BIGGER & BETTER

Canadian Tire Corporation, Limited
Annual Report 2007

Canadian Tire — a compelling investment proposition

We are building a **bigger and better** Canadian Tire through growth and productivity. Our objective is to increase shareholder value through sustainable, double-digit earnings growth.

85-year track record of solid earnings growth

Since the early days of 1922, Canadian Tire has grown and strengthened its market presence year after year to become one of Canada's foremost corporations. In fact, over the last 10 years, basic earnings per share have grown at a solid compounded rate of 11.2 per cent.

Top-tier corporate reputation and brand awareness

The Canadian Tire brand enjoys iconic stature in Canada. Virtually all Canadians are aware of the brand and have shopped in our stores or used our services. In 2007, Ipsos Public Affairs' I-Rep corporate reputation study once again rated us the nation's second most trusted company.

Unique model of interrelated businesses delivers balanced performance

As Canadian Tire has evolved from a single purpose retailer to a more diverse network of businesses, we are progressively reaping the rewards of our interrelated, interdependent model. Each of our businesses adds value to — and benefits from — the strengths of the others, and that leads to a more stable overall performance.

No single direct competitor

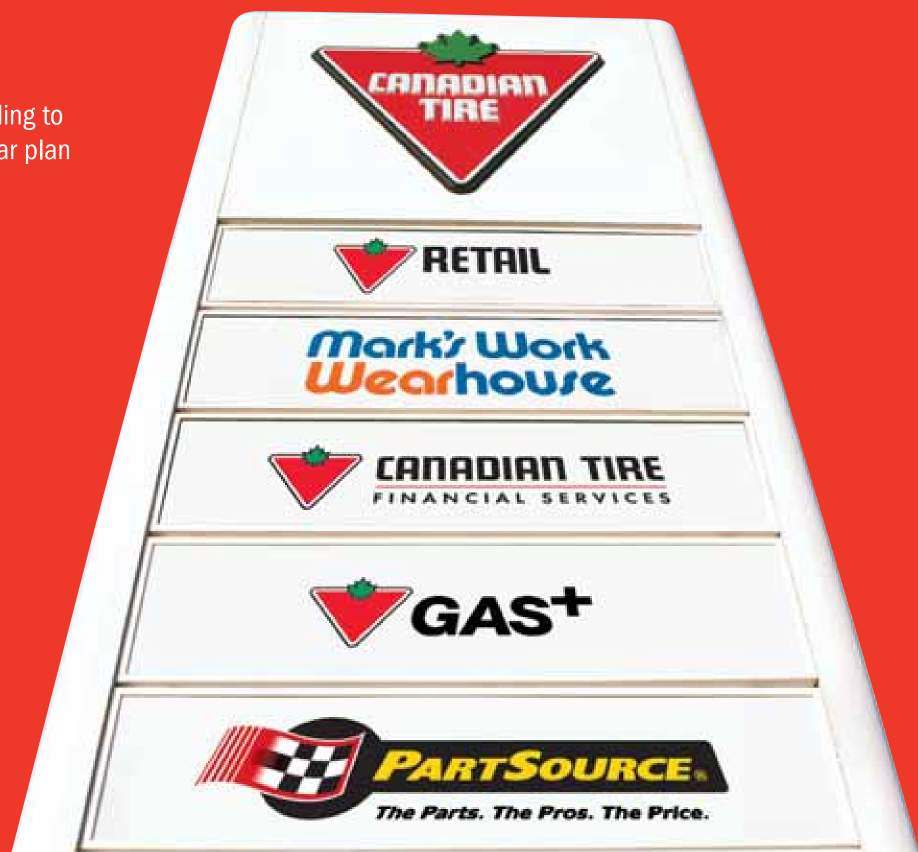
Thanks to our one-of-a-kind retail assortments and products and services portfolio, no one else looks or feels quite like Canadian Tire. As a result, we have had greater resilience and flexibility in times of competitive action and marketplace volatility.

Long-term growth potential in all businesses

Each of our five businesses is at a different stage of development and competes in different sectors. In all of the markets we serve, we have successful growth strategies and substantial opportunities to capture even more market share.

Flexible funding for growth

We have access to capital markets and other forms of funding to support our aggressive growth agenda over the next five-year plan period and beyond.



Five distinct, interrelated businesses offering a range of goods and services that meet Canadian families' everyday

In 2007, Financial Services launched its innovative One-and-Only™ account that enables Canadians to take years off their mortgages and save thousands of dollars in interest payments by combining their mortgages, chequing and savings accounts, plus loans and credit card balances, into one easy-to-use account.

Canadian Tire Options® MasterCard® customers who fuel up at Petroleum are awarded Canadian Tire 'Money'® that is redeemable at CTR stores. Gas Advantage® MasterCard® holders can benefit from up to 10 cents per litre off Petroleum gas purchases.

Do-it-yourself auto enthusiasts and professional installer customers of PartSource and CTR will benefit from double the assortment of automotive hard parts, faster product replenishment and better emergency parts service thanks to our planned $120 million automotive infrastructure investment.

needs

Mark's is the number one Canadian seller of industrial apparel and footwear and the number two seller of casual pants and jeans.* Mark's women's wear continues to increase its market share and there are plans to grow the category in the coming years.

*2007 Trendex North America

The popular CTR flyer is distributed to over 11 million Canadian homes every week and is filled with great customer deals on a unique mix of exciting and exclusive home, leisure and auto products and seasonal goods.

Founded in 1922, **Canadian Tire Corporation, Limited** is a growing network of interrelated businesses with more than 1,160 general merchandise and apparel retail stores and gas bars as well as a major financial services provider and a federally chartered bank. The Corporation, which had a market capitalization of $6 billion as of December 29, 2007, enjoys near-universal brand awareness and is one of Canada's most respected companies.

Canadian Tire Retail

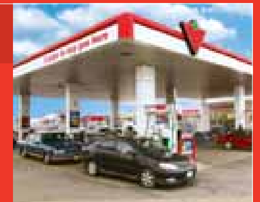
Canadian Tire Retail (CTR) is Canada's most-shopped general merchandise retailer with 473 stores nationwide offering a unique range of automotive, sports and leisure and home products. Independent entrepreneurs, called Dealers, operate the stores.

PartSource

PartSource is an automotive parts specialty chain of 71 stores selling nationally branded auto parts at competitive prices and staffed by experts focusing on the needs of serious do-it-yourselfers and professional installers.

Canadian Tire Petroleum

Canadian Tire Petroleum (Petroleum) is Canada's largest independent gasoline retailer with 266 gas bars, 258 convenience stores and kiosks and 74 car washes. Petroleum's primary role is to build customer loyalty by distributing Canadian Tire 'Money' redeemable only at CTR and to promote the growth of Canadian Tire branded MasterCards.



Mark's Work Wearhouse

Mark's Work Wearhouse (Mark's), called L'Équipeur® in Quebec, is a 358-store specialty retail chain offering high quality casual, business casual and industrial clothing and footwear. Its successful Imagewear division sells business-to-business branded merchandise and clothing.

Canadian Tire Financial Services

Canadian Tire Financial Services (Financial Services) manages the country's second-largest MasterCard franchise and a range of products and services including personal loans, insurance, warranty products and the Canadian Tire Roadside Assistance® program. An exciting retail banking pilot is currently underway at Canadian Tire Bank (a subsidiary), offering high-interest savings accounts, guaranteed investment certificates, residential mortgages and the One-and-Only account.

2007 Highlights

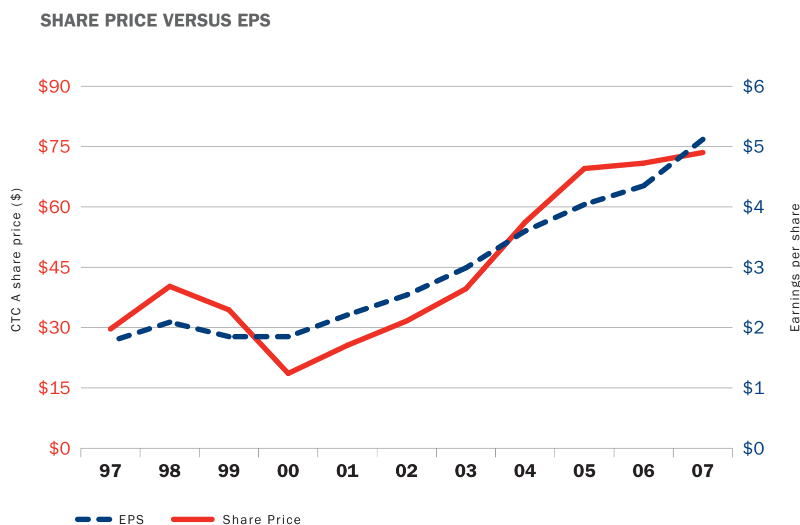
($ in millions except for per share amounts)	2007	2006	% Change
Consolidated			
Gross operating revenue	**$ 8,621.4**	$ 8,269.1	4.3
Earnings before income taxes and minority interest	**620.1**	557.8	11.2
Income taxes	**202.5**	200.8	0.9
Net earnings	**417.6**	354.6	17.8
Cash generated from operating activities before changes in other working capital components[1]	**540.2**	410.1	31.7
Cash generated from operating activities[1]	**174.7**	395.3	(55.8)
Dividends paid	**58.8**	52.2	12.6
Per share[2]			
Net earnings	**$ 5.12**	$ 4.35	17.9
Diluted earnings	**5.12**	4.31	18.9
Cash generated from operating activities before changes in other working capital components[1]	**6.63**	5.03	31.8
Cash generated from operating activities[1]	**2.14**	4.85	(55.8)
Dividends declared	**0.74**	0.66	12.1
Shareholders' equity	**37.98**	34.19	11.1
Weighted average number of shares outstanding (thousands)	**81,502**	81,576	
Ratios			
Current ratio	**1.4**	1.5	
Earnings before income taxes as a percentage of gross operating revenue (%)	**7.2**	6.7	
Canadian Tire Retail inventory turnover[3]	**10.8**	9.7	
Long-term debt to total capitalization (%)	**31.3**	28.3	
Interest coverage	**8.9**	8.4	
Return on invested capital (%)	**10.5**	9.6	

[1] Prior year figures have been reclassified to conform to the current year presentation

[2] Calculated using total shares outstanding at year-end, except for net earnings and diluted earnings, which are calculated using weighted average number of shares outstanding

[3] Based on cube turns

Canadian Tire has a long history of earnings growth



10-year share price CAGR[1,2] **9.5%**

10-year EPS CAGR **11.2%**

Canadian Tire has generated consistent earnings growth over our 85-year history. The last 10 years have been revolutionary for the Canadian retail market. Canadian Tire has demonstrated its resilience amid increasing competition and changing economic cycles.

[1] Share price figures as at CTC year-end dates
[2] Compounded annual growth rate

Message from the Chief Executive Officer

Long-term focus on growth and productivity

The strong, stable performance record at Canadian Tire stems from our distinctive interrelated structure. While the individual businesses grow and generate profit independently, each one adds even more value to our collective whole by driving business to the others and sharing costs and infrastructure. And 2007 was no exception, with the balanced portfolio delivering a 17.9 per cent increase in basic earnings per share.

We are always conscious of our duty to build for the future, and our 2007 accomplishments have established a strong foundation for sustainable, long-term growth.

Network and revenue growth

Our network expansion in 2007 continued seamlessly across all of our retail businesses. We built, retrofitted or refurbished over 160 outlets, bringing our total to 1,168. This included two innovative new concept stores in Dartmouth, N.S., and Waterdown, Ont., incorporating an entire Mark's store inside a CTR store, as well as the conversion of 12 PartSource and Mark's franchise stores to the more profitable corporate model.

Financial Services had another outstanding year, growing credit card receivables by 10.8 per cent and lowering overall write-off rates through exceptional risk modelling and management. The retail banking pilot, broadened to a third market in London, Ont., continues to produce encouraging results, particularly following the introduction of our new One-and-Only account.

We introduced and tested several new products and services across our portfolio of businesses, with expanded category offerings at CTR, more unique casual and women's wear items at Mark's and additional value-added financial products at Financial Services, including the Identity Watch service and the Vacation Advantage™ MasterCard®.

A fresh start with Canadian Tire Retail Dealers

One of the most notable accomplishments of the year was the milestone CTR Dealer contract amendment. The tangible benefits, including cost savings and energy conservation, will amount to approximately $400 million in cumulative pre-tax earnings for the Corporation by 2014.

The deal also includes a shared investment in our core automotive business that will profit both CTR and PartSource, enabling us to attract and better serve customers with improved technology and faster emergency parts fulfillment. We expect the automotive agreement alone to result in $45 million to $50 million in incremental annual pre-tax earnings by 2014.

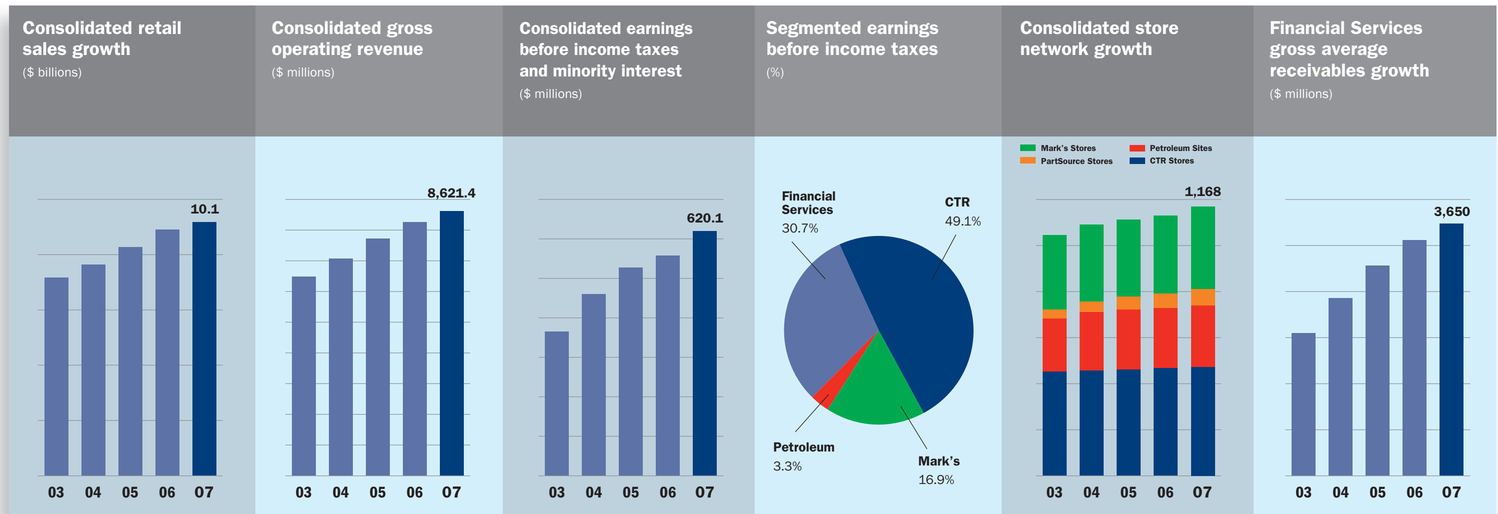
An equally important outcome of the negotiations was the positive, constructive shared spirit that will measurably improve how the Corporation and Dealers work together towards common goals in the years to come.

While we are understandably proud of these results, we are also mindful that past achievements are no guarantee of future success. In the face of increasing competition and a challenging business environment, we must remain vigilant in order to stay at the top of our game.

Building a bigger and better Canadian Tire

In 2007, we updated our corporate strategic plan to provide a rolling, five-year outlook and move from a segmented business perspective to an integrated corporate approach that better reflects our interrelated structure. Designed to build an even bigger and better Canadian Tire and to achieve double-digit earnings growth, the five-year plan targets a balance of continued growth and improved productivity.

Building a bigger Canadian Tire means more retail stores and exciting new formats. We will add approximately 330 new retail outlets in the next five years with the right mix for the diverse markets we serve. We will continue the rollout of the CTR Concept 20/20 model in 2008, and begin piloting its successor, now in development. We will open new stand-alone Mark's stores while also increasing the number of Mark's stores inside CTR stores. We plan to introduce a new CTR format for smaller markets, incorporating Mark's and Petroleum in the concept. The PartSource store expansion will accelerate and new regional hub stores will



Our balanced portfolio of businesses continues to deliver strong growth.

be built to improve emergency auto parts delivery to both CTR and PartSource. We will also continue our program of modernizing outdated Petroleum sites.

Bigger also means more and improved products and services. There is still considerable scope for Financial Services to grow its high-margin credit card portfolio and insurance and warranty services by adding new products to serve different market segments. PartSource will capture greater market share with its reinforced supply chain and expanded auto parts assortment and CTR will introduce more new and innovative products. Meanwhile, the Mark's Clothes That Work Superbrand will offer more private-branded clothes and footwear that are sourced, designed and engineered with unique and meaningful features.

Our vision does not stop at optimizing the potential of our individual businesses. We will also maximize the value of their interrelatedness by using corporate resources such as real estate, supply chain, information technology and human resources for the benefit of all businesses. And, we will extend the use of tactical marketing and other programs across multiple businesses to stimulate even more customer cross-shopping.

Adding more value

Building a better Canadian Tire speaks to improving the way that we do business to enhance productivity and returns. Much of this work is already in full swing, like our multi-year technology renewal initiative with literally dozens of projects designed to overhaul and upgrade IT hardware and applications. As it progresses, we will be able to make faster, better decisions, save costs and improve our speed to market. Our renewed CTR Dealer agreement includes a joint initiative to improve our shared order and replenishment processes, take out unnecessary costs and better manage distribution centre and store inventories.

Better also incorporates our singular focus on keeping customers for life. We are implementing improved customer satisfaction tracking and continuous improvement processes across all our businesses to ensure consistent, customer-friendly service. We recognize that our reputation for service is built one store at a time.

The passion and potential of our people is one of our greatest strengths. We will optimize their productivity and level of engagement by investing in leadership and career development and implementing the right organizational structure with appropriate accountabilities and authorities, ensuring that every level adds value to the level below. Further, the IT renewal initiative will provide our people with the tools and information that they need to be successful. This will enable us to attract and retain the best leaders from a shrinking talent pool, while strengthening our performance culture in line with our shared values.

These combined initiatives to build a bigger and better Canadian Tire will help us to generate double-digit earnings per share growth and continuously improve returns on invested capital over the next five years.

