	**$ 34.2**	$ 31.3
Net benefit plan expense		
Current service cost	**$ 1.2**	$ 1.1
Interest cost	**2.7**	2.5
Amortization of net actuarial losses[2]	**0.5**	0.6
	$ 4.4	$ 4.2

[1] The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets.

[2] The amortization period is the remaining average service period of active employees.

The significant actuarial assumption adopted in measuring the Company's accrued benefit obligation is a discount rate of 6.25 percent (2002 – 6.5 percent).

For measurement purposes, a 10.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate was assumed to decrease gradually to 4.5 percent for 2009 and remain at that level thereafter. A 4.5 percent annual rate of increase in the per capita cost of covered dental costs was assumed for 2003 and thereafter. The average remaining service period of the active employees covered by the benefit plan is 12 years.

8. Share Capital

(Dollars in millions)			**2003**		2002
Authorized					
3,423,366	Common Shares				
100,000,000	Class A Non-Voting Shares				
Issued					
3,423,366	Common Shares (2002 – 3,423,366)	**$**	**0.2**	$	0.2
77,337,718	Class A Non-Voting Shares (2002 – 76,430,998)		**700.3**		660.8
		$	**700.5**	$	661.0

During 2003 and 2002, the Company reissued and repurchased Class A Non-Voting Shares. Reissued shares are recorded using the proceeds received. The net excess of the repurchase price over the average stated cost of Class A Non-Voting Shares issued is allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2003 and 2002:

	2003		2002	
(Dollars in millions)	**Number**	**$**	Number	$
Shares outstanding at the beginning of the year	**76,430,998**	**660.8**	75,155,479	621.9
Issued				
Dividend reinvestment plan	**58,828**	**2.0**	75,699	2.2
Stock option plans	**571,403**	**13.5**	447,002	8.4
Employee stock purchase plan	**578,894**	**19.4**	620,844	18.2
Employee profit sharing plans	**133,442**	**4.3**	167,403	4.3
Associate Dealer profit sharing plans	**164,153**	**5.8**	275,075	8.3
Repurchased	**(600,000)**	**(23.4)**	(310,504)	(8.4)
Excess of repurchase price over average cost	**–**	**17.9**	–	5.9
Shares outstanding at the end of the year	**77,337,718**	**700.3**	76,430,998	660.8

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

From January 4, 2004 to March 11, 2004, the Company issued 324,274 Class A Non-Voting Shares for proceeds of $9.9 million.

A reconciliation of the number of shares used in the diluted earnings per share calculation is as follows:

	2003	2002
Average number of shares for basic earnings per share calculations	**80,605,607**	79,055,846
Dilutive options	**1,119,476**	921,337
Average number of shares for diluted earnings per share calculations	**81,725,083**	79,977,183

Conditions of Class A Non-Voting Shares and Common Shares The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of $0.01 per share per annum. After payment of a dividend on each of the Common Shares 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 each year in equal amounts per share. In the event of liquidation, dissolution or winding-up of the Company, the Class A Non-Voting Shares and Common Shares rank equally with each other on a share-for-share basis.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders but, except as provided by the *Business Corporations Act* (Ontario) and as hereinafter noted, are not entitled to vote thereat. Holders of Class A Non-Voting Shares, voting separately as a class, are entitled to elect the greater of: (i) three directors or (ii) one-fifth of the total number of the Company's directors.

8. Share Capital (continued)

Common Shares can be converted, at any time, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of shares of either class cannot be increased without the approval of the holders of the other class. Neither the Class A Non-Voting Shares nor the Common Shares can be changed by way of subdivision, consolidation, reclassification, exchange or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all or substantially all of the holders of Common Shares (other than an offer to purchase both Class A Non-Voting Shares and Common Shares at the same price and on the same terms and conditions) and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon be entitled to one vote per share at all meetings of the shareholders.

The foregoing is a summary of certain of the conditions attached to the Class A Non-Voting Shares of the Company and reference should be made to the Company's articles for a full statement of such conditions.

As at January 3, 2004, the Company had dividends payable to Class A Non-Voting and Common Share holders of $8.1 million (2002 – $7.8 million).

9. Stock-based Compensation Plans

The Company has six stock-based compensation plans, which are described below.

Employee Profit Sharing Plan The Company offers its employees a Deferred Profit Sharing Plan ("DPSP"). The amount of the award is contingent on the Company's profitability. The maximum contribution is based on 6.75 percent of earnings before income taxes and minority interest, after certain adjustments. The maximum amount of the Company's contribution to the DPSP per employee per year is subject to limits set by the Canada Revenue Agency. The DPSP is required to invest and maintain 10 percent of its holdings in the Company's Class A Non-Voting Shares. The Company's contributions to the DPSP vest 20 percent after one year of continuous service and 100 percent after two years of continuous service.

In 2003, of the employee profit sharing plan expense for the prior year, the Company contributed $13.8 million (2002 – $13.0 million) under terms of the DPSP towards the Trustee-managed investment portfolio. As of January 3, 2004, the DPSP held 419,280 Common Shares (2002 – 419,280) and 1,581,801 Class A Non-Voting Shares (2002 – 3,003,532) of the Company.

Employee Stock Purchase Plan The Company offers an Employee Stock Purchase Plan ("ESPP") to its employees, whereby employees can choose to have up to 10 percent of their annual base earnings withheld to purchase Class A Non-Voting Shares of the Company. The purchase price of the shares is calculated monthly and is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange for a given month. The Company may elect to match up to 50 percent of employee contributions to the ESPP. The Company's matching contribution vests in increments of 10 percent for every year of an employee's service.

In return for employee contributions, the Company issued to employees 578,894 Class A Non-Voting shares in 2003 (2002 – 620,844). The Company's matching contribution of $8.9 million in 2003 (2002 – $8.4 million) was used to purchase Class A Non-Voting shares on the Toronto Stock Exchange. In addition, the Company recorded as compensation expense $5.0 million (2002 – $4.9 million) for reimbursement of employee income tax liabilities relating to the ESPP.

Deferred Share Unit Plan The Company offers a Deferred Share Unit Plan ("DSUP") for members of the Board of Directors. Under the DSUP each director may elect to receive all or a percentage of his or her annual compensation in the form of notional Class A Non-Voting Shares of the Company called deferred share units ("DSUs"). The issue price of each DSU is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange during the 10-day period prior to the last day of the quarter in which the DSU is issued. A director must elect to participate or change his or her participation in the DSUP prior to the beginning of a fiscal quarter. The DSU account of each director includes the value of dividends, if any, as if reinvested in additional DSUs. The director is not permitted to convert DSUs into cash until retirement from the Board. The value of the DSUs, when converted to cash, will be equivalent to the market value of the Class A Non-Voting Shares at the time the conversion takes place. The value of the outstanding DSUs as at January 3, 2004 was $2.2 million (2002 – $1.2 million).