Our commitment

Doing the right thing for our employees, customers, shareholders, business partners and other stakeholders has been a guiding principle for Canadian Tire throughout our history. As we build for the future, we are also determined to keep sight of society's evolving expectations of responsible business practice. And, there is much to be done.

Our corporate responsibility agenda is a comprehensive program to advance our economic, social and environmental performance while ensuring that our efforts are channelled into the areas of the greatest possible impact. For example, we identified three significant opportunities in the sphere of the environment, namely: energy conservation, developing environmentally friendly product choices and waste reduction at CTR. Over time, we will broaden the tracking and external reporting of our efforts so that we may continue to earn Canadians' trust.

Looking back, there are many reasons for our 85 years of success. Market heritage, an unrivalled brand and a unique interrelated business model have all been catalysts for growth and provided resilience during changing times. At the heart of it all has been our people, and I feel personally fortunate to lead over 57,000 team members who share a common vision, values set and relentless will to succeed.

I look ahead with confidence to the unlimited long-term prospects for a bigger and better Canadian Tire, a proudly Canadian-owned and -operated business that has always been greater than the sum of its parts. Never has this been truer than it is today.

Tom Gauld
President and Chief Executive Officer

Message from the Chairman

The right people – The right relationships – The right accountabilities: Good governance.

In my first Annual Report message, I want to begin by saying how privileged I feel to serve as Chairman of this unique Company. It is a huge honour that carries with it an equally huge responsibility. Let me try to articulate how that responsibility was fulfilled during the past year since I assumed my role as Chairman.

Let me begin by giving you my perspective on governance. I bring a somewhat different perspective to the subject and, as shareholders, you are entitled to know how I think about it.

To date, the focus on improving governance has been exclusively rules-based. As a result, boards have been heavily focused on compliance. There are some who might venture the opinion that the countless hours spent on compliance might have been more productively spent on strategic and competitive issues! While I believe that *well thought-out* rules are necessary, they are just the beginning. It is the relationships between the board and management, and among the board members themselves, that really make the difference in how a company is governed.

By relationships, I mean the kind of relationships that are critical to the board's ability to do its job well. I mean the kind of relationships that can put the deeply knowledgeable and collective talent base of the board to work with management, where it can bear the most fruit for shareholders – guiding strategic direction, mentoring the CEO, setting the compensation strategy, being disciplined and vigilant about succession, fostering a culture of accountability, and insisting on an atmosphere conducive to hiring the best and the brightest and to providing the intellectual challenges and workplace environment that will ensure their retention. The dynamic between the board and management is changing and both parties must learn to work in the new environment, which places substantially increased expectations on the board.

Moreover, I believe that effective working relationships between independent-minded directors and management are far better checks on the CEO and management than a strictly rules-based regulatory regime.

Boards must move beyond the "compliance board" and move to a more progressive chapter in board evolution where the board and management have a working relationship that is constructive and collaborative, where there is respect for the role of each and where directors can make their value evident while maintaining an independent and critically constructive view. The task of leading this initiative falls on the shoulders of the Chairman.

Governance, in and of itself, does not make a successful company. Good management and hard-working boards do. Although rules can ensure that the proper foundation for boardroom behaviour is laid down, rules alone cannot ensure that a board will do good work. What will? Recruiting the right people to serve as directors; making sure that they have the time and the necessary commitment to get to know and understand the company and its business or businesses, as well as its people, especially its senior management, and that they possess the courage to hold management accountable and to assist the Chairman in creating and nurturing the right relationships.

Looking at the members of the Canadian Tire Board, I see first and foremost, personal integrity, but I also see intelligence, commitment, high energy and independence of mind. I see people who are committed to compliance with best practices that are meaningful, rather than being committed to ticking boxes. I see people who are committed to full disclosure and transparency. I see people who are willing to take a stand. I see a quite remarkable knowledge and understanding of the businesses carried on by Canadian Tire. I see a group of people who interact positively with each other, even though they may not always agree with each other. And I see respect for management that is combined with a healthy and constructive tension between the two.

I am grateful to all our directors for their hard work and valuable contribution this past year, and I am especially appreciative of the huge help all of them have been to me.

We have worked hard during the year to improve the efficiency and productiveness of our Board and Committee Meetings in order to permit us to spend the preponderance of our meeting time discussing business and strategic issues. While this will always be a work in progress, we have made some significant steps forward.

One of the most significant is the work we have been doing to delegate to our Committees more decision-making power, especially with regard to more routine matters. While all the decisions made by Committees will be reported to the Board in a timely and detailed fashion, and while the Board always has the power to overturn a Committee's decision, we believe that investing our Committees with certain agreed-upon decision-making powers leads to a more effective use of the time of all directors, and permits a more in-depth consideration of certain issues by a smaller and more subject-focused group of directors.

We have also spent some time enhancing the quality of the excellent information materials that are prepared for the Board. Our goal this year has been to emphasize the analytical aspect of the information. This has placed an additional burden on management and all of us on the Board are grateful for the commitment management has displayed in helping us achieve our goal.

Additionally, we have instituted Board Dinners on the evening before each Board Meeting. We use this time to get to know the senior people who make this Company the success it is, and to educate the Board on issues facing the Company, the economy and our customers. We have also discovered that the time we spend together at these dinners has yet another advantage. It allows all of us to get to know each other better, thereby improving our boardroom dynamic.

The Canadian Tire Board views governance as the foundation on which to build a more successful company, not the means of doing so.

For us, good governance means a less transactional board and one that partners with management to become a transformational force in the interest of maintaining and enhancing competitive advantage. We believe that boards must have the courage of their conviction when it comes to competitive advantage and, at the very least, must include it prominently on the list of objectives against which they will measure the CEO.

We think that good governance means our Company does what it says it will do and our CEO delivers what he says he will.

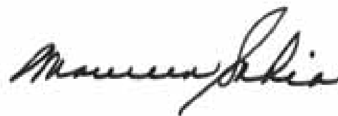
At Canadian Tire, we live by these principles.

Tom and his management team have worked hard this year on your behalf. They are putting in place initiatives that will produce a bigger and better Canadian Tire. I know that they are looking forward to the future, even to the challenges the future will present. They have a well thought-out strategic plan that will guide them as they meet and overcome those challenges. On behalf of the Board of Directors, I want to thank them for their dedication.

At our Annual General Meeting, we will welcome two new nominees to our Board, Peter Currie and Brian Domelle, for election by the holders of common shares.

Sadly, we will be saying good-bye to Jim Neale and Austin Curtin who have served on the Board with great distinction. All my colleagues join me in thanking Jim and Austin for their commitment to the Tire. We have enjoyed our association with them very much.

I will conclude this message by assuring all our shareholders that your very hard-working Board of Directors is wholly committed to continuing to serve you at the very highest level.



Maureen J. Sabia
Chairman of the Board

Performance Scorecard
Our 2007 Results

Canadian Tire Retail

Canadian Tire Retail	2007 (year-over-year % change)
Retail sales	1.5
Same store sales[1]	(0.5)
Net shipments	2.3
Inventory turnover[2]	10.9
Gross operating revenue	2.4
Earnings before income taxes and minority interest	(0.4)
Adjusted earnings before income taxes and minority interest[3]	5.3

Mark's Work Wearhouse	2007 (year-over-year % change)
Retail sales	8.0
Same store sales	4.8
Gross operating revenue	8.3
Earnings before income taxes	16.1
Adjusted earnings before income taxes[3]	12.3

Petroleum	2007 (year-over-year % change)
Retail sales	8.3
Gasoline sales volume (litres)	2.1
Gross operating revenue	7.8
Earnings before income taxes	472.4
Adjusted earnings before income taxes[3]	577.6

Financial Services	2007 (year-over-year % change)
Gross average receivables	7.1
Gross operating revenue	6.6
Earnings before income taxes	14.0
Adjusted earnings before income taxes[3]	4.3
Net managed portfolio (end of period)	8.3
Average number of accounts with a balance	(0.1)
Average account balance	7.1

[1] Includes PartSource
[2] Based on cube turns
[3] See section 12.0, Non-GAAP measures in Management's Discussion and Analysis in our 2007 Financial Report

2007 Goal:

Complete 70 Concept 20/20 store projects, adding 10% retail square footage.

2007 Result:

Completed 67 Concept 20/20 store projects, adding 8.9% in retail square footage.

2007 Goal:

Increase percentage of products sourced globally from 37% in 2006 to 50% in 2009.

2007 Result:

Increased percentage of products sourced from foreign sources to 39% in 2007.

2007 Goal:

Increase sales of Exciting, New and Exclusive (ENE) products by 10% in 2007.

2007 Result:

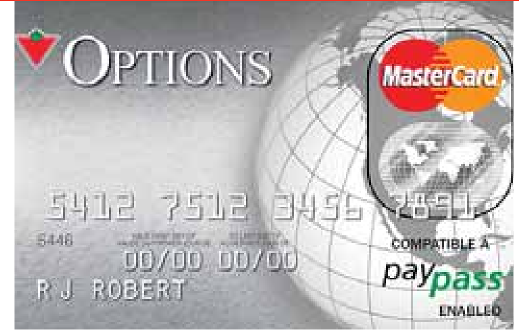
Decreased sales of ENE products by 7.4% after a reassessment of our ENE strategy to broaden our innovation approach.

2007 Goal:

Add up to 8 new PartSource stores through new store openings and small-scale acquisitions.

2007 Result:

Increased the PartSource network by 8 stores.



Mark's Work Wearhouse

2007 Goal:

Increase total same store sales by 8%.

2007 Result:

Same store sales increased by 4.8%, lower than target but a good performance overall in a challenging retail environment.

2007 Goal:

Open 29 new stores and renovate/expand/relocate up to 26 stores, increasing retail square footage by 14%.

2007 Result:

Opened 20 new stores and renovated/expanded/relocated 27 stores, increasing retail square footage by 10.8%.

2007 Goal:

Launch 3 incremental flyers, 5 additional Spend and Save promotions and 8 extended product innovation promotions.

2007 Result:

Delivered 5 incremental flyers, 8 additional Spend and Save promotions and 8 month-long product innovation promotions.

Canadian Tire Petroleum

2007 Goal:

Open 9 new sites and modernize approximately 25 sites. On an opportunistic basis, continue to rebrand competitor sites.

2007 Result:

Opened 7 new sites, modernized 22 sites and rebuilt 4 sites. Rebranded 1 competitor site during the year.

2007 Goal:

Increase gasoline volume by approximately 3%.

2007 Result:

Gasoline volume increased by 2.1% year-over-year.

2007 Goal:

Increase car wash sales by 12%.

2007 Result:

Increased car wash sales by 14.9%.

2007 Goal:

Open 9 convenience stores and increase sales by more than 10%.

2007 Result:

Opened 8 convenience stores and increased sales by 15.0%.

Canadian Tire Financial Services

2007 Goal:

Increase total managed portfolio of loans receivable to $3.9 billion.

2007 Result:

Total managed portfolio of loans receivable was $4.0 billion at the end of 2007.

2007 Goal:

Maintain operating expense ratio of 8.0%–9.0%.

2007 Result:

Operating expense ratio was 7.89%.

2007 Goal:

Maintain return on average total managed portfolio of 4.5%–5.0%

2007 Result:

Return on average total managed portfolio was 5.10%.

2008 **Strategic Objectives**

Along the path of our rolling five-year strategic plan, we will strive to achieve the following objectives in 2008, tracking progress throughout the year.

Building a Bigger Canadian Tire

1. Expand our retail network by adding the following incremental outlets

- 3 CTR stores
- 14 PartSource stores
- 17 Mark's stores
- 8 Petroleum sites

2. Renovate, retrofit or expand the following retail outlets to enhance the customer experience and bring older outlets up to current design standards

- 35 CTR stores
- 24 Mark's stores
- 25+ Petroleum sites

3. Market test two new CTR store concepts for expansion in 2009

- 4 stores in the small market format
- 2 stores in the successor format to Concept 20/20

4. Expand the number of CTR stores incorporating a Mark's store

- 14 new stores

5. Improve the automotive parts supply chain to enhance customer service, breadth of product and supply of emergency parts to both CTR and PartSource stores

- double the number of hard parts available
- bring more parts inventory closer to customers by building 6 of the 14 new PartSource stores as larger hub stores

6. Grow the Financial Services business

- grow credit card receivables by 8% (year-over-year)
- relaunch the Options MasterCard with additional features to stimulate growth
- continue testing and refining the retail banking pilot

2008–12 **Financial Aspirations**

(five-year averages)

Grow revenue by 6%–8%

Building a Better Canadian Tire

1. Strengthen enterprise-wide focus on customer service

- common measurements, tracking and reporting across all businesses to enable and direct continuous improvement processes
- prioritized store-level customer service training
- programs designed to improve accountability and rewards
- new self-serve checkouts at CTR
- pay-at-the-pump technology expanded to 19 more Petroleum outlets

2. Advance the multi-year IT renewal initiative

- new merchandizing software and related process improvements for better data, decisions and productivity
- new system to enhance information quality and management of our human resources and related costs
- new automotive inventory and warehouse management systems to improve productivity and customer service at CTR and PartSource stores
- rationalize older technology to reduce risks and operating costs

3. Improve the productivity and engagement of our people

- enhance and align organizational structure
- enhance and align compensation systems and leadership programs across the enterprise

4. Enhance our financial flexibility to position the company for future growth and ensure financial strength through changing economic conditions

- maintain adequate lines of credit
- explore new sources of funding to increase flexibility and access to capital

Double-digit earnings growth

10%+ return on invested capital

The new design

- is easier to shop
- is attracting new customers
- encourages customers to spend more time in-store browsing and cross-shopping

Dartmouth, N.S. With a full-sized, 13,000 sq. ft. Mark's right inside a CTR store, Dartmouth, N.S. is our biggest store at 95,000 retail sq. ft. More stores in this format are planned for 2008.

Building a Bigger Canadian Tire

Canadian Tire is one of the best-known and most established companies in Canada. And, there is still substantial scope for organic growth in all our businesses – Canadian Tire Retail, PartSource, Canadian Tire Financial Services, Mark's Work Wearhouse and Canadian Tire Petroleum.

MORE STORES & NEW FORMATS

More than 100 new PartSource stores are planned, offering customers the parts, the pros and the price.

More stores

From our modest beginnings in 1922 with one location in Toronto, Ont., to the more than 1,160-store strong diverse retail network of today, enlarging our market presence has always been at the heart of Canadian Tire's success.

In line with this, a key focus of our 2008–12 plan will be more new, replacement or retrofitted stores. There is potential for 60–70 new stores per year across the network. This will include a total of 70–80 projects for CTR, 80–90 for Mark's and approximately 60 additional Petroleum sites by 2012. PartSource will add over 100 stores to the network and continue to grow the fast-moving commercial supply side of the business, which has already risen to 41 per cent from 30 per cent of total sales in just five years.

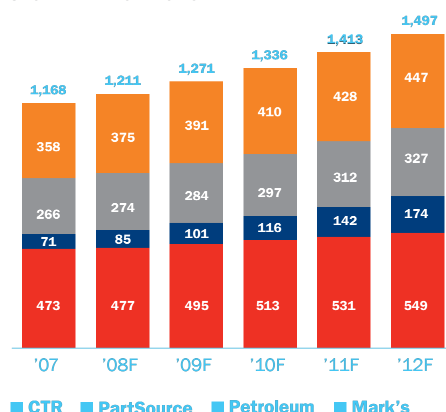
Refreshed designs

Store formats are one important factor in stimulating same store sales, and our formats are constantly evolving to appeal to changing customer tastes.

A full-sized Mark's-inside-a-CTR store offers greater customer convenience.

We will renovate over 100 Petroleum sites and develop the convenience side of the business over the plan period. As a key marketing channel for the Corporation, Petroleum distributes approximately $40 million in 'Money' coupons per year for use at CTR. Renewing sites to a consistent, high-quality brand look and feel will bring in more customers and benefit the whole company.

STORE NETWORK GROWTH



STORE SQUARE FOOTAGE GROWTH
(millions of sq. ft.)

We will refurbish 100+ Petroleum sites over the plan period to reinforce the Canadian Tire brand presence, and support both CTR sales and the growth of Financial Services.

Mark's will expand to over 440 stores ranging in size from small, mobile units to a 25,000 sq. ft. store planned for Edmonton, Alta., in late 2008 or 2009. Thanks to the Canadian Tire connection, Mark's is moving into previously inaccessible locations — from small to large markets, from main streets to malls and power centres, with many situated near, alongside or inside a Canadian Tire store. We will continue to explore more ways to integrate Mark's and CTR for the convenience of even more customers.

In late 2007, we opened two Mark's-inside-a-CTR stores in Waterdown, Ont., and Dartmouth, N.S., to attract new customers who spend more time browsing, cross-shopping and buying more.

The clean, open design of CTR's Concept 20/20 store has resonated very positively with customers and we will continue to roll it out during 2008 and 2009 before the transition to its successor. Some of the new stores will also feature customized site-specific elements like multi-level stores and customer pick-up areas.

The next big — and small — thing

Work is also on course to design the next major CTR store format to follow Concept 20/20. Rather than introduce a radical, bigger redesign, we will instead look for ways to enhance the productivity of the current assortment, merchandizing and use of space. Although we are still in the initial planning stage, our working goals are:

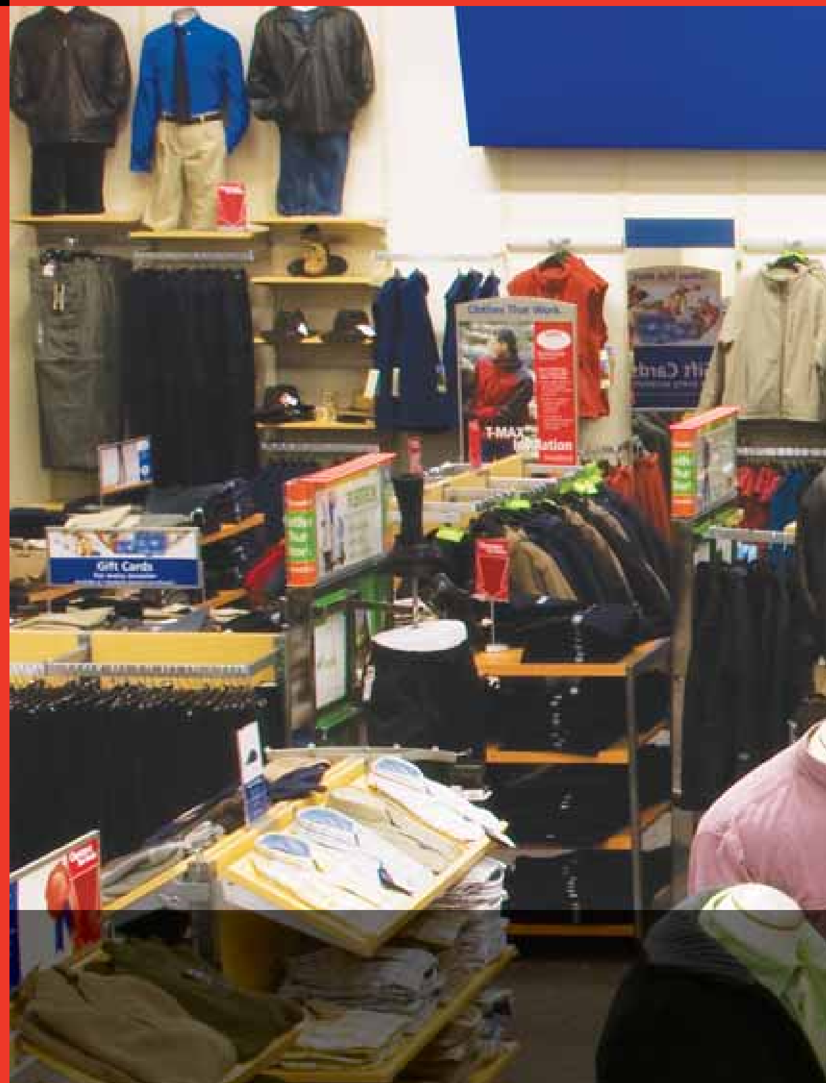
- More efficient store operations with faster, inexpensive remerchandizing
- Increased emphasis on better-performing product lines
- A more engaging shopping experience, adding more of what customers expect, such as self-service checkouts and easier navigation, and removing what they don't need
- Higher investment returns through increased sales

The new concept will be tested in 2008 for debut in late 2009 or early 2010.

On a parallel track, we have identified approximately 100–150 currently underserved smaller markets that would benefit from a specially designed CTR store with tailored assortments to suit local customer preferences. The small market strategy will boost network expansion that would have been previously unfeasible. These new developments will make use of our property development expertise, support our credit card business and include a Petroleum gas bar, Mark's store and other related businesses wherever appropriate to attract more shoppers.

We will test a CTR format in 2008 to offer customers more of what they expect, such as customer pick-up, and boost better-performing product lines such as outdoor furniture, a runaway success in spring 2007.

MORE PRODUCTS & SERVICES



The fast-moving women's wear segment of Mark's is expected to grow from 25% to 30% of Mark's total business over the next five years.

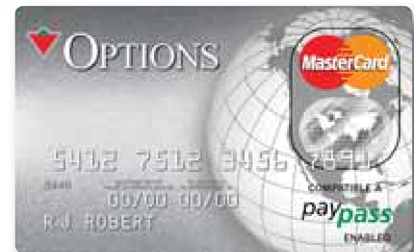
New and exciting product selections

Mark's continues to develop its Clothes That Work Superbrand as it grows its share in the closets of Canadians and gives consumers a new and better way to think about clothes' potential. Innovative functions and features like T-Max™ Insulation, Flextech® and Curvetec™ technologies will be extended throughout the product range. We anticipate continued growth of all three categories – industrial wear, men's wear and women's wear – over the 2008–12 plan period.

CTR will expand its assortment with new products across its living, driving, fixing and playing divisions. Products like Mastercraft® Power-Exchange power tools, La-Z-Boy® patio furniture, NASCAR® Advantage brakes by Raybestos, Quickie® cleaning tools with Microban® and our selection of modular tents will be important contributors to growth. CTR will also expand its assortments of environmentally friendly lighting, climate control, household cleaning and lawn and garden care products.

More financial services

Financial Services will extend its product and service offering supported by Petroleum and CTR. Higher average credit card balances combined with more accounts carrying a balance will propel the growth of an enhanced insurance and warranty portfolio. In 2008, we plan to relaunch our flagship Options MasterCard as we continue to investigate new card products and other financial services.



2008 marks a major relaunch of the Canadian Tire Options MasterCard, already used by 1 in 5 Canadian households. The new-look card will be PayPass® enabled.

Online credit card self-serve technology will improve in 2008 as we extend our e-presence with more applications. CTR stores will explore instant credit to support our low-cost, in-store card acquisition channel and customers will receive their new credit cards more quickly. The popular Gas Advantage card program, currently available in Ontario and parts of Quebec, will be expanded to additional markets.

Also in 2008, Financial Services will be one of the first participants in a Canadian industry-wide test of microchip-embedded cards in Kitchener-

We anticipate continued growth of all three Mark's categories – industrial wear, men's wear and women's wear – over the 2008–12 plan period.

Waterloo, Ont. With the latest payment technology and enhanced security elements, the chip card will act as a platform for added features as it rolls out across Canada in the coming years.

Retail banking

The exciting retail banking initiative has been in pilot since October 2006 testing high-interest savings accounts, guaranteed investment certificates and residential mortgages. In September 2007, we introduced the One-and-Only account. To date, customers have shown that they respond favourably to Canadian Tire retail banking products and services.

Retail banking pilot =

over $100 million in deposits and $35 million in high-quality mortgages at the end of 2007

Getting the most from our interrelated business model

Along with the growth plans of our individual businesses, we will exploit opportunities to capitalize on our interrelatedness that will drive growth for the whole enterprise. This will involve tactical cross-promotions and merchandising as well as strategic real estate, supply chain and business development synergies.

By promoting integrated rewards programs, for instance, Petroleum plays a pivotal role in helping customers recognize the benefits of choosing the Canadian Tire family of businesses. Despite operating in a volatile and hyper-competitive industry, Petroleum is a proven and powerful marketing channel for stimulating customer traffic to CTR stores and increasing Financial Services receivables.

CTR's innovative modular tents are more spacious and comfortable.

Petroleum distributes approximately $40 million in 'Money' coupons per year redeemable only at CTR.

The award-winning Canadian Tire Financial Services call centre team was named the **best call centre in North America** in five of the last eight years.

Building a Better Canadian Tire

As we expand the breadth and depth of our businesses within a shifting economic, competitive, and demographic environment, it is crucial that we continually improve our operational efficiency, customer service and business practices to support growth and remain competitive.

BETTER PRODUCTIVITY & COST MANAGEMENT

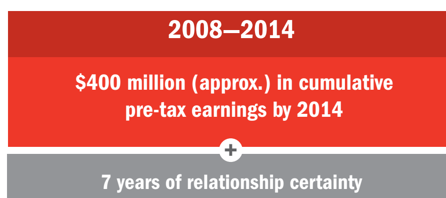
Improved Dealer contract

During 2007, we negotiated a groundbreaking amendment to the CTR Dealer contract that will result in greater alignment than ever before on our mutual goals to grow sales, improve productivity and service, and share in enhanced profitability.

Back to basics: Grow automotive

As part of the $120 million automotive investment, PartSource will open 22 to 25 hub stores, with approximately twice the number of auto hard parts. These hubs will provide faster replenishment of both PartSource and CTR automotive stock. The first two hubs opened in 2007 in Winnipeg, Man., and Mississauga, Ont. Customers will benefit from upgraded online tools, a new auto parts catalogue, better emergency service and more hard parts.

BETTER — AMENDED DEALER CONTRACT



Meanwhile, more PartSource franchises are converting to corporate stores — a smarter financial model for PartSource.

Productivity through systems and technology

A major component of our strategy will be heavy investment in a myriad of projects to improve processes, upgrade underlying infrastructure, rationalize IT systems and develop new applications.

Retail IT enhancements will help to streamline store operations to improve productivity on inventory — from planning to supply chain to sales — with the added benefit of improving the customer experience. Mark's, for example, will be able to forecast and replenish stock more effectively, improve supply chain visibility from store to store and tailor product assortments to match different geographic, social and industrial environments.

CTR is undertaking a change program aimed at improving and upgrading marketing and merchandizing processes as well as the processes, systems and organizational structures that support them. Positive financial impacts are expected from 2010 onwards. Benefits will include:

- New pricing and category management capabilities (from 2008)
- Enhanced advertising planning, vendor management and assortment management
- Reduced marketing and merchandizing operating expenses
- Improved top-line growth through better category and promotional planning, and price and vendor management
- Integrated information technology

At PartSource, we will install new systems to substantially improve auto service and distribution capabilities and implement a new industry standard data catalogue.

As part of the $120 million automotive investment, PartSource will open 22 to 25 larger hub stores.

These combined initiatives will result in several benefits over the coming years, including lower operating expenses, improved systems reliability and higher-quality information for faster and smarter business decision-making.

Containing costs

We are reviewing costs across our businesses and eliminating unnecessary expenditures.

For example, to offset earnings volatility in the retail petroleum market, the team at Petroleum will focus relentlessly on gaining operational efficiencies to cut costs associated with discounts, construction and general operating expenses, while developing potential in the convenience side of the business.

The new 1.5 million sq. ft. distribution centre in Coteau-du-Lac, Que., scheduled to open in early 2009, will service Eastern Canada.

Petroleum convenience store sales increased by 15 per cent in 2007.

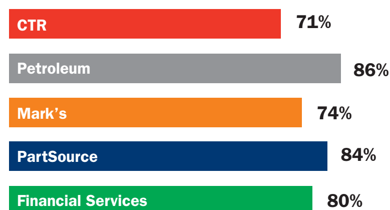
Cost and productivity management is also central to Financial Services' plans. Improved operational efficiency as well as further exploitation of technology will support a growing customer base of loans receivable. Enhanced credit risk management capabilities will continue to manage write-off rates in the target five to six per cent range.

New technology, supply chain infrastructure and new PartSource hub stores are key components of the automotive strategy.

ENHANCED CUSTOMER SERVICE & MORE INNOVATIONS

We aim to continuously improve customer service to meet changing customer expectations.

2007 CUSTOMER SATISFACTION SCORES
% very satisfied



Customers for life

That Canadian Tire stands where it does today in the hearts and minds of Canadians is a testament to our ability to provide products and services that meet life's everyday needs. However, in today's fast-moving marketplace, there is no room for complacency.

We have an ambitious goal to create positive, lifelong relationships with our customers. Our starting point is understanding changing customer needs and behaviours so that we can continually improve the experience they have with Canadian Tire businesses. Relevant and attractive products and services and well-designed stores are a part of this effort, but the core of customer service always comes down to people.

Here are some examples of our efforts to serve customers better:

- Financial Services' peer training, reward and recognition initiatives and career development programs are just some of the reasons its motivated team has won the prestigious best call centre in North America award from the Service Quality Measurement Group five times in the last eight years.
- Mark's has always been enthusiastically customer-centric, with an approach underpinned by a no-questions-asked 100% satisfaction guarantee and employee training that emphasizes helpful product knowledge rather than aggressive selling techniques. Customer councils and focus groups provide ideas for improvement on everything from product features to in-store service and store design, and all customer feedback cards receive a personal response from the president of Mark's.
- CTR uses a variety of methods to train, motivate and reward employees to provide better customer service. Customer exit interviews and corporate call centre and website feedback, for example, are rich sources of information. In 2007, CTR began work on developing a sustainable customer loyalty index to track progress against our pursuit of creating customers for life.

- The automotive infrastructure investment will go a long way to enhancing the already high levels of PartSource customer service. PartSource auto professionals will have more online information at their disposal to satisfy the auto expert customer who wants a fast in-and-out experience and strong auto parts knowledge at the service counter.

- Petroleum agents do an outstanding job of building customer relationships and this is supported by hiring, training and retaining top agents and measuring service quality and responding accordingly. Questions and concerns coming through the toll-free hotline are responded to directly or within 24 hours.

Whether speaking with a Financial Services call centre representative, filling up at a Petroleum gas bar or shopping at a Mark's, CTR or PartSource store, customers have high expectations of Canadian Tire. And we aim to deliver with a constant effort to enhance the quality and consistency of every customer interaction.

Staying ahead of the curve

As ever, creativity and innovation will be critical elements of our competitive success in the future. We will execute with even faster new product turnaround times and increasingly rely on global sourcing to meet customer demand for low prices and original products.

At Mark's, it's all about Clothes That Work, with its unwavering attention to those special features that make clothes feel better, last longer, look great and perform better. Mark's internal buying team painstakingly sources ideas and products from around the world that are engineered by in-house experts. More and more features are in development and will be extended across product lines to ensure that the product selection found at Mark's continues to be innovative.

With over 40 years of experience, Financial Services is tuned into both customer needs and industry developments. Value-added products like the Vacation Advantage card, where customers can earn rewards through travel and travel-related CTR products, and the One-and-Only account that allows customers to repay their mortgages faster and easier are just two recent examples of the types of product tests and launches planned for 2008 and beyond.

CTR will continue to offer exciting new products that draw its loyal customers back for more. For example, both the outdoor furniture and popular car care and home organization product ranges will be supplemented with even more choices in 2008.

The One-and-Only account combines mortgages, chequing/savings accounts, loans or credit card balances into one account, which can save customers thousands of dollars on their mortgages.

ENGAGED PEOPLE & CORPORATE RESPONSIBILITY

Productivity through engaged people

Our history of strong growth will be followed by more change and developments in the years ahead, and we are determined to remain lean and effective within a tightening labour market.

We believe that setting the right organizational structure, with clear accountabilities and authorities for everyone, is the key to motivating our people and maximizing their potential. And, as we move towards our goal of an even more productive, performance-based culture that sets people up for success, we are upgrading our human resources systems and practices enterprise-wide, encouraging even more cooperation across business units and focusing on developing the leadership talent that will lead our business into the future.

PartSource pros.

A responsible corporate citizen

As a major commercial player with over 57,000 employees and operations embedded into the fabric of local communities, at Canadian Tire, we work hard to earn the trust of our customers, shareholders, business partners, government and others.

We are updating our corporate responsibility plans, building on successful initiatives and activities over recent years, such as:

Economic

- Board-level social responsibility committee (established in the mid-1980s)
- Enterprise risk management framework and policies

Social and ethical

- Canadian Tire Foundation for Families (FFF) donations exceeding $28 million to Canadian communities, families and children since 1999
- CTR Dealers and community partners in 270 local chapters of the FFF Canadian Tire JumpStart program helping over 100,000 kids in financial need to participate in organized sport and recreation since 2005

38,000 kids in need across Canada were given the opportunity to get active in 2007.

- New FFF President Dan Thompson leading the development of a new five-year strategic plan to build on successes to date and help even more Canadian youngsters in the future

The Canadian Tire JumpStart™ program has helped over 100,000 kids in financial need participate in organized sport and recreation since 2005. Thanks for your support!

- FFF financial support to community organizations providing over 28,000 nights of shelter and 195,000 meals, clothing and essential goods to people in need in 2007
- Employee and director code of business conduct and compliance reporting infrastructure
- Supplier code of business conduct outlining workplace standards and business practices required for doing business with Canadian Tire
- Mark's social compliance and ethical sourcing program independently auditing over 200 offshore supplier factories since 2004
- Mark's founding membership in the Fair Factories Clearing House, a global clearing house for factory information and social compliance audit reports

Environment

- Based on 2007 sales of compact fluorescent light bulbs, our customers will save approximately 2.4 billion kilowatt hours (kWhs) of electricity over the life of the bulbs – enough to support around 200,000 Canadian households for a year
- Energy efficient store prototypes that cut energy consumption to half of that of a conventionally designed building

- Energy consumption has been reduced by more than 15 per cent since the implementation of new lighting and automated energy control systems in the A.J. Billes and Brampton distribution centres in 2005

Over 500,000 reusable and recyclable bags were produced by CTR in 2007.

- Approximately 1,000 environmentally focused home, leisure and automotive products now available at CTR
- Over half-a-million reusable and fully recyclable CTR shopping bags produced in 2007, stopping at least a million plastic bags from entering landfills

One of the greatest areas of opportunity for the Corporation in terms of corporate responsibility is the environment. In a program to be developed over the next 24 months, we will pursue a number of key initiatives in partnership with CTR Dealers to substantially reduce store energy consumption. In addition, we will introduce more environmentally friendly customer product choices and a waste reduction strategy, including reducing packaging in our house brands.

Conserving energy with a one-degree reduction in temperature using a programmable thermostat, such as this one available at CTR, can save 2% on heating bills.

Funding our Growth

During the past year, economic volatility and uncertainty have been prominent features of the financial markets. This has led to questions about the impacts – particularly the effects of the credit crisis – upon companies, and how they are raising capital.

Financial flexibility has always been an underlying strength of Canadian Tire, and it remains so today. Enhancing our flexibility to fund our aggressive growth agenda is a key imperative of our strategic plan.

Our funding options

At Canadian Tire, we have access to a diverse array of capital funding streams:

- Committed bank lines of credit that have been extended to $1.18 billion (Glacier Credit Card Trust® has access to $760 million of the lines to support its commercial paper program)
- A Canadian Tire commercial paper program of up to $800 million
- A $750 million shelf prospectus for the issuance of Canadian Tire medium-term notes, of which we have already issued $300 million
- Ownership of a real estate portfolio with materially more market value than its unencumbered book value of over $2 billion. While we recognize the future business significance of these properties, we also have the flexibility to undertake targeted sale and leaseback transactions of non-core assets and dispose of surplus real estate as we have done in the past.
- Cash flow from operating activities
- Sale of receivables to a conduit sponsored by a third-party bank

Funding Canadian Tire Financial Services

Our Financial Services business has a successful securitization program in place to help fund receivables growth. Historically, we have securitized between 70 and 80 per cent of our receivables leaving 20 to 30 per cent to be financed at the corporate level.