Restricted share units The Company has granted restricted share units ("RSUs") to certain employees, which entitle the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the restriction period, multiplied by an applicable multiplier if specific performance-based criteria are met. The restriction period is a maximum of three years less 30 days from the date of grant. Compensation expense related to the RSUs is accrued over the term of the RSU based on the expected total compensation to be paid out at the end of the restriction period, factoring in the impact of the probability of any performance-based criteria being met during the restriction period and the impact of the equity contracts used to hedge the anticipated exposure relating to RSUs. The end of the restriction period was October 3, 2003 and all RSUs were settled with cash payments. The compensation expense recorded for the year ended January 3, 2004, in respect of this plan, was $4.9 million (2002 – $11.1 million).

Performance share units The Company has granted performance share units ("PSUs") to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the restriction period, multiplied by an applicable multiplier determined by specific performance-based criteria. The restriction period is a maximum of three years less 45 days from the date of grant. Compensation expense related to the PSUs is accrued over the term of the restriction period based on the expected total compensation to be paid out at the end of the restriction period, factoring in the probability of any performance-based criteria being met during that period. The compensation expense recorded for the year ended January 3, 2004 in respect of this plan was $4.5 million (2002 – $1.2 million).

Stock options The Company has granted options to certain employees for the purchase of Class A Non-Voting Shares, with vesting occurring on a graduated basis over a four-year period. The exercise price of each option equals the weighted average closing price of Class A Non-Voting shares on the Toronto Stock Exchange for the 10-day period preceding the date of grant. Options are exercisable over a term of 10 years. The aggregate number of Class A Non-Voting Shares issuable under the stock option plan may not exceed 11.0 million Class A Non-Voting Shares.

Effective December 29, 2002, the Company elected early adoption, on a prospective basis, of the new recommendations issued by the Canadian Institute of Chartered Accountants relating to stock-based compensation. In accordance with the new standard, stock options granted after adoption of the standard are measured on grant date using a fair-value based method and expensed over the vesting period. The compensation expense recorded in the year ended January 3, 2004, in respect of stock options granted on or after December 29, 2002, was $0.7 million (2002 – $nil). The counterpart is recorded as contributed surplus. Any consideration paid by employees on exercise of stock options is credited to share capital.

The weighted average grant-date fair value of options granted in 2003 has been estimated at $6.99 per option using the Black-Scholes model for valuing options. The following weighted average assumptions were used: expected dividend yield of 1.47 percent per annum, risk free interest rate of 4.5 percent per annum, expected stock price volatility of 27.4 percent and expected option life of 3.5 years.

The outstanding options as at January 3, 2004 were granted at prices between $12.84 and $41.47 and expire between March 2004 and November 2013.

Stock option transactions during 2003 and 2002 were as follows:

	2003		2002	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**4,323,504**	**$ 25.25**	4,141,680	$ 24.46
Granted	**523,800**	**30.04**	739,500	25.78
Exercised	**(571,403)**	**23.71**	(447,002)	18.84
Forfeited and expired	**(243,775)**	**30.25**	(110,674)	25.19
Outstanding at end of year	**4,032,126**	**$ 25.79**	4,323,504	$ 25.25
Stock options excercisable at end of year	**2,274,809**		1,997,478	

The following table summarizes information about stock options outstanding at January 3, 2004:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life[1]	Weighted average exercise price	Number exercisable at January 3, 2004	Weighted average exercise price
$ 29.77 to 41.47	**797,389**	**6.44**	**$ 36.46**	**717,814**	**$ 36.83**
26.81 to 29.63	**1,118,446**	**8.24**	**28.09**	**487,371**	**27.02**
21.03 to 26.48	**1,213,694**	**8.37**	**23.56**	**442,465**	**23.25**
12.84 to 20.64	**902,597**	**6.98**	**16.50**	**627,159**	**16.23**
$ 12.84 to 41.47	**4,032,126**	**7.64**	**$ 25.79**	**2,274,809**	**$ 26.41**

[1] Weighted average remaining contractual life is expressed in years.

9. Stock-based Compensation Plans (continued)

Pro forma stock option disclosure Had compensation expense been recorded for stock options granted commencing December 30, 2001, based on the fair value at the grant dates using the fair-value based method of accounting for stock-based compensation, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Dollars in millions except per share amounts)	**2003**	2002
Net earnings:		
As reported	**$ 246.6**	$ 202.4
Pro forma	**$ 245.3**	$ 201.2
Basic earnings per share:		
As reported	**$ 3.06**	$ 2.56
Pro forma	**$ 3.04**	$ 2.54
Diluted earnings per share:		
As reported	**$ 3.02**	$ 2.53
Pro forma	**$ 3.00**	$ 2.52

10. Income Taxes

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

(Dollars in millions)	**2003**	2002
Income taxes based on a combined Canadian federal and provincial income tax rate of 36.0% (2002 – 38.0%)	**$ 134.5**	$ 119.1
Adjustment to income taxes resulting from:		
Large corporations tax	**3.5**	4.2
Lower income tax rate on earnings of foreign subsidiaries	**(16.6)**	(15.2)
Minority interest	**(4.2)**	(4.0)
Other	**1.3**	(0.3)
	$ 118.5	$ 103.8

The following are the components of the income tax provision:

(Dollars in millions)	**2003**	2002
Current tax expense	**$ 107.5**	$ 96.6
Future income tax expense relating to the origination and reversal of temporary differences	**8.2**	6.6
Future income tax expense resulting from increase in tax rate	**2.8**	0.6
Income tax expense	**$ 118.5**	$ 103.8

The tax-effected temporary differences which result in future income tax assets and (liabilities) are as follows:

(Dollars in millions)	**2003**	2002
Provisions and deferred income	**$ 31.8**	$ 37.2
Employee future benefits	**12.1**	10.3
Property and equipment	**(42.0)**	(45.1)
Deferred items	**(41.3)**	(22.9)
Other	**–**	(7.9)
Future income taxes	**$ (39.4)**	$ (28.4)

11. Notes to the Consolidated Statements of Cash Flows

Working capital components

(Dollars in millions)	2003	2002
Cash generated from (used for):		
Accounts receivable	**$ (4.0)**	$ (281.9)
Merchandise inventories	**12.6**	28.2
Prepaid expenses and deposits	**(8.8)**	(1.2)
Accounts payable and other	**(29.0)**	230.4
Income taxes payable	**15.8**	7.1
Other	**(10.0)**	(0.6)
Changes in other working capital components	**$ (23.4)**	$ (18.0)

Cash and cash equivalents The components of cash and cash equivalents are:

(Dollars in millions)	2003	2002
Cash	**$ (13.7)**	$ (46.4)
Short-term investments	**740.3**	674.6
Cash and cash equivalents	**$ 726.6**	$ 628.2

Supplementary information In 2003, the Company paid income taxes amounting to $84.0 million (2002 – $82.6 million) and interest payments of $82.9 million (2002 – $83.5 million).