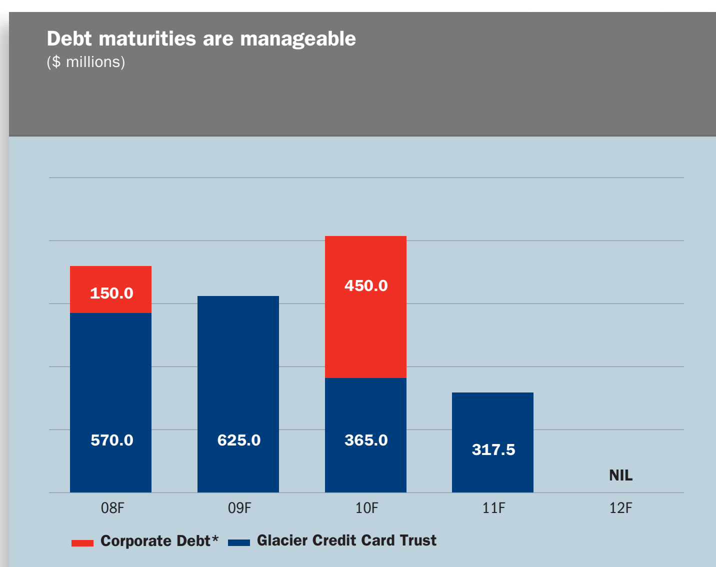
Our securitized debt is achieved through Glacier Credit Card Trust (Glacier). Glacier, a single-purpose entity, purchases interests in credit card receivables from Canadian Tire Bank (a subsidiary of Canadian Tire Financial Services) and funds the purchases by issuing debt to the public markets. The bulk of Glacier's funding is met through the issuance of AAA-rated senior notes with maturity terms of five years or greater and subordinated notes with the same maturity terms. We established this cost-effective structure in 1995 and its diversified funding sources and good matching of assets and liabilities has had a stable history.

Glacier also issues a limited amount of commercial paper which typically comprises less than 10 per cent of Glacier's total outstanding debt.

As we look to the balance of 2008, we will consider other Glacier financing to support our growing Financial Services business.

Our latest securitization transaction

In February 2008, Glacier issued $635 million of five-year notes in a securitization transaction at the attractive weighted average interest rate of 5.08 per cent. This was the first public credit card term securitization in Canada since June 2007, a reflection of the quality of the Glacier portfolio and its strong past performance. The Glacier deal resulted in net proceeds of approximately $630 million, which will boost our liquidity and further support Financial Services' profitable growth.



* Corporate debt excludes capital lease obligations and promissory notes.

In recent annual check-ups with our two credit rating agencies, our investment ratings were reconfirmed, all with a stable outlook, providing us with flexibility to raise capital.

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

[1] Asset-backed Series 2002 Senior and Subordinated Notes were discontinued on January 2, 2008.

Leadership Team

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

from left

Patrick R. Sinnott
Paul Wilson
Cameron D. Stewart
Michael B. Medline
Tim Condon
Huw Thomas
Thomas K. Gauld
Marco Marrone
Mike Arnett
Ken Silver
Stanley W. Pasternak
Laura Dunne
Michel Petrucci

Tom Gauld, president and chief executive officer
Tom has been with Canadian Tire for 15 years. He served as president of Canadian Tire Financial Services from 1996–2006 during which time the business nearly doubled its earnings contribution and developed a growing portfolio of products and services. Two years into his current role, Tom is leading a long-term strategic plan with a focus on growth and productivity.

BUSINESS LEADERS

Mike Arnett, president, Canadian Tire Retail
Bringing over 25 years of retailing expertise to his current role, Mike is responsible for the retail chain's marketing, merchandising, and supply chain as well as the development and implementation of new store formats. Previously, Mike held executive positions in Canadian Tire Retail marketing and in corporate strategy and new business development.

Patrick Sinnott, senior vice-president, supply chain
Pat has accountability for the quality and governance of Canadian Tire's supply chain. Pat has a 25-year-plus background in logistics and holds masters degrees in both mathematics and business administration. Before Canadian Tire, Pat was a partner in the logistics practice of a major consulting firm.

Marco Marrone, president, Canadian Tire Financial Services
During his 21 years with Financial Services, Marco has served in finance, credit risk management, IT, marketing and operations before becoming president in 2006. Marco has been involved in strategic growth strategies, including the creation of Canadian Tire Bank and developing the country's second-largest MasterCard franchise.

Paul Wilson, president, Mark's Work Wearhouse
With 15 years of leadership experience at Mark's, Paul has been a major contributor to strategic planning and network growth over the years. Paul's retail marketing and merchandising expertise continues to play a key role in the evolution of the successful branding strategy and sales growth at Mark's.

Mike Medline, president, Dealer relations and diversified businesses
Mike is accountable for aligning, motivating and developing Canadian Tire Dealers. He provides leadership for Canadian Tire Petroleum, PartSource and the company's real estate activities. Mike is experienced in strategic planning, mergers and acquisitions, investor relations, logistics, marketing and law.

Ken Silver, senior vice-president, real estate and construction
Ken manages the Corporation's real estate portfolio, including land acquisition, development, construction and disposition of distribution centres, retail stores, gas bars and commercial space. He also oversees the property management function. Ken has over 20 years of related experience in Canada and the United States.

CORPORATE OFFICERS

Huw Thomas, executive vice-president finance and administration and chief financial officer (CFO)
Huw has overall corporate financial accountability for planning and reporting, financial reporting and systems, treasury, taxation, internal audit, investor relations and corporate affairs. Huw has over 30 years of international finance and accounting experience and has been CFO for over seven years.

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

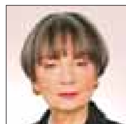
Tim Condon, senior vice-president and chief strategy officer
Tim provides leadership for enterprise-wide efforts in strategic planning, assessing new business ventures and businesses development. Prior to his current role, Tim served in a range of senior management roles at Canadian Tire Financial Services since 1991, and led the retail banking pilot initiative.

Laura Dunne, senior vice-president, human resources
Laura has accountability for leadership development, succession planning, compensation, benefits, capital accumulation, learning, staffing and organization development programs. She is also accountable for major people and change strategies and for enterprise-wide HR alignment. Laura has more than 15 years of experience in various human resources disciplines.

Michel Petrucci, senior vice-president, IT and chief information officer
With almost 40 years of information technology management experience, including seven years at Canadian Tire Financial Services as vice-president of IT, Michel has proven capabilities in developing and implementing integrated business and IT plans. He is accountable for developing enterprise-wide technology governance and strategies.

Cameron Stewart, senior vice-president, secretary and general counsel
Cam's accountabilities include providing legal advice and services to the Corporation, its Board and its subsidiaries and managing enterprise risk management and compliance. Cam has over 25 years of legal experience and joined Canadian Tire in 1999 from a major Canadian law firm.

Board of Directors



Maureen J. Sabia, 66
Toronto, Ontario, Canada

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

Current Activities:
Miss Sabia is President, Maureen Sabia International, a consulting firm, and a director of Canadian Tire Bank. Miss Sabia co-authored "Integrity in the Spotlight – Opportunities for Audit Committees" published in 2002 and "Integrity in the Spotlight – Audit Committees in a High Risk World" published in 2005.

Miss Sabia is a member of the Public Accountants Council for the Province of Ontario, a body mandated by the *Public Accounting Act, 2004* (Ontario) to oversee the regulation of public accounting.

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

Martha G. Billes, 67
Calgary, Alberta, Canada

Member of:
- Governance Committee
- Social Responsibility Committee

Current Activities:
Ms. Billes is President and a director of Albikin Management Inc., an investment holding company. She is Chairman of the Canadian Tire Foundation for Families and a director of Canadian Tire Bank. Ms. Billes is the daughter of Canadian Tire co-founder A.J. Billes and has beneficially owned or controlled a majority of the Common Shares since 1997. She is also a director of Marlore Enterprises Ltd. and Tire 'N' Me Pty. Ltd.

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

Owen G. Billes, 38
St. Catharines, Ontario, Canada

Member of:
- Social Responsibility Committee

Current Activities:
Mr. Billes is a Canadian Tire Dealer-in-Training. He is the son of Martha G. Billes and grandson of Canadian Tire co-founder A.J. Billes. Mr. Billes is also a director of the Canadian Tire Foundation for Families.

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

Thomas K. Gauld, 58
St. Catharines, Ontario, Canada

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

Past Activities:
Mr. Gauld previously led Canadian Tire Financial Services Limited as President from 1996 to 2006. He joined Canadian Tire Financial Services Limited in 1993 as Vice-President of Marketing. Prior to joining Canadian Tire, Mr. Gauld held a variety of management positions in Canada and internationally. He was Managing Director of Spalding Sports in Europe, and President of Spalding Sports and RoadMaster Leisure, both in Canada. He also worked in a variety of marketing roles with SmithKline Beecham in Canada and South America, Bristol Myers in Canada and the United States, and Unilever in South Africa. He has served as a director of MasterCard Canada. Mr. Gauld has also been Chairman of the Niagara College Board of Governors and a member of the Board of Trustees of Brock University, the Advisory Board of Equifax Canada and the Shaw Festival Board of Governors.

Keith E. Gostlin, 64
Kelowna, British Columbia, Canada

Member of:
- Social Responsibility Committee

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

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

James R. Neale, 65
Calgary, Alberta, Canada

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

Current Activities:
Mr. Neale is President, Neale Management Consultants Ltd., a consulting firm specializing in accounting, finance and tax services. He is also active in oil and gas exploration and development through his private holding company, Adventure Petroleums Ltd.

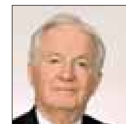
Past Activities:
Mr. Neale, a Certified Management Accountant, has served as a director of the Small Explorers and Producers Association of Canada and as an officer and director of several public resource companies. He also co-founded North Eastern Drilling Ltd., owner and operator of the first slant hole drilling rig in Canada.

Suzanne R. Perles, 54
Manhattan Beach, California, U.S.A.

Member of:
- Governance Committee
- Social Responsibility Committee (Chairman since March 2007)

Current Activities:
Ms. Perles is Managing Director, The Corporate Development Company, a corporate advisory firm specializing in mergers and acquisitions. She is also a member of the Board of Directors and Treasurer of America's Health Together and a director of the Canadian Tire Foundation for Families.

Past Activities:
Ms. Perles was previously Vice-President, Global Head Consumer Products Mergers and Acquisitions, Citicorp Mergers and Acquisitions and an engagement manager at the consulting firm of McKinsey and Company. She was elected to the Board of Trustees of Princeton University and served as Vice-President of the American Association of Rhodes Scholars. Ms. Perles was a member of the Board of Directors of Belae Brands, Inc., Chief Operating Officer of Anchor Audio, Senior Advisor to Enell, Inc., and a founding member of the Women's Equity Fund Advisory Board. She was formerly Director, National Issues Program, University of Maryland, Academy of Leadership, Co-Chair of the Business Development Task Force, Rebuild Los Angeles and an economics instructor at St. Anne's College, Oxford University. Ms. Perles was an undergraduate at Princeton University, earned her MBA from the Harvard Business School and her Doctorate in economics from Oxford University where she was a Rhodes Scholar.



Frank Potter, 71
Toronto, Ontario, Canada

Member of:
- Management Resources and Compensation Committee (Chairman)
- Social Responsibility Committee (Chairman until March 2007)

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

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

Austin E. Curtin, 66
Medicine Hat, Alberta, Canada

Member of:
· Social Responsibility Committee

Current Activities:
Mr. Curtin is President, Austin Curtin Sales Ltd., which operates a Canadian Tire store in Medicine Hat, Alberta.

Past Activities:
Mr. Curtin became a Canadian Tire Dealer in 1975. He also held numerous management positions with Zellers Ltd. Mr. Curtin has been an active member of the Canadian Tire Dealers' Association and its committees and served as its National Director of Marketing. He is a recipient of the Canadian Tire Award of Excellence.

H. Garfield Emerson, Q.C., 67
Toronto, Ontario, Canada

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

Current Activities:
Mr. Emerson is Principal, Emerson Advisory, an independent business and financial advisory firm, and a Corporate Director. He is a director of CAE Inc., Sentry Select Capital Corp. and Wittington Investments, Limited.

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

Daniel E. Fournier, 53
Outremont, Quebec, Canada

Member of:
· Audit Committee
· Governance Committee
· Management Resources and Compensation Committee

Current Activities:
Mr. Fournier is President, ACNG Capital Inc., a real estate value creation and strategic planning firm. He is the Chairman of the Genivar Income Fund and Vice Chairman of CB Richard Ellis Canada. Mr. Fournier is the founding Chairman of NF (Neurofibromatosis) Canada. He is also a director of Canadian Tire Bank.

Past Activities:
Mr. Fournier was formerly Chairman and the majority shareholder of Jas. A. Ogilvy Inc., and Chairman of Ritz-Carlton Canada. Mr. Fournier has served as a member of the Board of Directors of The Brick Warehouse Corporation, Standard Life Canada, Standard Life Trust Company, Hartco Corporation, and as a trustee and member of the Independent Committee of Summit REIT.

Robert M. Franklin, 61
Toronto, Ontario, Canada

Member of:
· Audit Committee
· Social Responsibility Committee

Current Activities:
Mr. Franklin is President of Signalta Capital Corporation, a private investment holding company. He is a director of Barrick Gold Corporation, First Uranium Corporation, Resolve Business Outsourcing Income Fund and Toromont Industries Ltd. Mr. Franklin is also a trustee for Stratos Global Corporation.

Past Activities:
Mr. Franklin was Chairman of Placer Dome Inc. from 1993 until it was taken over by Barrick Gold Corporation in 2006. He has also served as Chairman of Clublink Corporation, Glenayre Electronics Inc. and Photowatt Techologies, and as a director of Algonquin Mercantile Corporation, Barrington Petroleum Ltd., Call-Net Enterprises Inc., Great Lakes Carbon Income Trust and Royster-Clark Ltd.

Timothy R. Price, 65
Toronto, Ontario, Canada

Current Activities:
Mr. Price is Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company. He is Chairman of Q9 Networks Inc. and the York University Foundation, a trustee of Morguard REIT, and a director of Astral Media Inc., HSBC Bank Canada, and St. Michael's Hospital Foundation. Mr. Price is also a governor of York University.

Past Activities:
Mr. Price was previously President and CEO of Hees Enterprises Limited and Chairman of Trilon Financial Corporation, which were companies that merged into Brookfield Asset Management Inc.

James A. Riley, 55
Toronto, Ontario, Canada

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

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

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

Graham W. Savage, 58
Toronto, Ontario, Canada

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

Current Activities:
Mr. Savage is Chairman of Callisto Capital LP, a merchant banking partnership. He is a director of Canadian Tire Bank, Cott Corporation and Sun Times Media Group, Inc.

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

Stephen G. Wetmore, 55
Mississauga, Ontario, Canada

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

Current Activities:
Mr. Wetmore is President and CEO, Bell Aliant Regional Communications Income Fund, a communications service provider. He is a chartered accountant and a member of the Canadian Institute of Chartered Accountants.

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

"Looking at the members of the Canadian Tire Board, I see personal integrity, intelligence, commitment, high energy and independence of mind."

Maureen Sabia, Chairman of the Board

Shareholder and Corporate Information

Home Office

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

Shareholder Contacts

Sharon Mathers
Vice-president, corporate affairs and investor relations

Karen Meagher
Manager, investor relations

Investor Relations e-mail:
investor.relations@cantire.com

Annual Meeting of Shareholders

The Suites at 1 King West
Grand Banking Hall
1 King Street West
Toronto, Ont. M5H 1A1

Thursday, May 8, 2008
10 a.m. EDT

Exchange Listings

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

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
National Bank of Canada

Registrar and Transfer Agent

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

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

Disclosure Documents

Corporate governance disclosure and other investor information are available online from the investor relations pages of the company's website at http://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 website.

Version française du rapport

Pour obtenir la version française du rapport annuel de Canadian Tire, veuillez vous adresser au Service des relations extérieures en composant le 1-800-564-6253 ou écrire à :

La Société Canadian Tire
C.P. 770, succursale K
Toronto (Ontario) M4P 2V8

2007 Dividends declared

Declaration date	Record date	Date payable	Amount payable per share
Dec 6, 2007	Jan 31, 2008	Mar 3, 2008	$0.185
Aug 9, 2007	Oct 31, 2007	Dec 3, 2007	$0.185
May 10, 2007	Jul 31, 2007	Sept 4, 2007	$0.185
Mar 8, 2007	Apr 30, 2007	Jun 1, 2007	$0.185

Dividends paid by the Corporation in 2007 and subsequent years are considered "eligible dividends" for tax purposes.

Annual dividend payable per share

Canadian Tire's policy is to maintain dividend payments equal to approximately 15 to 20 per cent of the prior year's normalized basic net earnings per share, after giving consideration to the period-end cost position, future cash requirements and investment opportunities.

This annual report has been printed on FSC-certified paper at an Ecologo-certified supplier.

Canadian Tire Corporation, Limited
2007 Financial Report

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Chief Financial Officer's Letter to Shareholders

Our 18 percent increase in adjusted net earnings of $410.1 million for 2007 was the result of a disciplined cost management approach across Canadian Tire, leading to balanced contributions from each of our businesses, despite the impact of top-line challenges in the second half of the year.

In 2007, we made approximately $600 million in capital investments in over 150 projects, creating a solid platform for future growth. The 2008 capital commitment will be lower – $175 million to $200 million less on a net basis – as we transition to less capital-intensive projects and receive anticipated proceeds from three planned property sale and leaseback transactions due to take place in the coming months.

In 2008, we will invest approximately $55 million to continue our substantial multi-year program of productivity initiatives. This will include the re-launch of our Options® MasterCard® product, the reinforcement of our supply chain infrastructure and upgrades to technology and processes across the enterprise.

The international liquidity crisis that dominated business headlines in the latter half of the year significantly affected the securitization market, which is an important funding vehicle for Canadian Tire Financial Services. With shorter terms, wider spreads and higher funding costs it is important that we increase our funding flexibility until the longer-term markets return to normal. In 2007 we increased our available bank lines by $0.5 billion, with $110 million more to come. In February 2008, we undertook a securitization transaction with Glacier Credit Card Trust® amounting to $630 million in net proceeds. This was the first transaction of its type in Canada since June 2007, and it will support our business while the market fully returns to normal, which, like others, we anticipate will happen later in 2008.

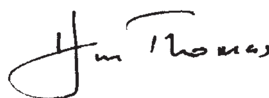
Chief Financial Officer's Letter to Shareholders

Last year, the Canadian Institute of Chartered Accountants (CICA) once again presented Canadian Tire with its award of excellence for corporate reporting in the consumer products division. While we are proud of this honour, we do not take it for granted, and, ever-mindful of our responsibility as a major Canadian corporation to maintain a reputation for superior corporate disclosure, we are already taking several steps to continue to enhance our disclosure to ensure our investors remain well informed.

We introduced our new corporate strategic plan to the investor community in October 2007, in a rolling five-year format, that will provide a clearer context to our reporting. This annual report marks the first time that we are communicating our strategic objectives on a consolidated basis, which is more consistent with the way that we view — and manage — our interrelated business.

Work has also begun on one of the most significant events in Canadian accounting, the transition to International Financial Reporting Standards (IFRS). Our aim is to be best-in-class in our IFRS reporting and disclosure. We have allocated plenty of time and assigned a dedicated internal team to resolve issues, make the transition seamless and take the lead in educating analysts and the market about the changes.

While there will be challenges ahead, we believe that our strong balance sheet, financial flexibility and the give-and-take advantage of our structure of interrelated businesses positions us soundly for our exciting and aggressive growth plans to build a bigger and better Canadian Tire.



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

Management's Discussion and Analysis

March 6, 2008

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INTRODUCTION

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

We, us, our, Company and Canadian Tire

In this document, the terms "we", "us", "our", "Company" and "Canadian Tire" refer to Canadian Tire Corporation, Limited and its business units and subsidiaries.

Review and approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on March 6, 2008.

Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the fourth quarter (13 weeks ended December 29, 2007) are against results for the fourth quarter of 2006 (13 weeks ended December 30, 2006) and all comparisons of results for the full year of 2007 are against results for the full year of 2006.

Restated figures

Certain of the prior period's figures have been reclassified to conform to the current year's presentation, including amounts with respect to securitizations and net provision for loans receivable in the Consolidated Statements of Cash Flows. Please refer to Note 21 in the Notes to the Consolidated Financial Statements for further information regarding these reclassifications.

Accounting estimates and assumptions

The preparation of consolidated financial statements that conform with Canadian generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. We calculate our estimates using detailed financial models that are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In our judgment, none of the estimates detailed in Note 1 of our annual Consolidated Financial Statements for the year ended December 29, 2007 requires us to make assumptions about matters that are highly uncertain. For these reasons, none of the estimates is considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission.

Forward-looking statements

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with Canadian Tire's business and the general economic environment. In addition to the principal risks identified and discussed in detail in sections 9.0 to 9.3 of this MD&A, there are other external factors that could affect our results. These include, but are not limited to: changes in interest rates, currency exchange rates and tax rates; the ability of Canadian Tire to attract and retain quality employees, Dealers, Canadian Tire Petroleum™ (Petroleum) agents and PartSource® and Mark's Work Wearhouse® (Mark's) store operators and franchisees; and the willingness of customers to shop at our stores or acquire our financial products and services.

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

1.0 OUR COMPANY

1.1 Overview of the business

Canadian Tire has been in business for over 85 years, offering everyday products and services to Canadians through its growing network of interrelated businesses. Canadian Tire, our Dealers, franchisees and Petroleum agents operate more than 1,160 general merchandise and apparel retail stores and gas bars. The Canadian Tire Financial Services® (Financial Services) division of the Company also markets a variety of financial services to Canadians, primarily its proprietary Canadian Tire Options® MasterCard®, personal loans, insurance and warranty products, and in 2006, initiated a retail banking pilot offering products to customers in certain test markets.

Canadian Tire's model of interrelated businesses provides market differentiation and competitive advantage. Canadian Tire's businesses benefit from the Company's key capabilities in merchandising, marketing and advertising, supply chain and real estate, which enable us to achieve a greater level of efficiency. Canadian Tire's primary loyalty program, Canadian Tire 'Money'® — shared by Canadian Tire Retail (CTR), Financial Services and Petroleum — is an example of how interrelationships between the businesses create a strong competitive advantage for the Company.

The success of the loyalty program has proven — through high customer acceptance and redemption — to be a key element of Canadian Tire's total customer value proposition and is designed to drive higher total sales across CTR, Financial Services and Petroleum. For example, a customer who fills up with gas at Petroleum's gas bars and uses Canadian Tire credit cards spends considerably more at Canadian Tire stores, on average, than a customer who only shops at Canadian Tire stores.

Mark's has derived meaningful cost and operating synergies from Canadian Tire's strengths in real estate and supply chain since its acquisition by the Company in 2002. Canadian Tire co-locates Mark's and Canadian Tire stores in certain locations and, where appropriate, has been extending its national marketing and advertising channels to boost customer traffic and loyalty to Mark's and increase its brand penetration.

1.2 Operational synergies

All of our businesses benefit from strategic and operational synergies including real estate management, supply chain, merchandising, marketing and advertising. Meaningful cost savings are also derived through Canadian Tire's collective buying power and economies of scale, and we are continually enhancing our customer value proposition by creating promotions and reward programs to increase customer loyalty.

Canadian Tire's four main businesses are described below.

CTR is Canada's most shopped general merchandise retailer with a network of 473 Canadian Tire stores that are operated by Dealers, who are independent business owners. Dealers buy merchandise from the Company and sell it to consumers in Canadian Tire stores. CTR also includes our online shopping channel and PartSource. PartSource is a chain of 71 specialty automotive hard parts stores that cater to serious "do-it-yourselfers" and professional installers of automotive parts. The PartSource network consists of 38 franchise stores and 33 corporate stores.

Mark's is one of Canada's leading clothing and footwear retailers, operating 358 stores nationwide, including 308 corporate and 50 franchise stores that offer men's wear, women's wear and industrial wear. Mark's operates under the banner "Mark's", and in Quebec, "L'Équipeur®". Mark's also conducts a business-to-business operation under the "Imagewear™ by Mark's Work Wearhouse" brand.

Petroleum is Canada's largest independent retailer of gasoline with a network of 266 gas bars, 258 convenience stores and kiosks, 74 car washes, 13 Pit Stops and 89 propane stations. The majority of Petroleum's sites are co-located with Canadian Tire stores as a strategy to attract customers to Canadian Tire stores. Substantially all of Petroleum's sites are operated by agents.

Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, Commercial Link® MasterCard and Gas Advantage® MasterCard®. Financial Services also markets personal loans, insurance and warranty products and an emergency roadside assistance service called Canadian Tire Roadside Assistance®. Canadian Tire Bank®, a wholly-owned subsidiary, is a federally regulated bank that manages and finances Canadian Tire's MasterCard and retail credit card portfolios, as well as the personal loan portfolio. In October 2006, Canadian Tire Bank began offering high interest savings accounts, guaranteed investment certificates and residential mortgages in two pilot markets and extended the pilot to a third test market in 2007. In September 2007, the Canadian Tire One-and-Only™ account was launched as part of the retail banking pilot.

2.0 CORE CAPABILITIES

2.1 Brand equity

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

2.2 Loyalty program

Canadian Tire 'Money' is one of Canada's most popular loyalty programs, offering greater value to customers who shop at our stores and fill up at our gas bars when they pay with cash or use their Canadian Tire credit cards. Customers earn Canadian Tire 'Money' when they buy gas at Petroleum and on any purchase made on their Canadian Tire Options MasterCard.

Fifty years ago, Canadian Tire's 'Money' loyalty program was launched as a customer traffic-builder for Canadian Tire's gas bars. Today, Canadian Tire 'Money' remains at the heart of Petroleum's customer value proposition. In addition, CTR offers 'Multiplier' coupons that provide higher Canadian Tire 'Money' rewards when customers buy gas at our gas bars. Customers automatically receive the current Multiplier rate of Canadian Tire 'Money' rewards on gas purchases paid for with their Canadian Tire Options MasterCard.

2.3 National reach and scale

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

2.4 Innovative store formats, products and services

Canadian Tire has demonstrated expertise in the art of retailing — delivering innovative store designs and products that customers need and want. We continually refresh our store network and product offering to enhance the shopping experience for our customers through modern store designs and expanded category assortments.

Canadian Tire has built a reputation as an innovator by introducing new products, programs and services into the market that address the needs of customers. CTR searches globally for "exciting, new and exclusive" products to offer in Canadian Tire stores. The objective is to launch new products with innovative features at compelling prices, that are not sold by any other retailer. Wireless rearview cameras, steam mops and pre-lit miracle Christmas trees are all examples of exciting, new and exclusive products launched by Canadian Tire.

Mark's is also providing innovative apparel and footwear products, such as T-MAX™ insulated clothing, QUAD COMFORT® footwear and body-shaping clothing for women. The combination of quality, style and functionality of these products is unique to Mark's.

2.5 Store network at a glance

Number of stores and retail square footage	**December 29, 2007**	December 30, 2006
Consolidated store count		
CTR retail stores[1]	**473**	468
PartSource stores	**71**	63
Mark's retail stores[1]	**358**	339
Petroleum gas bar locations	**266**	260
Total stores	**1,168**	1,130
Consolidated retail square footage (in millions)		
CTR retail square footage	**17.7**	16.2
PartSource retail square footage	**0.3**	0.2
Mark's retail square footage	**3.0**	2.7
Total retail square footage[2]	**21.0**	19.1

[1] Store count numbers reflect individual selling locations; therefore, CTR and Mark's totals include both CTR-Mark's combination stores and Mark's-inside-a-CTR stores.
[2] The average retail square footage for Petroleum's convenience stores was 400 square feet per store in 2007 and 392 square feet per store in 2006 and has not been included in the total above.

2.6 Real estate management

Canadian Tire owns and manages more than $2 billion (book value) in unencumbered real estate associated with our Canadian Tire, PartSource and Mark's stores and Petroleum sites. Our expertise in real estate enables us to expand quickly and efficiently, securing high-traffic, sought-after locations for our stores. We own more than 75 percent of our CTR store properties.

Since 1994, CTR has opened 383 new or replacement stores, and has sold many of the properties that became redundant. Over the last 10 years, the consideration received from the sale of distribution centres and excess store properties was approximately $690 million, with a total of over $210 million in gains recorded. The cash realized from these sales was reinvested in our growth initiatives.

2.7 Supply chain

CTR's supply chain facilitates the efficient flow of goods between our domestic and overseas suppliers, CTR's distribution centres and Canadian Tire stores. CTR has distribution centres in Alberta and Ontario and a multi-channel replenishment distribution model. In support of CTR's store network overall volume growth, we began construction of a new distribution centre in Quebec in 2006 which we plan to have fully operational in 2009. The new distribution centre will be operated by a third party and will serve our store network in Eastern Canada, allowing for the closure of a significantly smaller third-party operated distribution centre in the Montreal area.

Canadian Tire has been sourcing high-quality products outside North America since the 1970s and has built strong relationships with overseas suppliers. Approximately 39 percent of the value of CTR's inventory purchases are foreign-sourced as of the end of 2007. Our global sourcing initiative is intended to provide access to innovative products and to support pricing flexibility in the future.

2.8 Credit risk management

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

2.9 Call centres

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

3.0 OUR STRATEGIC PLAN

3.1 New Strategic Plan to 2012 (2012 Plan)

In October 2007, Canadian Tire announced a fundamental change to how we execute our strategic planning process by introducing our new five-year Plan on a rolling basis. The 2012 Plan outlines our strategy to build a bigger and better Canadian Tire through a continued focus on growth and productivity. The key initiatives of the 2012 Plan include network expansion across all of our retail chains (CTR, PartSource and Mark's), upgrading our automotive supply chain and technology infrastructure and continued testing of our new retail banking products. Other initiatives designed to improve productivity at CTR include a renewal of our information technology infrastructure and related processes and a more streamlined organizational design.

Specific objectives related to these programs are included in section 4.3 of this MD&A and elsewhere in the 2007 Annual Report.

3.2 Financial aspirations

The 2012 Plan includes financial aspirations for the Company for the period ending with 2012. These aspirations are not to be construed as guidance or forecasts for any individual year within the 2012 Plan, but rather as long-term, rolling targets that we aspire to achieve over the life of the 2012 Plan, based on the successful execution of our various initiatives.

This fourth quarter MD&A will report our 2007 progress against the 2005–2009 Strategic Plan objectives for the final time as we began measuring performance against the new 2012 Plan financial aspirations in 2008.

Financial aspirations

	2005–2009 Strategic Plan	2007	2012 Plan
Same store sales (simple average of annual percentage growth, CTR stores only)	3% to 4%	**(0.6)%**	3% to 4%
Gross operating revenue (compound annual growth rate)	7% to 9%	**4.3%**	6% to 8%
Retail sales (POS)[1] (compound annual growth rate)	N/A	**3.3%**	6%+
Adjusted earnings per share[1,2] (compound annual growth rate)	N/A	**18.1%**	10%+
After-tax return on invested capital (annual simple average)	10%	**10.5%**	10%+

[1] Not specifically identified as financial aspirations in the previous Strategic Plan.
[2] Excludes gains and losses on real estate and the net effect of securitization activities, gain on disposal/redemption of investment, former CEO retirement obligation, and impact of the 2006 stock option modification.

3.3 2012 Strategic Plan priorities

Canadian Tire will continue to invest in existing growth initiatives together with a renewed focus on enhancing productivity. Management has prioritized the 2012 Plan initiatives to include:

Growth initiatives

> continued growth of the retail businesses through ongoing expansions and store upgrades with contemplated development of 60 to 70 new and relocated retail outlets across CTR, Mark's, Petroleum and PartSource in 2008. Total retail square feet are estimated to increase approximately six percent by the end of the year;

> developing and testing new store formats including an infill retailing concept for underserved small markets; the Mark's-inside-a-CTR concept store; and the next major CTR store format, which will emphasize best merchandising practices, more efficient operations and better-performing product lines;

> continued testing of the retail banking initiative; and

> continued growth of the CTR/PartSource automotive business through investment in new technology and supply chain infrastructure, and further development of larger PartSource stores with double the available automotive hard parts inventory (hub stores) across Canada.

Productivity initiatives

- advance multi-year information technology (IT) renewal initiative to enhance our software and systems to support better data quality, decision making and improved productivity;
- development of CT Works, a corporate-wide initiative that will be implemented beginning in 2008 and will continue throughout the 2012 Plan period with targets aimed at supporting our aggressive growth agenda by optimizing the productivity of our people by investing in leadership development, achieving the most effective organizational structure and ensuring that every level of the Company adds value to the level below;
- development of automated marketing processes for pricing and inventory management at CTR; and
- investment in a new enterprise-wide human resources information and payroll system.

Projected net capital spending for 2008 will be in the range of $430 million to $455 million, the majority of which will support store and network expansions and the completion of the new Eastern Canada distribution centre, which we plan to open in 2008 and have fully operational in 2009. These capital expenditures are net of proceeds of approximately $145 million, which are expected to be realized on the sale and leaseback of three CTR urban store developments during the year.

In addition, the Company will incur approximately $28 million in net expenses in 2008, or $0.23 per share on an after-tax basis (2007 – $0.21 per share), for the retail banking initiative and plans to make an investment of approximately $55 million, or $0.46 per share (2007 – $0.10 per share), to support the productivity and growth initiatives noted above.

Benefits from the amended CTR Dealer contract, announced in September 2007, of approximately $15 million or $0.12 per share (2007 – nil) of incremental annual pre-tax earnings, are expected to partially mitigate these expenditures.

4.0 OUR PERFORMANCE IN 2007

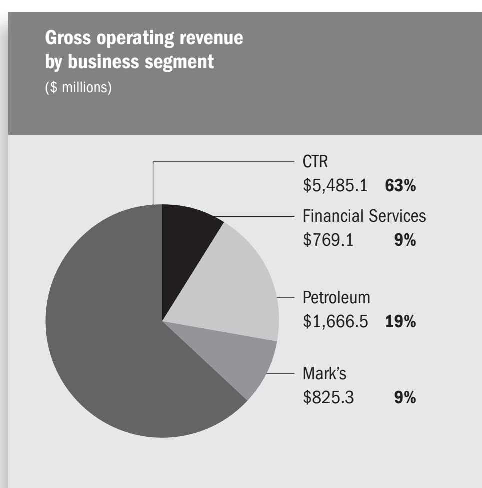
4.1 Consolidated results

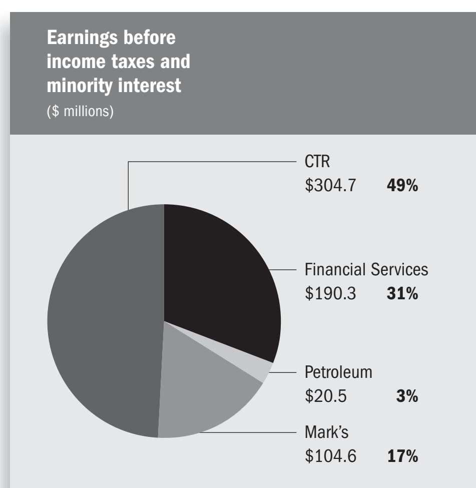
Consolidated financial results

($ in millions except per share amounts)	**Q4 2007**	Q4 2006	Change	**2007**	2006	Change
Retail sales[1]	**$ 3,015.0**	$ 2,923.7	3.1%	**$ 10,084.5**	$ 9,765.2	3.3%
Gross operating revenue	**2,507.9**	2,426.1	3.4%	**8,621.4**	8,269.1	4.3%
EBITDA[2] and minority interest	**259.2**	238.8	8.6%	**905.4**	825.2	9.7%
Earnings before income taxes and minority interest	**174.5**	169.2	3.1%	**620.1**	557.8	11.2%
Effective tax rate	**28.3%**	36.0%		**32.7%**	36.0%	
Net earnings	**$ 125.1**	$ 108.3	15.5%	**$ 417.6**	$ 354.6	17.8%
Basic earnings per share	**1.53**	1.33	15.6%	**5.12**	4.35	17.9%
Adjusted basic earnings per share[2]	**1.56**	1.21	29.2%	**5.03**	4.26	18.1%

[1] Represents retail sales at CTR (which includes PartSource), Mark's corporate and franchise stores and Petroleum's sites.

[2] See section 12.0 for non-GAAP measures.





Highlights of top-line performance by business

(year-over-year percentage change)	Q4 2007	2007
CTR retail sales[1]	0.4%	1.5%
CTR gross operating revenue	0.6%	2.4%
CTR net shipments	0.4%	2.3%
Mark's retail sales	5.0%	8.0%
Petroleum retail sales	15.8%	8.3%
Petroleum gasoline volume	(1.5)%	2.1%
Financial Services' credit card sales	14.1%	13.8%
Financial Services' gross average receivables	8.3%	7.1%

[1] Includes sales from Canadian Tire stores, PartSource stores and CTR's online web store and the labour portion of CTR's auto service sales.

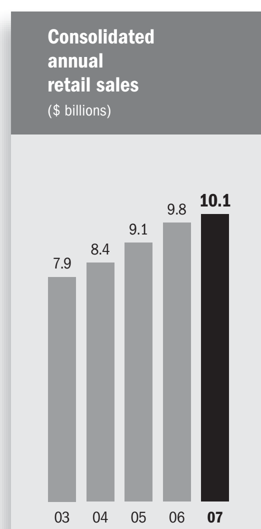
Fourth quarter In spite of the more challenging economic and retail environment, consolidated gross operating revenue increased in the fourth quarter primarily due to higher sales at Mark's and Petroleum. Mark's growth was led by the industrial wear category, and posted the greatest increases in Quebec, the Greater Toronto Area (GTA) and British Columbia regions. Increased Petroleum revenues were a function of sustained higher retail gasoline prices as well as strong convenience store sales.