Sale of Associate Dealer receivables In December 2003, the Company sold certain Associate Dealer receivables to independent investors. According to the terms of the sale, the Company retained full servicing responsibilities for which it received no compensation. The Company has recognized a loss of $0.7 million (2002 – $0.9 million) on the sale of the Associate Dealer receivables, which assumes no expected credit losses and a servicing liability of 1.0 percent. Quantitative information about accounts receivable managed by the Company is as follows:

	Total principal amount of receivables	
(Dollars in millions)	2003	2002
Associate Dealer receivables	**$ 462.3**	$ 404.7
Associate Dealer receivables sold	**(98.7)**	(150.9)
Other accounts receivable	**125.8**	330.3
Receivables held	**$ 489.4**	$ 584.1

12. Operating Leases

The Company is committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) for equipment and properties under leases with termination dates extending to 2043. Under sublease arrangements with Associate Dealers, the majority of the properties are income-producing. The minimum annual rental payments for equipment and property are as follows:

(Dollars in millions)

2004	$ 127.0
2005	113.3
2006	102.4
2007	93.3
2008	88.7
2009–2043	513.9
	$ 1,038.6

13. Guarantees, Commitments and Contingencies

Guarantees Effective December 29, 2002, the Company implemented AcG-14 "Disclosure of Guarantees," which expands previously issued accounting guidance and requires additional disclosure by a guarantor in its financial statements for fiscal periods beginning on or after January 1, 2003 for certain guarantees.

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the AcG-14 definition of a guarantee. AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay its indebtedness when due.

The Company has provided the following significant guarantees to third parties:

Standby letters of credit and performance guarantees The Company has arranged for several major Canadian banks to provide standby letters of credit ("LCs") to an independent trust (the "Trust"), which provides loans to Associate Dealers for their purchase of inventory and fixed assets. The Trust raises funds in public markets to finance the loans it makes to franchisees. Total loans provided by the Trust to Associate Dealers as at January 3, 2004 were $893.5 million (2002 – $951.7 million). In the event that an Associate Dealer defaults on a loan from the Trust, the Company has the right to purchase the Associate Dealer's loan from the Trust, at which time the Company is assigned the Associate Dealer's debt instrument and related security documentation provided to the Trust. The assignment of this documentation provides the Company with first priority security over all the Associate Dealer's assets subject to certain prior ranking statutory claims. It is expected that the Company would likely recover any payments made to purchase a defaulted loan from the Trust including any associated expenses. In the event the Company does not elect to purchase an Associate Dealer's defaulted loan and the Trust draws against the standby LCs, the Company has agreed to reimburse the banks for the amount so drawn. In the unlikely event that all the standby LCs were fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $270.9 million at January 3, 2004 (2002 – $270.9 million). The Company has not recorded any liability for these amounts, due in part to the credit quality of the loans and to the nature of the underlying collateral, represented by the fixed assets and inventory of the Associate Dealers.

Business and property dispositions In connection with agreements for the sale of all or a part of a business 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 of the business, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the agreement. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification agreements.

Lease agreements The Company has entered into agreements with certain of its lessors that guarantee the lease payments of certain sub-lessees of its facilities to lessors. Generally, these lease agreements relate to facilities the Company has vacated prior to the end of the term of its lease. These lease agreements require the Company to make lease payments throughout the lease term if the sub-lessee fails to make the scheduled payments. These lease agreements have expiration dates through May 2006. The maximum amount that the Company may be required to pay under these types of agreements is $0.9 million, except for one lease agreement for which the maximum amount cannot be reasonably estimated as it is based on a percentage of the lessee's gross revenue. In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the Consolidated Financial Statements with respect to these lease agreements.

Third party debt agreements The Company has guaranteed the debt of certain PartSource franchisees and Associate Dealers. These third party debt agreements require the Company to make debt payments throughout the term of the related debt instrument if the franchisee or Associate Dealer fails to make scheduled debt payments. These third party debt agreements have expiration dates extending to March 31, 2004. The maximum amount that the Company may be required to pay under these types of debt agreements is $5.1 million (2002 – $4.8 million). No amount has been accrued in the Consolidated Financial Statements with respect to these debt agreements.

Indemnification of lenders and agents under credit facilities In the ordinary course of business, the Company has agreed to indemnify its lenders under various credit facilities against costs or losses resulting from changes in laws and regulations which would increase the lenders' costs and from any legal action brought against the lenders related to the use of the loan proceeds. These indemnifications generally extend for the term of the credit facilities and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification agreements.

Other indemnification commitments In the ordinary course of business, the Company provides indemnification commitments to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above) and the arrangement with the Trust discussed above. These indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of 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 indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification commitments.

Other commitments and contingencies As at January 3, 2004, the Company had the following other commitments and contingencies. In accordance with Canadian generally accepted accounting principles, the Company has not recognized a liability relating to these commitments and contingencies except for a provision for legal proceedings:

The Company has obtained documentary and standby LCs aggregating $32.1 million (2002 – $43.0 million) relating to the importation of merchandise inventories and to facilitate various real estate activities for the Company's merchandise operations.

The Company had commitments of approximately $46.9 million for the acquisition of property and equipment and the expansion of retail store facilities during 2004.

The Company has committed to pay a minimum of $40.1 million in total to third parties for credit card processing services (to 2006) and information technology services (to 2004).

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

14. Financial Instruments

The purpose of this Note is to disclose the Company's exposure related to financial instruments.

The Company enters into interest rate swap contracts with approved creditworthy counterparties to manage the Company's current and anticipated exposure to interest rate risks. The Company also enters into foreign exchange contracts, primarily in U.S. dollars, to hedge future purchases of foreign currency denominated goods and services with an emphasis on those purchases that are expected to be completed within a six-month period. The Company also enters into equity contracts to hedge certain future stock-based compensation expenses. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the Consolidated Balance Sheets. The Company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities.

As at January 3, 2004, outstanding off-balance sheet financial instruments of the Company are summarized as follows:

	Notional amounts maturing					
(Dollars in millions)	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years	**2003 Total**	2002 Total
Interest rate swap contracts	$ 50.0	$ 175.0	$ –	$ 100.0	**$ 325.0**	$ 375.0
Foreign exchange contracts [1]	1,088.1	–	–	–	**1,088.1**	2,021.7
Equity contracts	–	–	–	–	**–**	18.7

[1] May include both forward contracts and options.