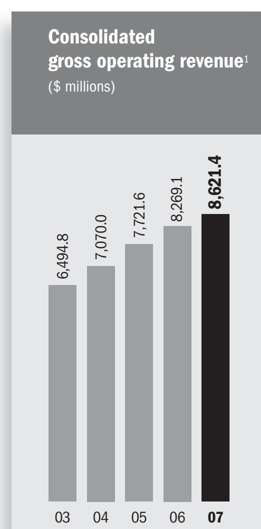
Increased earnings in CTR, Mark's and Petroleum were partially offset by a decrease in earnings in Financial Services in the fourth quarter. The increase in CTR earnings reflects stronger operating margins and the continued focus on improving productivity. Despite growth in Financial Services' total managed portfolio and tight operating expense management, earnings in this segment were down in the fourth quarter largely due to a significant year-over-year swing from the net effect of securitization activities, an increase in marketing investments aimed at increasing the level of new accounts and growing future receivables, and an increase in the allowance for doubtful accounts primarily related to an increase in receivables over the prior year.

Full year 2007 Solid increases in revenues across all businesses were led by an 8.3 percent year-over-year increase in gross operating revenue at Mark's and an increase of 7.8 percent at Petroleum compared to the same period of 2006.

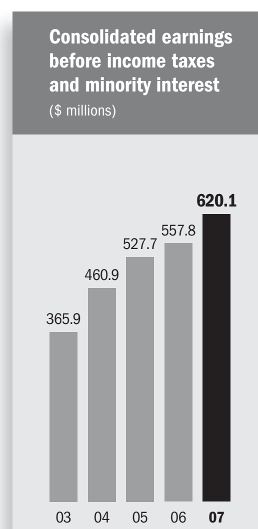
Double-digit earnings growth driven by higher revenues, improved operating margins and productivity gains were partially offset by investments in retail banking and productivity initiatives, as well as non-operating items described below.

Our consolidated earnings were favourably impacted by a gain on the disposal of an investment in MasterCard International as outlined in the section below titled "Impact of non-operating items".





[1] Gross operating revenue numbers had previously been restated for the impact of EIC-156 as required by the Canadian Institute of Chartered Accountants.



Impact of non-operating items The following tables show our consolidated earnings on a pre-tax and after-tax basis, excluding the following non-operating gains and losses in 2007 (shown on a pre-tax basis):

> $13.6 million gain on dispositions of property and equipment;
> $6.2 million expense related to previously disclosed retirement obligation for our former CEO;
> $14.4 million loss from the net effect of securitization activities; and
> $18.4 million gain on the disposal of an investment in MasterCard shares.

Adjusted consolidated earnings before income taxes and minority interest [1]

($ in millions)	**Q4 2007**	Q4 2006	Change	**2007**	2006	Change
Earnings before income taxes and minority interest	**$ 174.5**	$ 169.2	3.1%	**$ 620.1**	$ 557.8	11.2%
Less pre-tax adjustment for:						
Gain on disposal/redemption of investment[2]	**–**	–		**18.4**	6.9	
Former CEO retirement obligation[3]	**0.3**	–		**(6.2)**	–	
Impact of stock option modification	**–**	(40.5)		**–**	(40.5)	
Net effect of securitization activities[4]	**(10.6)**	8.2		**(14.4)**	(12.7)	
Gain on disposals of property and equipment[5]	**6.3**	47.0		**13.6**	57.4	
Adjusted earnings before income taxes and minority interest[1]	**$ 178.5**	$ 154.5	15.5%	**$ 608.7**	$ 546.7	11.3%

[1] See section 12.0 on non-GAAP measures.
[2] See section 4.3.4 on Financial Services' performance.
[3] See section 4.3.1 for CTR's performance.
[4] Includes initial gain/loss on the sale of loans receivable, amortization of servicing liability, change in securitization reserve and gain/loss on reinvestment.
[5] See section 4.3.1 for CTR's performance, section 4.3.2 for Mark's performance, section 4.3.3 for Petroleum's performance and section 4.3.4 for Financial Services' performance.

Adjusted consolidated net earnings [1]

($ in millions except per share amounts)	**Q4 2007**	Q4 2006	Change	**2007**	2006	Change
Net earnings	**$ 125.1**	$ 108.3	15.5%	**$ 417.6**	$ 354.6	17.8%
Less after-tax adjustment for:						
Gain on disposal/redemption of investment	**–**	–		**12.0**	4.4	
Former CEO retirement obligation	**0.2**	–		**(4.0)**	–	
Impact of stock option modification	**–**	(25.9)		**–**	(25.9)	
Net effect of securitization activities[2]	**(6.9)**	5.3		**(9.4)**	(8.1)	
Gain on disposals of property and equipment	**4.2**	30.1		**8.9**	36.7	
Adjusted net earnings[1]	**$ 127.6**	$ 98.8	29.0%	**$ 410.1**	$ 347.5	18.0%
Basic earnings per share	**$ 1.53**	$ 1.33	15.6%	**$ 5.12**	$ 4.35	17.9%
Adjusted basic earnings per share[1]	**$ 1.56**	$ 1.21	29.2%	**$ 5.03**	$ 4.26	18.1%

[1] See section 12.0 on non-GAAP measures.
[2] Includes initial gain/loss on the sale of loans receivable, amortization of servicing liability, change in securitization reserve and gain/loss on reinvestment.

Selected annual consolidated financial information

($ in millions except per share amounts)	**2007**	2006	2005
Gross operating revenue[1]	**$ 8,621.4**	$ 8,269.1	$ 7,721.6
Net earnings	**417.6**	354.6	330.1
Basic earnings per share	**5.12**	4.35	4.04
Fully diluted earnings per share	**5.12**	4.31	3.98
Cash dividends declared per share (annualized basis)	**0.74**	0.66	0.58
Total assets	**6,742.7**	5,804.6	5,955.6
Long-term debt (excluding current portion)	**1,341.8**	1,168.4	1,171.3

[1] Gross operating revenue for 2005 had previously been restated for the impact of EIC-156 as required by the CICA. See section 11.3 of our 2006 Financial Report for additional information.

Seasonal impact We usually experience stronger revenues and earnings in the second and fourth quarters of each year because of the seasonal nature of some merchandise at CTR and Mark's and the timing of marketing programs. The following table shows our financial performance by quarter for the last two years.

Consolidated quarterly results

($ in millions except per share amounts)	**Q4 2007**	**Q3 2007**	**Q2 2007**	**Q1 2007**	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Gross operating revenue	**$ 2,507.9**	**$ 2,053.4**	**$ 2,316.7**	**$ 1,743.4**	$ 2,426.1	$ 2,023.3	$ 2,247.6	$ 1,572.1
Net earnings	**125.1**	**105.7**	**122.3**	**64.5**	108.3	95.4	103.3	47.6
Basic earnings per share	**1.53**	**1.30**	**1.50**	**0.79**	1.33	1.17	1.27	0.58
Fully diluted earnings per share	**1.53**	**1.30**	**1.50**	**0.79**	1.32	1.16	1.25	0.58

4.2 Business unit 2007 performance overview

Canadian Tire Retail

2007 Performance highlights

> grew network to 473 stores including 192 Concept 20/20 stores;
> developed next new concept store; and
> opened two pilot Mark's-inside-a-CTR concept stores.

PartSource 2007 performance highlights

> network growth to 71 stores including two new hub stores; and
> double-digit total sales growth.

Mark's Work Wearhouse

2007 Performance highlights

> network growth to 358 locations and increased total retail space by approximately 11 percent;
> increased total retail sales by 8.0 percent over the previous year;
> growth in earnings of approximately 16 percent over the prior year primarily due to stronger sales and margins; and
> continued growth in sales of Mark's three key product categories.

Canadian Tire Financial Services

2007 Performance highlights

> launched the Canadian Tire One-and-Only account pilot;
> continued testing of the retail banking initiative;
> increased total managed portfolio of loans receivable to $4.0 billion, up 8.8 percent from 2006; and
> overall improvement in the net write-off rate of the total managed portfolio of loans receivable, reflecting the benefits of a number of initiatives implemented over the last several years to improve the portfolio quality.

Petroleum

2007 Performance highlights

> growth of network to 266 gas bars and 258 convenience stores;
> refurbishment of 22 gas bars and four sites that were demolished and rebuilt as part of the initiative to improve the overall customer experience at Petroleum's sites;
> increased total gasoline volume by over two percent from prior year; and
> strong improvement in earnings over the prior year, reflecting higher and stabilized gasoline prices and margins during 2007 as well as effective expense management.

4.3 Business segment performance

4.3.1 Canadian Tire Retail

4.3.1.1 Strategic Plan 2007 performance and final report

The following outlines CTR's performance in 2007 in the context of the 2005–2009 Strategic Plan, and provides our final report on these Strategic Plan initiatives. Please see section 4.3.1.5 for a discussion of our new 2012 Strategic Plan.

Strategic Plan performance

Concept 20/20 program

Concept 20/20 has been the cornerstone of Canadian Tire Retail's growth agenda since 2003 and Concept 20/20 stores have experienced strong sales, a result of increases in customer traffic and average transaction value, thereby providing the potential for a more attractive return on investment than previous store formats.

What was planned

A critical aspect of CTR's Plan was to roll out the Concept 20/20 format in existing new-format stores, focusing on the markets where we believe they are underserved.

Initially, CTR set the following goals:

> complete 70 Concept 20/20 store projects consisting of:
  – 19 new Concept 20/20 stores, including 10 replacement stores;
  – 51 expansions and retrofits; and
> increase retail square footage by 10 percent (or approximately 1.6 million square feet).

In the second quarter of 2007, based on market conditions and the progress of projects already in construction, CTR revised its goal of 70 Concept 20/20 store projects to:

> complete 67 Concept 20/20 store projects consisting of:
  – 18 new Concept 20/20 stores, including 10 replacement stores;
  – 49 expansions and retrofits; and
> increase retail square footage by approximately 1.5 million square feet.

2007 Performance

Fourth quarter

CTR opened nine new stores in the quarter, four of which are replacement stores and five of which are new to the network. Seven of the nine stores opened in the quarter are CTR-Mark's combination stores.

CTR also expanded and retrofitted 16 new-format stores to the Concept 20/20 format.

Full year 2007

CTR completed a total of 67 Concept 20/20 projects in 2007, opening 18 new stores, 10 of which are replacement stores, and retrofitting and expanding 49 existing stores to the Concept 20/20 format. Three stores were closed during the year.

At the end of 2007, CTR had 473 stores, including 192 Concept 20/20 stores (of which 30 are CTR-Mark's combination stores and two are Mark's-inside-a-CTR stores). CTR added approximately 1.4 million retail square feet to the network for a total of 17.7 million square feet at the end of the year.

Global sourcing

Canadian Tire is increasing the percentage of foreign-sourced products carried in its stores. Foreign-sourced products provide many benefits such as access to innovative products, margin protection, and the ability to offer compelling price points. In addition, however, they also increase our exposure to changes in foreign currency rates and create new supply chain challenges, which we have been working to address as our shipment volume increases.

What was planned

Global sourcing was important to CTR's Strategic Plan as it provides access to a broader range of higher quality and innovative products to help drive stronger retail sales.

CTR planned to continually increase the percentage of products sourced globally to approximately 50 percent in 2009.

2007 Performance

Fourth quarter

In the fourth quarter, approximately 42 percent of products were purchased from suppliers outside North America.

Full year 2007

In 2007, approximately 39 percent of products were purchased from suppliers outside North America compared to 37 percent at the end of 2006.

Strategic Plan performance *(continued)*

Exciting, New and Exclusive (ENE) products

ENE products and programs are one of CTR's critical long-term differentiators and a key component of CTR's strong marketing platform.

What was planned	2007 Performance
CTR initially set the target of increasing ENE sales by approximately 10 percent in 2007. During 2007, management made a strategic decision to reassess this goal and it is no longer a pivotal part of corporate strategy.	CTR began to focus on innovation in a broader sense in 2007, bringing innovation to programs and categories, rather than emphasizing product-specific advancement. As such, the historical targets and measurements of ENE items are no longer relevant.

PartSource network expansion

PartSource will continue its expansion into new markets through a combination of new stores and small-scale acquisitions. PartSource's strategy to buy small local businesses and convert them to the PartSource banner has proven successful, with high rates of customer retention after conversion. PartSource began testing corporate stores in 2005 and, due to the success of the pilot, will continue to roll out corporate stores.

What was planned	2007 Performance
PartSource set the goal of expanding its network in 2007 by up to eight additional stores through new store openings and small-scale acquisitions.	***Fourth quarter*** > opened three new corporate stores; and > converted five franchise stores to corporate stores. ***Full year 2007*** > opened five new stores, including one new hub store; > opened three acquired stores, one of which is a hub store; and > converted nine franchise stores to corporate stores. PartSource had a total of 71 stores at the end of 2007, including 33 corporate stores and 38 franchise stores.

Inventory practices program

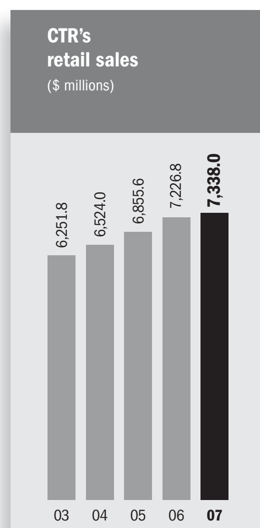
CTR's long-term objective is to ship more than 90 percent of products to stores on-time. In addition, CTR is working with our Dealers to improve ordering and shipping processes to better align the flow of product to customer purchasing patterns, thereby reducing corporate and store inventory levels and operational complexity, and increasing inventory turns.

What was planned	2007 Performance
CTR planned to increase inventory cube turns to 13 times by the end of 2009 through improved inventory management and ordering practices.	In 2007, the percentage of products shipped on-time to stores decreased marginally to 89.7 percent, compared to 90.4 percent in 2006. Inventory turns based on cubic volume, however, were 10.8, up from 9.7 in 2006. Though the benefits of global sourcing are significant, the practice puts some pressure on the supply chain because these foreign-sourced products require longer lead times. In addition, certain seasonal product orders are placed before an indication of consumer demand for the season is known.

4.3.1.2 Key performance indicators

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

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



CTR total retail and same store sales

(year-over-year percentage change)	Q4 2007	Q4 2006	2007	2006
Total retail sales[1]	**0.4%**	4.4%	**1.5%**	5.4%
Same store sales[2]	**(1.8)%**	2.2%	**(0.5)%**	3.5%

[1] Includes sales from Canadian Tire and PartSource stores, sales from CTR's online web store and the labour portion of CTR's auto service sales.
[2] Includes sales from Canadian Tire and PartSource stores, and excludes sales from CTR's online web store and the labour portion of CTR's auto service sales.

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

CTR same store sales by store format

(year-over-year percentage change)	2007
Same store sales[1]	
Concept 20/20 stores	**1.6%**
New-format stores	**(2.1)%**
Traditional stores	**(2.3)%**

[1] Excludes sales from PartSource stores, CTR's online web store and the labour portion of CTR's auto service sales.

CTR's same store sales
Same store sales include sales from all stores that have been open for more than 53 weeks.

As our store network continues to evolve, we will be introducing new store formats into our store class categories and we will include them in our disclosure as they are developed and opened. In 2007, we continue to report three separate classes of stores, defined as follows:

Concept 20/20 store format (mid 2003 to 2007) Average retail square footage: 53,000	New-format store format (1994 to mid 2003) Average retail square footage: 32,000	Traditional store format (1994 and prior) Average retail square footage: 16,000
Larger format launched in September 2003, ranging in size from 24,000 to 89,000 square feet (excluding Mark's-inside-a-CTR concept stores which can be significantly larger). Concept 20/20 stores make up approximately 58 percent of the retail square footage of the network. See section 4.3.1.1, Strategic Plan performance, and section 4.3.1.5, 2012 Strategic Plan and outlook, for more information on the Concept 20/20 rollout.	Large format, including "Class Of" and "Next Generation" stores, ranging in size from 16,000 to 66,000 square feet, most of which were opened between 1994 and mid 2003. New-format stores make up approximately 34 percent of the retail square footage in the network. This format immediately preceded the Concept 20/20 format.	Smaller than either the new-format or Concept 20/20 stores on average. Traditional stores are characterized by varied sizes and layouts. Traditional stores make up approximately eight percent of the retail square footage in the network.

Concept 20/20 stores represented over 58 percent of CTR's retail square footage and approximately 44 percent of total retail sales in 2007.

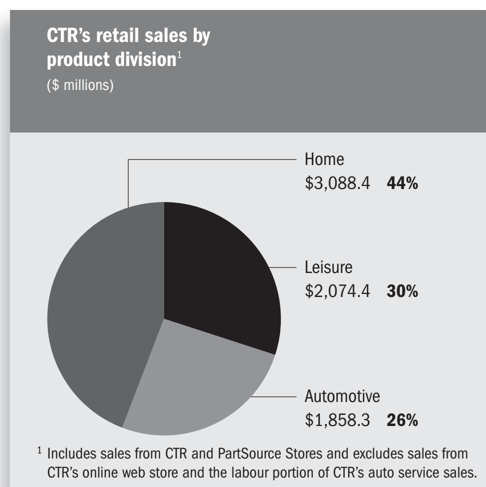
CTR store count

	2007	2006	2005	2004	2003
Concept 20/20 stores	**192**	126	53	25	4
New-format stores	**189**	237	292	302	305
Traditional stores	**92**	105	117	130	143
Total new-format, traditional and Concept 20/20 stores	**473**	468	462	457	452
PartSource stores	**71**	63	57	47	39

Retail sales by broad product category[1,2]

($ in millions)	**2007**	2006	2005
Home	**$ 3,088.4**	$ 3,103.8	$ 2,899.0
Leisure	**2,074.4**	2,014.1	1,901.1
Automotive	**1,858.3**	1,799.3	1,748.0
Total	**$ 7,021.1**	$ 6,917.2	$ 6,548.1

[1] Retail sales are shown on a 52-week basis in each year and include sales from Canadian Tire and PartSource stores, and exclude sales from CTR's online web store and the labour portion of CTR's auto service sales.
[2] Certain of the prior years' figures have been reclassified to conform with the current year's product groupings.