For the year ended January 3, 2004, interest expense included a net receipt of approximately $0.8 million (2002 – net receipt of $7.4 million) relating to interest rate swaps. Any unsettled interest differentials outstanding at year end were accrued for and included in accounts payable and other.

The estimated fair values of financial instruments as at January 3, 2004 and December 28, 2002 are based on relevant market prices and information available at that time. The fair-value estimates below are not necessarily indicative of the amounts that the Company might receive or pay in actual market transactions. For financial instruments which are short-term in nature, carrying value approximates fair value. The fair values of other financial instruments are as follows:

	2003		2002	
(Dollars in millions)	**Book value**	**Fair value**	Book value	Fair value
Financial assets and liabilities				
Loans and mortgages receivable	**$ 19.9**	**$ 20.2**	$ 16.0	$ 16.4
Long-term debt (excluding current portion)	**(886.2)**	**(964.6)**	(1,125.2)	(1,186.7)
Off-balance sheet financial instruments				
Interest rate swap contracts	**$ –**	**$ 7.7**	$ –	$ 11.1
Foreign exchange contracts [1]	**–**	**(33.4)**	–	1.3
Equity contracts	**–**	**–**	–	10.5

[1] The average effective rate at January 3, 2004 was $1.3704 (2002 – $1.5570).

The fair values of loans and mortgages receivable, long-term debt and interest rate swap contracts were estimated based on quoted market prices (when available) or discounted cash flows, using discount rates based on market interest rates and the Company's credit rating. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates, and reflect the time value of money. The equity contracts were valued based on the differential between contract rates and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange. For interest rate swap, foreign exchange and equity contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to unwind the contracts at the reporting date.

For the long-term portfolio investment (see Note 3), fair value information was not readily available as the investment was not publicly traded.

14. Financial Instruments (continued)

Interest rate risk The following table identifies the Company's financial assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive as they are either non-interest bearing or bear interest at fixed rates.

	2003		2002	
(Dollars in millions)	**Interest sensitive**	**Non-interest sensitive**	Interest sensitive	Non-interest sensitive
Cash and cash equivalents	**$ 726.6**	**$ –**	$ 628.2	$ –
Credit charge receivables	**–**	**562.8**	–	579.8
Loans and mortgages receivable	**–**	**19.9**	–	16.0
Long-term debt (including current portion)	**–**	**(1,130.7)**	(65.0)	(1,268.4)
	$ 726.6	**$ (548.0)**	$ 563.2	$ (672.6)

The Company enters into interest rate swap contracts to manage its exposure to interest rate risk. As at January 3, 2004, the Company had entered into contracts that exchanged a net notional amount of $125.0 million from fixed to floating rate debt (2002 – $175.0 million exchanged from fixed to floating). These contracts hedge the Company's net balance sheet interest rate sensitivity position. A 1 percent change in interest rates would not materially affect the Company's earnings, cash flow or financial position.

Credit risk The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Associate Dealers who individually comprise less than 1 percent of the total balance outstanding and are spread across Canada. Similarly, credit charge receivables are generated by credit card customers, a large and geographically dispersed group. Current credit exposure is limited to the loss that would be incurred if all of the Company's counterparties were to default at the same time.

The credit exposure with respect to hedges and similar financial instruments is the current replacement value of only those contracts which are in a gain position. As at January 3, 2004, the credit exposure due to interest rate swap and foreign exchange contracts was $12.3 million (2002 – $25.6 million). The Company believes that its exposure to credit and market risks for these instruments is negligible.

15. Segmented Information

The Company's reportable operating segments are strategic business units that offer different products and services. The Company has four reportable operating segments: Canadian Tire Retail ("CTR"), Canadian Tire Financial Services ("Financial Services"), Canadian Tire Petroleum ("Petroleum") and Mark's Work Wearhouse ("Mark's"). CTR derives its revenue primarily from shipments of merchandise to Associate Dealers. Financial Services is primarily engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards. Petroleum revenue arises from the sale of petroleum products through its agents. Mark's revenue arises from the sale of merchandise to customers from its corporate-owned stores.

The accounting policies of the segments are the same as those described in the significant accounting policies in Note 1. The Company evaluates each segment's performance based on earnings before income taxes and minority interest. The only significant non-cash item included in segment earnings before income taxes and minority interest is depreciation and amortization.

	CTR		Financial Services		Petroleum		Mark's [1]		Eliminations		Total	
(Dollars in millions)	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Gross operating revenue [2]	**$ 4,641.8**	$ 4,338.8	**$ 489.5**	$ 395.9	**$ 963.5**	$ 836.5	**$ 458.0**	$ 373.3	**$ –**	$ –	**$ 6,552.8**	$ 5,944.5
Earnings before income taxes and minority interest	**$ 208.8**	$ 177.8	**$ 116.2**	$ 94.0	**$ 23.8**	$ 20.1	**$ 25.0**	$ 21.7	**$ –**	$ –	**$ 373.8**	$ 313.6
Income taxes											**$ (118.5)**	$ (103.8)
Minority interest											**$ (8.7)**	$ (7.4)
Net earnings											**$ 246.6**	$ 202.4
Interest revenue [3]	**$ 25.9**	$ 26.9	**$ 7.5**	$ 4.6	**$ –**	$ –	**$ –**	$ –	**$ (18.9)**	$ (17.8)	**$ 14.5**	$ 13.7
Interest expense [3]	**$ 90.5**	$ 85.4	**$ 10.4**	$ 12.6	**$ –**	$ –	**$ 3.0**	$ 2.8	**$ (18.9)**	$ (17.8)	**$ 85.0**	$ 83.0
Depreciation and amortization	**$ 116.5**	$ 122.0	**$ 13.7**	$ 17.7	**$ 10.8**	$ 8.7	**$ 13.0**	$ 10.1	**$ –**	$ –	**$ 154.0**	$ 158.5
Total assets	**$ 3,764.0**	$ 3,911.9	**$ 989.4**	$ 951.5	**$ 457.7**	$ 415.5	**$ 285.2**	$ 254.3	**$ (595.6)**	$ (657.8)	**$ 4,900.7**	$ 4,875.4
Capital expenditures	**$ 207.3**	$ 202.5	**$ 8.1**	$ 8.5	**$ 38.8**	$ 26.8	**$ 24.5**	$ 11.9	**$ –**	$ –	**$ 278.7**	$ 249.7

[1] Mark's 2002 results are included for the period from February 2, 2002 to December 28, 2002.