[1] Includes sales from CTR and PartSource Stores and excludes sales from CTR's online web store and the labour portion of CTR's auto service sales.

The automotive and leisure products categories demonstrated strong growth in 2007 driven by sales in outdoor tools, lawn and garden and car care and accessories categories.

Average retail sales per Canadian Tire store[1,2]

($ in millions)	**For the 12 months ended December 29, 2007**	For the 12 months ended December 30, 2006
Concept 20/20 stores	**$ 18.7**	$ 19.0
New-format stores	**14.2**	14.5
Traditional stores	**7.8**	8.0

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

Concept 20/20 stores experience higher customer traffic and increases in average transaction value compared to previous store formats as customers spend more time browsing in these stores.

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

	For the 12 months ended December 29, 2007	For the 12 months ended December 30, 2006
Retail square footage[1,3] (millions of square feet)	**17.7**	16.2
Concept 20/20 stores[2,3] ($)	**$ 372**	$ 378
New-format stores[2,3] ($)	**444**	452
Traditional stores[2,3] ($)	**500**	509

[1] Retail square footage is based on the total retail square footage including stores that have not been open for a minimum of two years as at the end of the quarter.
[2] Retail sales are shown on a 52-week basis in each year for those stores that have been open for a minimum of two years as at the end of the current quarter. Sales from PartSource stores, CTR's online web store and the labour portion of CTR's auto service sales are excluded.
[3] Retail space does not include warehouse, garden centre and auto service areas.

The two tables above show a year-over-year decrease in retail sales per store and retail sales per square foot. The decrease is due to the large number of store projects we have built over the past couple of years, which are excluded from the calculation as they have not been open, in that format, for a period of two years. Once the stores have been open for two years, they are included once again in the average sales metrics.

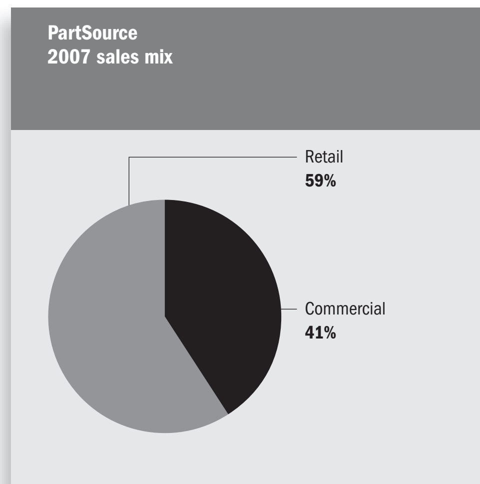
Average sales per square foot of retail space in the larger store formats are lower than in traditional stores because the additional space is utilized to display more merchandise, accommodate wider aisles, include more appealing product displays and provide a more compelling shopping experience overall. In addition, the operating cost per square foot is lower in Concept 20/20 stores than in our other formats.

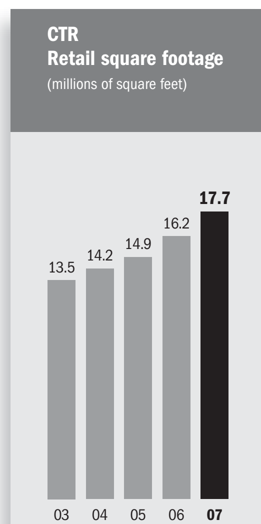
CTR retail sales

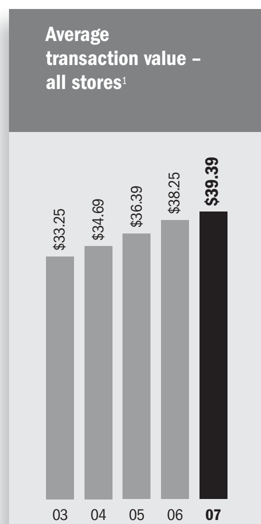
Fourth quarter CTR's fourth quarter retail sales increased 0.4 percent from the $2.2 billion recorded last year, while same store sales decreased 1.8 percent in the quarter. CTR posted double-digit sales increases of fall and winter weather-related merchandise during the quarter, led by strong snowthrower and automotive accessories sales. Sales were negatively impacted by a significant decline in the tools category year-over-year, a result of changes to the pricing and promotional strategy combined with a challenging retail environment associated with this category. Excluding the impact of lower tools sales, CTR's retail sales would have been up 3.5 percent in the quarter and same store sales would have increased by 1.3 percent.

PartSource generated double-digit sales growth in the fourth quarter, driven by the continued expansion of the network and growth in the commercial customer segment.

Full year 2007 For the year, CTR's retail sales grew 1.5 percent, while same store sales remained relatively flat compared to last year. Retail sales in 2007 were driven by the ongoing rollout of the Concept 20/20 store format, and the stronger economies in the Western region of the country. Sales were strongest in the kitchen and home appliances, car care and accessories and outdoor tools categories in 2007, while weaker sales in the tools category, as referred to above, partially offset these gains. Excluding the impact of sales in the tools category, CTR's retail sales would have increased 2.9 percent, in spite of a softer retail environment experienced during the second half of the year, which affected retailers across Canada.







[1] Based on all stores (excluding PartSource).

[1] Based on all stores (excluding PartSource).

4.3.1.3 CTR's financial results

($ in millions)	Q4 2007	Q4 2006	Change	2007	2006	Change
Retail sales	**$ 2,166.2**	$ 2,156.7	0.4%	**$ 7,338.0**	$ 7,226.8	1.5%
Net shipments (year-over-year % change)	**0.4%**	3.8%		**2.3%**	4.9%	
Gross operating revenue	**$ 1,585.8**	$ 1,576.8	0.6%	**$ 5,485.1**	$ 5,355.4	2.4%
EBITDA[1] and minority interest	**160.3**	135.1	18.7%	**569.4**	551.7	3.2%
Earnings before income taxes and minority interest	**81.7**	71.5	14.2%	**304.7**	306.1	(0.4)%
Less adjustment for:						
Gain on disposals of property and equipment	**7.3**	48.1		**17.6**	59.8	
Impact of stock option modification	**–**	(32.2)		**–**	(32.2)	
Former CEO retirement obligation	**0.3**	–		**(6.2)**	–	
Adjusted earnings before income taxes and minority interest[1]	**$ 74.1**	$ 55.6	33.0%	**$ 293.3**	$ 278.5	5.3%

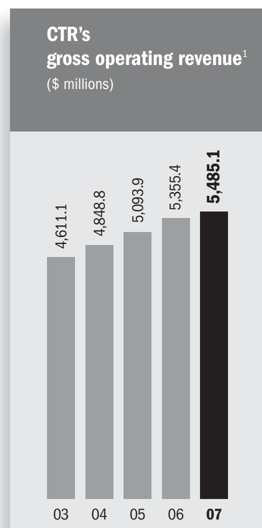
[1] See section 12.0 on non-GAAP measures.

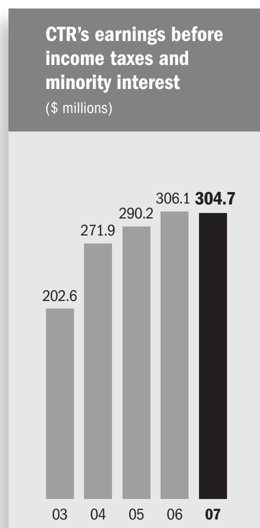
CTR's net shipments
CTR's net shipments are the total value of merchandise shipped to Canadian Tire and PartSource stores, and through our online web store, less discounts and net of returns, recorded at the wholesale price that we charge to our Dealers and PartSource franchisees.

Explanation of CTR's financial results

Fourth quarter For the quarter, gross operating revenue was up slightly, consistent with the improvement in retail sales. Year-over-year net shipments were weak in the early part of the quarter due to unusually warm weather which affected demand for winter merchandise, but improved in December as colder weather began to influence key markets.

Pre-tax earnings in CTR increased 14.2 percent in the fourth quarter due to higher year-over-year margins, resulting from an increase in net shipments in December, improved margin rates and the continued focus on improving productivity throughout CTR's operations.





[1] Gross operating revenue numbers had previously been restated for the impact of EIC-156 as required by the Canadian Institute of Chartered Accountants.

Full year 2007 In spite of a challenging retail environment, gross operating revenue increased, primarily due to higher overall net shipments driven by new Concept 20/20 store openings. Higher rental income from our Dealers also contributed to the rise in gross operating revenue.

CTR's pre-tax earnings declined marginally from the prior year due to investments related to productivity improvements as well as the year-over-year impact of non-operating items. These factors more than offset the impact of higher operating revenues and improved operating margins during the year.

The non-operating items impacting the year-over-year comparatives include lower real estate gains and the retirement obligation for the former CEO (see details in section 3.1 of our 2007 second quarter MD&A), which were greater than the comparative effects of a stock option modification in the fourth quarter of 2006. Adjusting for these items, CTR's pre-tax earnings increased by 5.3 percent.

4.3.1.4 Business trends

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

Retail formats have continually increased in terms of store size and merchandise breadth, creating a situation where retailers are competing both within a specific industry segment (e.g., automotive and specialty) and across sectors (e.g., general merchandise and grocery).

In order to grow in this increasingly competitive market, retailers must have a clear and unique value proposition and be able to respond to the changing demographics and lifestyles of Canadian consumers, who demand an optimum combination of choice, convenience, quality, value and service. Price competitiveness and promotional effectiveness are increasingly important factors in retail success.

The home and leisure markets are expected to grow in line with the population and increases in consumers' disposable income resulting from a particularly robust economy in Western Canada and the wealth effect from increasing property values. Recent downturns in the real estate market in the United States have yet to have a significant direct spillover effect on the Canadian market but do introduce additional uncertainty into Canadian consumers' minds, going forward.

4.3.1.5 2012 Strategic Plan

Our 2012 Strategic Plan consists of the following initiatives that represent a commitment to significant investment and will have a major impact on the delivery of our strategy and on our financial results.

2012 Strategic Plan and outlook

New store concept program

Concept 20/20 has been the cornerstone of Canadian Tire Retail's growth agenda since 2003 and Concept 20/20 stores have experienced strong sales, a result of increases in customer traffic and average transaction value, thereby providing the potential for a more attractive return on investment than previous store formats. Sales growth rates, however, have begun to slow for a variety of reasons.

Based on the results from the Concept 20/20 store formats opened to date, CTR has developed its next new store concept and, in 2007, opened two pilot new concept stores which are designed to build on the successes of the Concept 20/20 store with a greater focus on improving sales and productivity. Plans for 2008 include opening additional new concept stores that will have the same focus of improving sales and productivity; some with the further goal of expanding our presence in smaller markets.

2012 Strategy and outlook

CTR's strategy for the continued rollout of new concept stores is a critical aspect of the 2012 Plan.

The attractive store design, product displays and open plan layout of our new concept stores encourage customers to browse the store and increases the likelihood of incremental purchases, driving sustainable same store sales growth. This results in the following:

- improved sales productivity of current businesses allowing for the introduction of new product categories;
- expansion of high-growth businesses; and
- increased offerings of traffic-driving products and/or services.

Approximately two-thirds of the store projects planned between 2008 and 2012 are expansions and/or retrofit projects and the remainder are new or replacement stores.

CTR's small market store concept is designed to expand its market presence through rural infill and traditional store replacements, thereby capitalizing on the opportunity to add incremental sales with attractive financial returns.

2008 Key points

CTR will continue to expand and improve its store network in 2008 including:

- opening approximately 38 Concept 20/20 stores, eight of which will include a Mark's store;
- opening two pilot new concept stores, building on the experience gained from the Mark's-inside-a-CTR concept store results; and
- opening four pilot new small market stores, which will all include a Mark's store.

2012 Strategic Plan and outlook *(continued)*

Automotive Infrastructure initiative

CTR has made revitalizing its cornerstone automotive business a key priority over the 2012 Plan period and began to roll out Phase One of this project in 2007 through opening two PartSource hub stores. Regional hub stores are larger than traditional PartSource stores and are designed to provide a broader assortment of automotive parts to service both Canadian Tire and PartSource customers on an as needed basis. In conjunction with PartSource and Canadian Tire's other business units, CTR plans to utilize existing synergies and create new and exciting growth opportunities in this key area.

2012 Strategy and outlook

The Automotive Infrastructure initiative will be an important factor in CTR's future growth and will involve significant investment in fixed assets and working capital. This investment over the next five to seven years will be directed at increased auto parts sales and pre-tax earnings growth, generating a high rate of return for the project, and will benefit Canadian Tire, PartSource and our Dealers.

Key components of the Automotive Infrastructure initiative include:

> broader assortments
  – increase CTR in-store assortments by an average of 10 to 15 percent and more than double our assortment in regional distribution centres;
> faster supply chain process
  – build approximately 22 PartSource hub stores across Canada in support of 75 to 80 percent of CTR stores;
  – build the PartSource chain up to 200 stores;
> better technology
  – implement a new Automotive Management System (AMS) to improve CTR's auto service capabilities;
  – implement a new industry standard data catalogue; and
  – install new warehouse management technology to enhance distribution capabilities.

2008 Key points

Phase One of the Automotive Infrastructure initiative will continue to be implemented in 2008 and includes the following targets:

> implement emergency auto parts supply arrangement between PartSource and Canadian Tire stores;
> commence new third party supply arrangement between Uni-Select® network, Canadian Tire and PartSource;
> open six PartSource hub stores;
> complete solution designs for AMS, PartSource operating system and the new common catalogue; and
> complete implementation of warehouse management technology into the first regional distribution centre.

CTR Change program

Canadian Tire is committed to continually working to improve the way that we do business for enhanced returns. During 2007, CTR began to implement its multi-year productivity effort with projects designed to overhaul and upgrade internal processes and IT systems. As the benefits of these projects begin to unfold, we will be able to make faster, better decisions and improve our agility and speed to market.

2012 Strategy and outlook

CTR Change program is a multi-year program aimed at improving and upgrading marketing and merchandising processes, as well as the systems and operational structures that support them. The net financial benefit of this program will be realized well beyond the implementation period.

2008 Key points

Implementation of productivity/control initiatives in the areas of pricing and product hierarchy to streamline and strengthen operations and improve organizational structures and efficiencies at CTR include:

> improved, streamlined pricing tools and processes for pricing analysis, including some centralized price management;
> automated competitive shop capability;
> new customer-centric product hierarchy;
> improved governance processes for price changes and product hierarchy changes;
> improved security and controls over product information; and
> process improvements to assortment and markdown decision-making to reduce/rationalize stock keeping units (SKUs).

Customers for Life
Canadian Tire is committed to building customer loyalty through fostering a positive, consistent and memorable customer experience. During 2007, Canadian Tire began working on a new strategic model for the organization that will lead to a stronger focus on customer service and improvements in generating Customers for Life.

2012 Strategy and outlook	2008 Key points
Creating Customers for Life is the paramount aspiration for the Company. Our increased emphasis on the consumer experience will help to cultivate customer loyalty. Over the outlook period, key improvements include: > in-store customer assistance; > consistent store execution throughout the network; > in-stock assurance; and > price assurance.	CTR is committed to generating consistent and coherent customer service measures, tracking and performance. Targets for 2008 include: > implementing a system of consistent customer service measures across our store network to enable a statistically-based process of continuous improvement; and > designing and adopting a simple, sustainable customer loyalty index to track progress against our pursuit of creating Customers for Life.

PartSource network expansion
PartSource will continue its expansion into new markets through a combination of new stores and small-scale acquisitions. PartSource's strategy to buy small local businesses and convert them to the PartSource banner has proven successful, with high rates of customer retention after conversion. PartSource began testing corporate stores in 2005, and due to the initial success of the pilot, will continue to roll out corporate stores.

2012 Strategy and outlook	2008 Key points
As part of the Automotive Infrastructure initiative, PartSource will continue to expand its market presence through additions to its network and will also focus on building its organizational structure to support its growth. In addition, the initiative will create new opportunities to maximize synergies with CTR.	Key initiatives for PartSource in 2008 are as follows: > develop and introduce an updated human resources organizational structure; > test a new PartSource operating IT system and launch a new auto parts catalogue; and > focus on building CTR as a new commercial account for emergency and routed shipments. In 2008, PartSource plans to open 14 new stores including six hub stores and seven acquired stores.

4.3.1.6 Business risks

CTR is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to CTR's retail and other operations. Please also refer to section 9.0 of this MD&A for a discussion of some other industry-wide and Company-wide risks affecting the business.

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

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

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

4.3.2 Mark's Work Wearhouse

4.3.2.1 Strategic Plan 2007 performance and final report

The following outlines Mark's performance in 2007 in the context of the 2005–2009 Strategic Plan, and provides our final report on these Strategic Plan initiatives. Please see section 4.3.2.5 for a discussion of our new 2012 Strategic Plan.

Strategic Plan performance

Network expansion

Mark's is focused on achieving Superbrand status for the Mark's name, with the objective of capturing an increasingly significant share of overall apparel sales in each geographic market and in each major category in which Mark's competes. To increase Mark's market presence, the Company has an aggressive plan of continuing to expand the network of Mark's stores. Mark's also plans to expand, renovate and relocate some existing stores to the latest Mark's format.

What was planned

In 2007, Mark's planned to open 29 new stores and expand, relocate or renovate 26 stores. In total, Mark's planned to add approximately 14 percent or 400,000 retail square feet in 2007.

Due to the timing of the availability of new store sites, Mark's revised its plan in the second and third quarters of 2007 as follows:

- open 21 new stores (including one franchise store);
- expand, relocate or renovate 27 stores (including six franchise stores); and
- increase retail square footage by approximately 12 percent.

2007 Performance

Fourth quarter

- opened nine new stores, including three Concept 20/20 combination stores and two Mark's-inside-a-CTR concept stores;
- relocated seven stores, two of which were Concept 20/20 combination stores;
- expanded five stores; and
- repurchased one franchise store.

Full year 2007

- opened 20 new stores, including four Concept 20/20 CTR-Mark's combination stores and two Mark's-inside-a-CTR concept stores and closed one store;
- relocated 19 stores, including three Concept 20/20 combination stores;
- expanded/renovated eight stores;
- converted one Work World® store to the Mark's format; and
- repurchased three franchise stores.

Mark's total retail square footage at the end of the year was 3.0 million square feet, close to the revised 2007 target.

Increase total retail sales

Mark's has experienced strong growth in sales over the past few years due to same store sales increases, growth in the network and the conversion of many franchise stores to the newest Mark's format. Mark's continues to plan sales growth through expanding its network, growing its main apparel categories and taking advantage of synergies that are available through the other related Canadian Tire businesses.