[2] Gross operating revenue includes dividend and interest income.

[3] Interest revenue and expense are not allocated to Petroleum for performance evaluation purposes.

16. Minority Interest

In November 2001, the Company formed a limited partnership for the purpose of raising $300 million of capital in relation to a portfolio of its retail properties. The Company is the general partner in this partnership. A third party investor group invested $300 million in the partnership for a limited partnership interest with preferential rights to distribution of income and capital. The preferred interest is entitled to a cumulative, quarterly preferred distribution on its capital account (4.2 percent for the year ended January 3, 2004; 2002 – 3.8 percent) and the partnership intends to follow a full distribution policy. The partnership invested in the retail properties by way of a note and equity in an entity that holds the properties. The partnership has an indefinite life, but could be liquidated in certain circumstances including shortfalls in cash flows generated by the retail properties. The assets and liabilities, results of operations and cash flows of the partnership are included in the Consolidated Financial Statements of the Company. The preferred interest is treated as minority interest on the Consolidated Balance Sheets and in the Consolidated Statements of Earnings. The Company did not recognize a gain or loss on the formation of the partnership.

17. Mark's Work Wearhouse Ltd. Acquisition

As previously disclosed, effective February 1, 2002, the Company acquired all of the outstanding common shares of Mark's for $110.8 million, including acquisition costs. Mark's is one of the largest specialty retailers in Canada, offering primarily men's and ladies' casual clothing, footwear and accessories for business casual and industrial work environments, as well as for recreational use or relaxation. The acquisition has been accounted for using the purchase method of accounting with the results of Mark's included in the Consolidated Financial Statements from the date of purchase. The estimated fair values of the net assets acquired and consideration paid are summarized as follows:

(Dollars in millions)	
Accounts receivable	$ 19.2
Merchandise inventories	85.8
Property and equipment	28.8
Acquired intangible assets	52.0
Goodwill	18.9
Other assets	4.0
Bank indebtedness	(1.9)
Accounts payable and other	(54.6)
Income taxes payable	(3.2)
Current portion of long-term debt	(10.9)
Long-term debt	(25.2)
Future income taxes	(2.1)
Cash consideration	$ 110.8

The impact of the acquisition on the Consolidated Statements of Cash Flows is the sum of the bank indebtedness assumed and the cash consideration.

18. Purchases of Mark's Franchise Stores

As opportunities arise, Mark's purchases its franchise stores and converts them to corporate stores. Each purchase is accounted for using the purchase method of accounting with the results of the acquired franchise store included in the Consolidated Financial Statements from the date of purchase. During the year, Mark's purchased 20 franchise stores. The estimated fair value of the assets acquired during the year ended January 3, 2004 is summarized as follows:

(Dollars in millions)	
Merchandise inventories	$ 3.5
Property and equipment	0.5
Liabilities	(0.6)
Goodwill (Note 4)	7.8
Cash consideration	$ 11.2

19. NAPA Agreements

As announced on November 4, 2002, the Company signed five-year supply and technology agreements with NAPA Canada Inc. ("NAPA"). Under the terms of the supply agreement, NAPA will supply Canadian Tire stores with products, which comprise approximately 15 percent of Canadian Tire's automotive hard parts. Under the terms of the technology agreement, NAPA will provide technology for parts ordering and automated inventory tools. Implementation as well as technology and infrastructure changes required to support the agreements resulted in a one-time restructuring charge of $6.8 million in 2002. A phased implementation of the agreements began in the first quarter of 2003 and the majority of the implementation was completed by the end of 2003.

20. Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

Supplementary Information: Interest Coverage

The Company's long-term interest requirements for the 53 weeks ended January 3, 2004, after annualizing interest on long-term debt issued and retired during this period, amounted to $78.9 million. The Company's earnings before interest on long-term debt, income taxes and minority interest for the 53 weeks then ended were $453.3 million, which is 5.7 times the Company's long-term interest requirements for this period.

2003 Quarterly Information

(Dollars in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (December 29, 2002 to March 29, 2003)	Second Quarter (March 30, 2003 to June 28, 2003)	Third Quarter (June 29, 2003 to September 27, 2003)	Fourth Quarter (September 28, 2003 to January 3, 2004)	Total
Canadian Tire Retail					
Gross operating revenue	$ 865.0	$ 1,347.3	$ 1,111.6	$ 1,317.9	$ 4,641.8
Earnings before income taxes and minority interest	24.1	69.3	54.3	61.1	208.8
Canadian Tire Petroleum					
Gross operating revenue	243.7	226.4	243.6	249.8	963.5
Earnings before income taxes	4.5	5.7	5.7	7.9	23.8
Mark's Work Wearhouse					
Gross operating revenue	77.5	99.4	85.9	195.2	458.0
Earnings before income taxes	(2.1)	2.8	(2.7)	27.0	25.0
Canadian Tire Financial Services					
Gross operating revenue	112.5	112.0	120.6	144.4	489.5
Earnings before income taxes	24.3	21.7	26.6	43.6	116.2
Total					
Gross operating revenue	$ 1,298.7	$ 1,785.1	$ 1,561.7	$ 1,907.3	$ 6,552.8
Cost of merchandise sold and all expenses except for the undernoted items	1,186.4	1,621.1	1,414.3	1,694.5	5,916.3
Interest					
Long-term debt	20.5	19.6	19.2	23.1	82.4
Short-term debt	0.9	–	–	1.7	2.6
Depreciation and amortization	36.7	38.3	38.5	40.5	154.0
Employee profit sharing plans	3.4	6.6	5.8	7.9	23.7
Earnings before income taxes and minority interest	50.8	99.5	83.9	139.6	373.8
Income taxes	16.8	32.8	25.0	43.9	118.5
Minority interest	2.0	2.3	2.3	2.1	8.7
Net earnings	32.0	64.4	56.6	93.6	246.6
Basic earnings per share	0.40	0.80	0.70	1.16	3.06
Canadian Tire Retail					
Retail sales growth	5.8%	5.4%	3.7%	12.2%	7.0%
Comparable store sales growth	4.3%	3.9%	1.9%	9.4%	4.7%
Net shipments growth	(2.3)%	10.7%	5.0%	11.9%	7.0%
Number of new-format stores	293	296	299	309	
Number of traditional stores	156	154	151	143	
Cumulative number of Canadian Tire stores	449	450	450	452	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	341.6	355.0	360.9	395.6	1,453.1
Number of gas bars	216	220	221	232	
Number of car washes	37	41	43	47	
Number of convenience stores	208	211	213	222	
Mark's Work Wearhouse					
Retail sales growth	5.4%	1.6%	3.4%	16.8%	8.6%
Comparable store sales growth	6.9%	0.5%	2.1%	12.0%	6.6%
Number of Mark's Work Wearhouse stores	210	236	274	290	
Number of Work World stores	90	72	41	32	
Cumulative number of Mark's stores	300	308	315	322	
Class A Non-Voting Shares					
High	$ 33.65	$ 37.29	$ 36.49	$ 42.60	$ 42.60
Low	27.85	28.70	32.00	35.30	27.85
Close	29.90	32.20	36.09	39.65	39.65
Volume (thousands of shares)	13,549	11,757	10,937	15,691	51,934
Common Shares					
High	$ 40.50	$ 41.00	$ 41.50	$ 47.40	$ 47.40
Low	35.00	35.75	37.75	39.50	35.00
Close	35.60	38.38	41.50	46.90	46.90
Volume (thousands of shares)	16	19	20	36	91

Ten-Year Financial Review

(Dollars in millions except per share amounts)	2003[1]	2002	2001
Consolidated Statements of Earnings			
Gross operating revenue	**$ 6,552.8**	$ 5,944.5	$ 5,374.7
Earnings before interest, income taxes, depreciation and minority interest	**608.4**	542.7	490.6
Earnings from continuing operations before income taxes and minority interest	**373.8**	313.6	277.0
Income taxes	**118.5**	103.8	99.7
Net earnings from continuing operations before minority interest	**255.3**	209.8	177.3
Minority interest	**8.7**	7.4	0.6
Net earnings from continuing operations	**246.6**	202.4	176.7
Discontinued operations	**–**	–	–
Net earnings	**246.6**	202.4	176.7
Cash generated from operations	**542.0**	462.3	361.8
Cash generated from operating activities	**518.6**	444.3	187.0
Earnings retained and reinvested	**214.1**	170.8	145.2
Capital expenditures	**278.7**	249.7	358.2
Consolidated Balance Sheets			
Current assets	**$ 2,300.6**	$ 2,314.2	$ 1,993.2
Long-term receivables and other assets[2]	**156.7**	211.5	134.4
Property and equipment	**2,443.4**	2,349.7	2,243.6
Total assets	**4,900.7**	4,875.4	4,371.2
Current liabilities	**1,607.6**	1,583.6	1,110.1
Long-term debt (excludes current portion)	**886.2**	1,125.2	1,310.0
Employee future benefits	**34.2**	31.3	28.3
Future income taxes	**39.4**	28.4	19.1
Minority interest	**300.0**	300.0	300.0
Shareholders' equity	**2,033.3**	1,806.9	1,603.7
Consolidated per share			
Basic earnings per share from continuing operations	**$ 3.06**	$ 2.56	$ 2.25
Basic earnings per share	**3.06**	2.56	2.25
Diluted earnings per share from continuing operations[3]	**3.02**	2.53	2.23
Diluted earnings per share[3]	**3.02**	2.53	2.23
Cash generated from operations	**6.72**	5.85	4.60
Cash generated from operating activities	**6.43**	5.62	2.38
Dividends paid	**0.40**	0.40	0.40
Shareholders' equity	**25.18**	22.63	20.41
Statistics at year end			
Number of Canadian Tire stores	**452**	451	450
Number of gas bars	**232**	212	203
Number of car washes	**47**	33	20
Number of Mark's Work Wearhouse stores[4]	**290**	190	–
Number of Work World stores[4]	**32**	116	–

[1] 53-week period.

[2] Includes goodwill and intangible assets.

[3] Data needed to calculate diluted earnings per share prior to 1998 is not available.

[4] Mark's Work Wearhouse acquired February 1, 2002.

2000	1999	1998	1997[1]	1996	1995	1994
$ 5,207.6	$ 4,728.3	$ 4,347.3	$ 4,087.8	$ 3,930.4	$ 3,795.6	$ 3,618.5
455.1	429.9	404.1	345.2	320.9	319.2	305.6
240.7	227.1	249.7	209.5	195.9	189.6	185.6
92.7	81.2	82.7	60.9	64.0	67.8	70.8
148.0	145.9	167.0	148.6	131.9	121.8	114.8
–	–	–	–	–	–	–
148.0	145.9	167.0	148.6	131.9	121.8	114.8
–	–	–	–	–	–	(109.3)
148.0	145.9	167.0	148.6	131.9	121.8	5.5
352.3	326.1	316.2	308.7	274.2	254.6	199.6
502.3	323.5	364.4	274.0	302.7	123.9	161.1
116.7	115.1	135.7	115.2	97.0	86.6	(29.9)
382.2	377.3	303.1	253.5	220.7	195.0	90.6
$ 1,527.7	$ 1,901.8	$ 1,511.4	$ 1,438.3	$ 1,339.8	$ 1,558.6	$ 1,655.4
122.9	105.4	36.0	33.3	34.1	30.0	28.7
2,097.1	1,864.1	1,618.5	1,403.4	1,230.1	1,085.9	984.8
3,747.7	3,871.3	3,165.9	2,875.0	2,604.0	2,674.5	2,668.9
1,124.8	1,440.9	1,054.6	1,167.3	863.6	911.0	1,044.4
1,115.0	1,050.3	815.0	380.4	420.4	509.2	465.1
26.6	8.7	–	–	–	–	–
21.9	26.6	34.7	28.7	20.6	14.9	7.3
–	–	–	–	–	–	–
1,459.4	1,344.8	1,261.6	1,298.6	1,299.4	1,239.4	1,152.1
$ 1.89	$ 1.89	$ 2.09	$ 1.79	$ 1.51	$ 1.38	$ 1.30
1.89	1.89	2.09	1.79	1.51	1.38	0.06
1.89	1.86	2.05	–	–	–	–
1.89	1.86	2.05	–	–	–	–
4.50	4.22	3.96	3.71	3.15	2.89	2.26
6.41	4.19	4.69	3.30	3.48	1.41	1.82
0.40	0.40	0.40	0.40	0.40	0.40	0.40
18.58	17.21	16.20	15.79	15.04	14.00	13.03
441	432	430	430	426	424	423
206	202	195	193	197	199	202
16	10	8	3	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–

Glossary of Terms

Bank card
A credit charge card offered by, or with, Visa or MasterCard.

Bankers' acceptance
A short-term credit investment created by a non-financial firm and guaranteed by a bank as to payment.

Black-Scholes model
A complex formula that computes the value of an option by using normal probability distribution to consider the entire range of possible future stock prices throughout the term of the option.

Capital-light
A project that requires a relatively low investment of capital.

Co-branding
In the context of Canadian Tire Petroleum's strategy, a competitor's gas bar is converted to the Canadian Tire brand under a joint venture agreement, while the adjacent convenience store continues to operate under the competitor's brand.

Comparable store sales growth
Sales growth of stores that have not experienced any significant change in the last 53 weeks. Significant change is defined as the expansion of retail square footage by more than 25 percent or a major re-merchandising.

Counterpart
In the context of stock-based compensation plans, an offsetting entry to stock option expense.

Credit charge receivables
The aggregate amount billed to Canadian Tire credit card customers under credit card agreements.

Credit risk
The potential for loss due to the failure of a borrower to meet their financial obligation.

Current ratio
Current assets divided by current liabilities.

Debentures
Long-term corporate debt that is not secured by the pledge of specific assets.

Debt covenants
Restrictions on the activities of a debtor written into bank loan agreements or bond indenture agreements that prohibit the debtor from taking actions that might hurt the interests of the lenders or bondholders.

Debt discount
The amount by which the price for a security is less than its par or face value. The discount or difference between such a reduced value purchase price and the redemption (par) value comprises all or part of the investor's compensation for owning the security.

Derivative
A financial instrument whose value depends upon the values of underlying assets, interest rates, currency exchange rates or indices.

Diluted earnings per share
The amount of earnings for the period available to each share outstanding during the period and to each share that would have been outstanding, assuming the issuance of shares for all dilutive potential shares outstanding during the period.

Discount rate
An interest rate applied to a single cash flow that will not be paid or received until a future date in order to calculate the present value of that future cash flow.

Documentary letter of credit
A financial instrument issued by a bank on behalf of a customer whereby the issuing bank has guaranteed payment of a financial obligation to a third party upon presentation of specified documents. The customer in turn reimburses the bank.

Equity contract
A financial instrument used to hedge the future appreciation of restricted share units.

Fair value
The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair-value based method
A method of accounting for stock options whereby compensation expense is recorded for the fair value of the stock options issued.

Foreign exchange contract
An agreement between parties to exchange stipulated amounts of one currency for another currency at one or more future dates.

Hedge
A risk management technique used to manage interest rate, foreign currency exchange or other exposures arising from regular business transactions.

Interest coverage
Earnings before interest and income taxes divided by interest expense.

Interest rate risk
The potential impact on the Company's earnings and economic value due to changes in interest rates.

Interest rate swap
A contractual agreement between two parties to exchange fixed and floating rate interest payments based on a notional value in a single currency.

Interest-only strip
Represents the present value of the Company's share of the spread to be earned over the collection period on the credit charge receivables sold.

Intrinsic value
The amount by which the market price of the underlying stock exceeds the exercise price of an option.

Inventory turnover
Cost of goods sold divided by average inventory for the main CTR distribution centres.

Liquidation rate
The rate at which receivables held by the lender are paid down by the debtor.

Long-term debt to total capitalization
Long-term debt divided by the sum of short-term debt, long-term debt, future income taxes, employee future benefits, minority interest and shareholders' equity.

Medium term notes
Debt instruments with maturities ranging from nine months to 30 years that are offered on a continuous basis, which means that they are issued and sold as buyers request them rather than on a single issue date.

Minority interest
A reference to shareholders – individuals, corporations or partnerships – that own less than 50 percent of a subsidiary's outstanding voting common stock. The minority shareholders hold an interest in the subsidiary's net assets and share earnings with the majority shareholder.

Net provision for credit charge receivables
A calculation as writeoffs, less recoveries, plus the change in allowance for future losses.

New-format store
A Canadian Tire store that has opened since 1993 in one of the Company's newer store formats, including Concept 20/20, and incorporating, among other features, a larger, more convenient layout and expanded merchandising offering.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts.

Off-balance sheet financial instrument
An asset or liability that is not recorded on the balance sheet, but has the potential to produce positive or negative cash flows in the future.

Projected benefit method prorated on services
An actuarial valuation method whereby a distinct unit of future benefit is attributed to each year of credited service with equal portions of the total estimated future benefit attributed to each year of service in the attribution period. The actuarial present value of that unit of benefit is computed separately for the period during which it is presumed to have accrued.

Re-branding
In context of Canadian Tire Petroleum's strategy, re-branding is the conversion of a competitor's gas bar and kiosk to the Canadian Tire brand under a joint venture agreement.

Retail method
An inventory valuation method used primarily by retailers under which the inventory is carried at the lower of the estimated cost and anticipated selling price, less an expected average gross margin.

Retained interest
A beneficial interest in the assets transferred over which a seller has not relinquished control, including servicing assets, residual interest, cash reserve accounts and securities backed by the transferred assets.

Return on equity
Net earnings divided by average shareholders' equity.

Return on invested capital
After-tax earnings before interest, income taxes and minority interest divided by average invested capital. Invested capital is the sum of current assets, current portion of long-term debt, property and equipment, goodwill, intangible assets, long-term receivables and certain other assets less current liabilities.

Securitization
The process by which financial assets are transferred to a trust. The Company normally accounts for these transactions as a sale, provided certain conditions are met, and accordingly, these assets are not included in the Consolidated Balance Sheets.

Self-sustaining foreign operation
A foreign operation which is financially and operationally independent of the reporting enterprise such that the exposure to exchange rate changes is limited to the reporting enterprise's net investment in the foreign operation.

Servicing
The collection of principal and interest from borrowers, accounting for the cash flows due and the cash flows received, and remitting the cash flows to the entitled recipients.

Servicing liability
A contract to service receivables under which the estimated future revenues from contractually specified servicing fees, late charges and other ancillary revenues are not expected to adequately compensate the company that is servicing the receivables.

Standby letter of credit
A financial instrument issued by a bank on behalf of a customer whereby the issuing bank has guaranteed payment of a financial obligation to a third party should the customer fail to meet its obligation to the third party.

Superbranding
A Mark's Work Wearhouse initiative to expand the distribution and strength of the brand and to elevate the banner to a Superbrand status, available, relevant and popular with ever more Canadians.

Traditional store
A Canadian Tire store that has not been replaced by a new-format store or expanded to incorporate new-format store features.

Treasury stock method
A method of recognizing the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period.

Undivided co-ownership interest
A partial legal or beneficial ownership of account assets.

Weighted average number of shares
The number of shares determined by relating the portion of time within the reporting period the shares have been outstanding to the total time in that period.

We are growing responsibly

The ongoing growth and future viability of our enterprise depends on the health and well-being of all stakeholders, including our customers, our shareholders, our Company team and our communities. Successful implementation of our Environmental, Health and Safety – EHS – programs and policies is as vital to our future as successful execution of our Strategic Plan. We are pleased to report that we continued to build on our industry leadership in this important area through 2003.

While maintaining a high standard of compliance with EHS regulations, we conducted a thorough review of all policies and programs of our EHS Management System, ensuring consistency across the organization, while allowing for the specific needs and requirements of the individual business units. We strengthened our program further in 2003 by establishing a new EHS incident investigation and reporting policy.

Maintaining a safe and healthy workplace

Strong employee participation in our health and safety programs has delivered outstanding results. For the second year in a row, we recorded no lost time injuries at our A.J. Billes distribution centre. As well, we saw declines in short-term disability and new long-term disability claims due to workplace incidents. Our overall health and safety performance resulted in a significant rebate of the premiums paid to the Ontario Workers' Safety Insurance Board for 2002. During the year, we continued to build on our enTIRE Health and Wellness program – rolling it out to our auto parts distribution centres, establishing a Home Office Wellness Committee, launching a smoking cessation program in our distribution centres, increasing participation in our fitness program, and holding a series of wellness events such as health fairs and flu shot clinics across the network. Flu shot participation increased by 36 percent during the year, resulting in fewer employee sick days due to flu.

Environmental responsibility

We continued to build on our leadership in environmental stewardship throughout the organization. Among the highlights of 2003:

- We increased recycling and reuse of non-hazardous waste;
- We increased recycling of batteries collected from customers by 3 percent;
- We maintained leadership in gasoline inventory loss, at half the industry average;
- We conducted environmental site assessments on 54 existing and potential store properties.

Promoting the environmental health of communities

We continued to encourage environmental stewardship in our communities with the seventh annual Canadian Tire Community Environmental Awards, with grants totalling $10,000 to 10 non-profit projects sponsored by employees of our Associate Dealers. Projects ranged from shoreline cleanups and wetland restoration to environmental education programs. Most of the awards were granted to youth-oriented and school-based programs – celebrating the leaders of the future for their initiatives today.

Directors and Officers

Directors

Peter Y. Atkinson [1,4]
Executive Vice-President Hollinger Inc.,
an international newspaper company

Gilbert S. Bennett
Chairman of the Board of the Company,
Consultant and Corporate Director

Martha G. Billes [3,4]
President of Albikin Management Inc.,
an investment holding company

Adam Bucci [1,4]
President, Adam Bucci Ltée., which
operates a Canadian Tire store

Gordon F. Cheesbrough [2,3]
Managing Partner, Blair Franklin Capital Inc.

Austin E. Curtin [3]
President, Austin Curtin Sales Ltd.,
which operates Canadian Tire
stores and Petroleum outlets

James D. Fisher [1,2]
Associate Dean, Rotman School
of Management, University of Toronto

H. Earl Joudrie [3,4]
Corporate Director

John S. Lacey [1,4]
Chairman, Alderwoods Group, Inc.,
an international funeral services provider

Rémi Marcoux [2,4]
Chairman and Chief Executive Officer,
Transcontinental Ltd., a company
holding interests in printing and
publishing companies

Kathleen Misunas [1,3]
Consultant and Corporate Director

Frank Potter [3,4]
Chairman, Emerging Market Advisors Inc.,
a consulting firm dealing with foreign direct
investment

Maureen J. Sabia [1,2]
President, Maureen Sabia International,
a consulting firm, and Corporate Director

Wayne C. Sales
President and Chief Executive Officer
of the Company

Graham W. Savage [1,2]
Chairman, Callisto Capital LP,
a merchant banking company

Stephen G. Wetmore [2,3]
Group President National Markets and
Executive Vice-President, BCE Inc.

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Chairman, James D. Fisher

2 **Audit Committee**
Chairman, Maureen J. Sabia

3 **Social Responsibility Committee**
Chairman, Frank Potter

4 **Governance Committee**
Chairman, Martha G. Billes

Note: Numbering indicates committee membership.

Officers

Gilbert S. Bennett
Chairman of the Board

Wayne C. Sales
President and
Chief Executive Officer

J. Huw Thomas
Executive Vice-President, Finance and
Administration and Chief Financial Officer

A. Mark Foote
President, Canadian Tire Retail

Thomas K. Gauld
President, Canadian Tire Financial Services

Michael R. Lambert
President, Mark's Work Wearhouse and
Executive Vice-President, Canadian Tire
Corporation, Limited

Michael B. Medline
Executive Vice-President,
New Business Development

Stanley W. Pasternak
Vice-President and Treasurer

Susan J. E. Rogers
Vice-President, Corporate Affairs

Kenneth Silver
Vice-President, Real Estate and Construction

Patrick R. Sinnott
Senior Vice-President, Supply Chain

Cameron D. Stewart
Vice-President, Secretary and
General Counsel

Janice M. Wismer
Vice-President, Human Resources

Andrew T. Wnek
Senior Vice-President,
Information Technology and
Chief Information Officer

Robyn Collver
Assistant General Counsel and
Assistant Secretary

Candace A. MacLean
Divisional Vice-President and
Assistant Treasurer

Complete disclosure on Canadian Tire's corporate governance is provided in the Company's Management Information Circular, which is available on the Canadian Securities Administrators' SEDAR web site at www.sedar.com, or in the investor relations section of Canadian Tire's web site at http://investor.relations.canadiantire.ca

Shareholder and Corporate Information

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Web site: www.canadiantire.ca

Corporate and Shareholder Information

Susan J. E. Rogers
Vice-President, Corporate Affairs

Robert J. Tait
Director, Investor Relations

Annual Meeting of Shareholders

The Carlu
The Concert Hall
444 Yonge Street, 7th Floor
Toronto, Ontario M5B 2H4
Tuesday May 11th, 2004
At 10:00 a.m.

Exchange Listings

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

Solicitors

Cassels Brock & Blackwell LLP

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
TD Canada Trust
The Bank of Nova Scotia
Citibank Canada

Registrar and Transfer Agent

Computershare Trust Company of Canada

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(toll free North America –
International 1-416-263-9524)
Email: service@computershare.com

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

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Toronto (Ontario) M4P 2V8

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Corporate governance disclosure and other investor information are available online from the investor relations pages of the Company's web site at http://investor.relations.canadiantire.ca. Additional copies of this annual report and other disclosure documents such as the Company's Management Information Circular, the Annual Information Form and quarterly reports can be downloaded or requested in print form from the same web site.

The Canadian Tire Way

WE ARE A PROUD CANADIAN FAMILY

PURPOSE

We exist to serve and enrich the lives of our customers, our shareholders, our team and our communities.

VISION

We are a growing, innovative network of interrelated businesses achieving extraordinary results through extraordinary people...

We touch the lives of more people in more ways every day.

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Investor Relations web site
http://investor.relations.canadiantire.ca