What was planned

Increase total same store sales by eight percent in 2007.

2007 Performance

Fourth quarter

Mark's increased total same store sales by 1.4 percent during the quarter.

Full year 2007

Mark's fell short of its target of an eight percent increase in total same store sales over the 2007 period, but still performed well in a challenging retail environment, achieving 4.8 percent growth for the year.

Category expansion

Mark's plans to grow through continued expansion of its three major categories: men's wear, women's wear and industrial wear. The expansion of the women's wear category has enabled Mark's to leverage female customer traffic in the stores. Mark's is also leveraging its reputation for quality industrial wear by selling innovative, specialty work clothing.

What was planned	2007 Performance
Mark's planned to continue developing and expanding high-potential product categories with a focus on increased corporate store sales in the women's wear business.	*Fourth quarter* > sales of industrial wear increased by 11.5 percent; > sales of women's wear increased by 2.3 percent; and > sales of men's wear increased by 0.3 percent. *Full year 2007* > sales of industrial wear increased by 11.3 percent; > sales of women's wear increased by 8.4 percent; and > sales of men's wear increased by 5.0 percent.

4.3.2.2 Key performance indicators

The following are key performance indicators for Mark's:

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

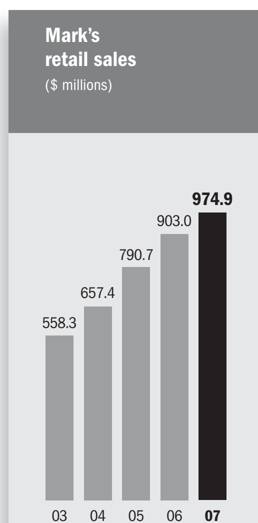
Mark's retail and same store sales growth

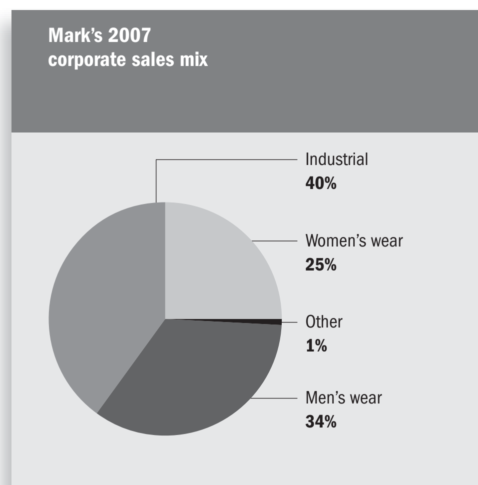
(year-over-year percentage change)	**Q4 2007**	Q4 2006	**2007**	2006
Total retail sales	**5.0%**	12.4%	**8.0%**	14.2%
Same store sales[1]	**1.4%**	10.0%	**4.8%**	13.0%

[1] Mark's same store sales excludes new stores, stores not open for the full period in each year and store closures.

Mark's retail sales

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





Fourth quarter Mark's total retail sales increased by 5.0 percent during the quarter over the same period in 2006. Sales were soft during October and November but strengthened in December to generate the fourth quarter sales increase. Same store sales growth increased 1.4 percent compared to the fourth quarter of 2006, with particularly strong same store sales results experienced in Quebec. Total retail sales in the Prairie region and Ontario were softer than in other regions due to the unseasonably warm weather in October and November, which had a negative impact on sales of winter apparel and footwear in those months. The softening retail environment in Canada in the last half of 2007 also affected Mark's retail sales growth. Men's industrial footwear and men's accessories demonstrated the largest sales dollar increases in corporate store sales in the fourth quarter.

Full year 2007 Mark's total retail sales grew approximately six percent in Ontario and the Prairies, approximately nine percent in Atlantic Canada, and reached double digits in British Columbia and Quebec to produce the eight percent total retail sales growth for the year. Same store sales year-over-year growth was 4.8 percent for the year, falling short of the eight percent target set at the beginning of the year, primarily due to the soft sales in the months of September, October and November.

Sales increases for the year resulted from the continued expansion of Mark's three major categories of industrial wear, women's wear and men's wear, new store openings, retrofits and expansions, increased flyer distribution and several successful marketing and special event promotions.

In 2007, Mark's continued to test opportunities to leverage CTR's national advertising channels to drive sales growth. For example, Mark's included its flyer in the distributions for CTR's regular catalogue and catalogue of innovative products. During those offer periods, Mark's experienced significantly higher sales volume, demonstrating the potential of further cross-marketing programs. Mark's also increased its "spend and save" event promotions over the previous year and delivered eight month-long product innovation promotions which educated customers by highlighting specific product features and helped to drive total retail sales.

Average corporate store sales[1]

	For the 12 months ended December 29, 2007	For the 12 months ended December 30, 2006	For the 12 months ended December 31, 2005
Average retail sales per store ($ thousands)[2]	**$ 2,803**	$ 2,739	$ 2,406
Average sales per square foot ($)[3]	**338**	342	313

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

Mark's continues to focus on productivity at its stores. Due to the softening retail environment in Canada in the second half of 2007, there was a small decrease in average sales per square foot, but this followed a strong nine percent year-over-year increase in 2006. Average retail sales per store continued to grow.

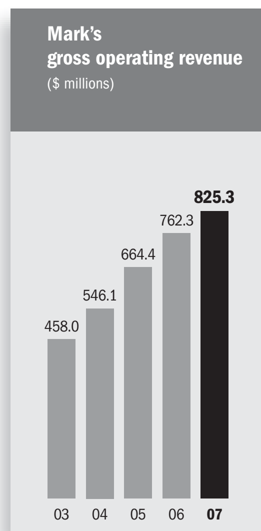
4.3.2.3 Mark's financial results

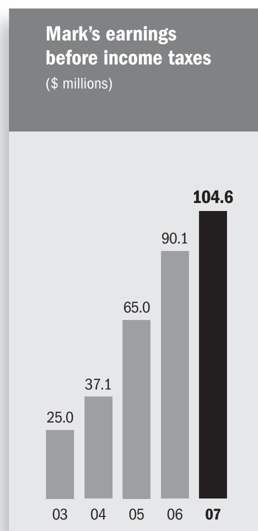
($ in millions)	**Q4 2007**	Q4 2006	Change	**2007**	2006	Change
Retail sales[1]	**$ 385.7**	$ 367.2	5.0%	**$ 974.9**	$ 903.0	8.0%
Gross operating revenue[2]	**326.2**	309.5	5.4%	**825.3**	762.3	8.3%
EBITDA[3]	**62.6**	54.9	13.7%	**125.9**	108.9	15.6%
Earnings before income taxes	**56.6**	50.0	13.0%	**104.6**	90.1	16.1%
Less adjustment for:						
Loss on disposals of property and equipment	**(0.1)**	(0.5)		**(0.9)**	(1.2)	
Impact of stock option modification	**–**	(2.7)		**–**	(2.7)	
Adjusted earnings before income taxes[3]	**$ 56.7**	$ 53.2	6.6%	**$ 105.5**	$ 94.0	12.3%

[1] Includes retail sales from corporate and franchise stores.
[2] Gross operating revenue includes retail sales at corporate stores only.
[3] See section 12.0 on non-GAAP measures.

Explanation of Mark's financial results

Fourth quarter Mark's pre-tax earnings increased in the fourth quarter due to continued gross operating revenue growth and a higher gross margin rate. Mark's gross margin rate increased by 120 basis points in the fourth quarter year-over-year, due to increased purchase markups and reduced total markdowns.





Full year 2007 Mark's pre-tax earnings increased in all four quarters due to continued gross operating revenue growth and a higher gross margin rate. Mark's gross margin rate increased by 150 basis points in 2007 year-over-year, primarily due to increased purchase markups, offset to some degree by higher markdowns over the same period of 2006.

4.3.2.4 Business trends

Two long-term trends that have impacted Canada's approximately $21 billion apparel market are the move from traditional business attire to business casual clothing in the workplace; and the increasing number of Canadians who are leading more active lifestyles.

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

4.3.2.5 2012 Strategic Plan

Our 2012 Strategic Plan consists of the following initiatives that represent a commitment to significant investment and will have a major impact on the delivery of our strategy and on our financial results.

2012 Strategic Plan and outlook

Network expansion

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

2012 Strategy and outlook	2008 Key points
Continue network development through opening new stores, relocating or expanding existing stores and renovating older stores to the newest Mark's format. Mark's plans to increase its store network to over 440 stores by the end of the 2012 Plan period.	Plans for 2008 involve a total of 41 store projects including: > opening 17 new stores; > relocating 16 stores; and > expanding eight stores.

2012 Strategic Plan and outlook *(continued)*

New store concepts

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

2012 Strategy and outlook	2008 Key points
Continue to expand the store network by developing new and innovative ways to bring Clothes That Work to consumers across the country, resulting in an increased physical presence across the geographic regions of Canada. New store formats that will be rolled out and/or continue to be tested during the Strategic Plan period include: > Mark's-inside-a-CTR concept stores; > mobile stores that bring Mark's apparel to customers at their work and business sites, and generally address specific target industries; > smaller market stores that have a tailored product assortment addressing the needs of smaller communities in underserved markets; and > Mark's next new concept store format for key markets.	The following store concepts will be included in the 41 store projects Mark's is planning for 2008: > Mark's current store format; > CTR-Mark's combination stores; > Mark's-inside-a-CTR concept stores; and > smaller market stores. In addition, three more mobile stores (not included in the 41 location count above) are planned.

Category expansion

Mark's has set aggressive growth goals for the 2012 Plan period which will be supported by its plans for category expansion in its three major product lines. Although growth was modest in 2007, women's wear is still expected to be the fastest growing segment of the business as it is the least developed of the Mark's main category lines. Improvements in the product assortment in the women's wear category will bring continued growth during the Plan period.

2012 Strategy and outlook	2008 Key points
Mark's will continue to expand its product assortment in the three main categories of apparel and footwear with a focus on the Clothes That Work campaign. Key initiatives of the category expansion include: > increase design and engineering of products, focusing on items that are better performing and easier to care for; > focus on innovative products and merchandising; and > continue to strengthen the Clothes That Work campaign and message.	Mark's will continue to focus on category expansion and the Clothes That Work campaign throughout 2008.

4.3.2.6 Business risks

Mark's is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Mark's. Please also refer to section 9.0 for a discussion of some other industry and Company-wide risks affecting the business.

Seasonality risk Mark's business remains very seasonal, with the fourth quarter typically producing the largest share of sales and earnings. In 2007, for example, the fourth quarter produced about 40 percent of total annual retail sales and approximately 54 percent of pre-tax earnings resulting from the general increase in consumer spending for winter clothing and Christmas related purchases. Detailed sales reporting and merchandise planning modules assist Mark's in mitigating the risks and uncertainties associated with unseasonable weather and consumer behaviour during the important Christmas selling season, but cannot remove risks completely because inventory orders, especially for a significant portion of merchandise purchased off-shore, must be placed well ahead of the season.

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

4.3.3 Canadian Tire Petroleum

4.3.3.1 Strategic Plan 2007 performance and final report

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

The following outlines Petroleum's performance in 2007 in the context of the previous 2005–2009 Strategic Plan, and provides our final report on these Strategic Plan initiatives. Please see section 4.3.3.5 for a discussion of our new 2012 Strategic Plan.

Strategic Plan performance

Site renewal and expansion
Petroleum developed a three-year strategy to modernize existing sites and add new sites in high-potential markets.

What was planned	2007 Performance
In 2007, Petroleum commenced a multi-year program to modernize its network to ensure a consistent customer experience. Petroleum's 2007 network expansion targets included the following: > open nine new petroleum sites in strategic locations; > invest in the modernization of approximately 25 existing sites; and > continue to re-brand competitor's sites on an opportunistic basis.	***Fourth quarter*** > opened one new gas bar; > refurbished nine gas bars; and > rebuilt two locations. ***Full year 2007*** > opened seven new gas bars and re-branded one gas bar; > refurbished 22 gas bars and rebuilt four locations; and > closed two gas bars. At the end of the year, Petroleum had 266 gas bars, including 42 re-branded sites.

Strategic Plan performance *(continued)*

Non-gas business growth

Petroleum's growth plans include expanding the on-site presence of convenience stores and car wash locations in order to leverage the high customer traffic at its gas bars.

What was planned	2007 Performance
Petroleum's 2007 non-gas business growth targets included: > opening nine convenience stores; > increasing convenience store sales by more than 10 percent; and > increasing car wash sales by 12 percent.	***Fourth quarter*** > opened one convenience store; > increased convenience store sales by 13.4 percent; > closed one car wash location; and > experienced a decrease of 7.7 percent in car wash sales. ***Full year 2007*** > opened eight convenience stores; > increased convenience store sales by 15.0 percent; > opened one car wash location and closed one location; and > increased car wash sales by 14.9 percent.

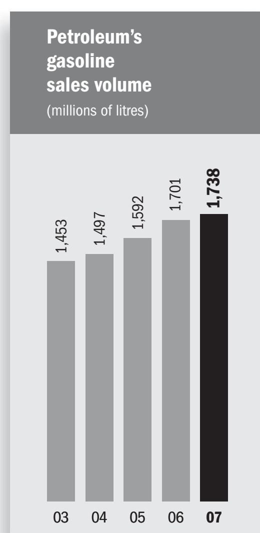
Increase gasoline volume

Petroleum is one of Canada's largest independent gasoline retailers, pumping almost double the industry average in gasoline per pump. A key performance indicator for Petroleum is the volume of gasoline pumped at its gas bars.

What was planned	2007 Performance
Petroleum's 2007 goal for gasoline volume was to increase the number of litres pumped by three percent.	***Fourth quarter*** Petroleum's volume of gasoline pumped in the fourth quarter decreased by 1.5 percent over the same period in 2006. ***Full year 2007*** Petroleum increased the volume of gasoline pumped by 2.1 percent over the 2006 full-year period, falling short of its annual target.

4.3.3.2 Key performance indicators

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



Gasoline sales volume

	Q4 2007	Q4 2006	Change	**2007**	2006	Change
Sales volume (millions of litres)	**450.5**	457.4	(1.5)%	**1,737.5**	1,701.2	2.1%

Petroleum has continued to grow its market share in a mature market where gas prices are at historically high levels, largely due to our loyalty program, customer service experience at our gas bars and an increased combined penetration rate on our Canadian Tire Options MasterCard and the Gas Advantage MasterCard. On a comparable site basis, our gasoline volume decreased by 2.4 percent in the quarter which was partially attributable to fewer promotional programs than in the comparable 2006 period. However, gasoline volume increased by 0.9 percent on a comparable site basis over the full-year period.

Petroleum's convenience and car wash sales

(year-over-year percentage change)	**Q4 2007**	Q4 2006	**2007**	2006
Total retail sales				
Convenience store sales	**13.4%**	16.5%	**15.0%**	14.8%
Car wash sales	**(7.7)%**	19.2%	**14.9%**	2.6%
Comparable sales				
Convenience[1]	**11.2%**	10.9%	**10.9%**	8.9%
Car wash	**(7.5)%**	9.0%	**12.7%**	(9.6)%

[1] Comparable convenience sales excludes three "Q" convenience stores.

Convenience store sales in both the quarter and the full year of 2007 increased as a result of new site openings and increases in tobacco and lottery sales. The growth in car wash sales is largely attributable to the impact of sites opened in 2006 and more favourable weather conditions compared to the previous year.

4.3.3.3 Petroleum's financial results

($ in millions)	**Q4 2007**	Q4 2006	Change	**2007**	2006	Change
Retail sales	**$ 463.1**	$ 399.8	15.8%	**$ 1,771.6**	$ 1,635.4	8.3%
Gross operating revenue	**434.1**	375.1	15.8%	**1,666.5**	1,545.3	7.8%
EBITDA[1]	**8.1**	(1.9)	505.4%	**37.2**	9.8	282.4%
Earnings (loss) before income taxes	**3.7**	(6.0)	161.0%	**20.5**	(5.4)	472.4%
Less adjustment for:						
Gain (loss) on disposals of property and equipment	**(0.7)**	(0.3)		**(2.7)**	(0.6)	
Adjusted earnings (loss) before income taxes[1]	**$ 4.4**	$ (5.7)	177.1%	**$ 23.2**	$ (4.8)	577.6%

[1] See section 12.0 on non-GAAP measures.

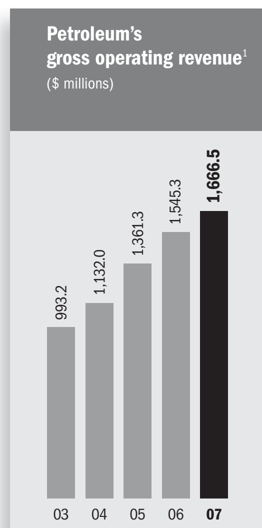
Petroleum's retail sales
Retail sales include the sales of gasoline at Petroleum's entire network of petroleum sites recorded at retail pump prices, including re-branded sites, and excluding goods and services taxes and provincial sales taxes, where applicable. Retail sales also include sales of products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

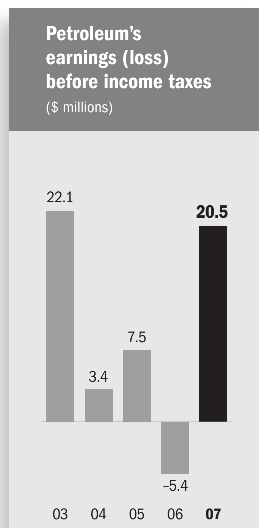
Gasoline pricing
Petroleum maintains long-term wholesale agreements with major refiners to source competitively priced gasoline across Canada. This fuel is then sold through Petroleum retail locations at market prices.

Explanation of Petroleum's financial results

Fourth quarter and full year 2007 Higher gasoline sales prices and an increase in convenience store sales, partially offset by lower gasoline volume, contributed to Petroleum's revenue growth in the fourth quarter. Average gasoline prices during the fourth quarter of 2007 increased by 18.1 percent over the fourth quarter of 2006, driving this increased revenue.

Over the full year, revenues were also up due to increased gasoline volume, higher year-over-year pump prices, and increases in convenience and car wash sales. Annual average gasoline pump prices increased by about six percent in 2007.





[1] Gross operating revenue numbers had previously been restated for the impact of EIC-156 as required by the Canadian Institute of Chartered Accountants.

Increased gasoline margins was the major factor that contributed to Petroleum's positive earnings performance during the year, a result of a more stable environment experienced in 2007 as compared to 2006. Petroleum also incurred $0.5 million in environmental expenses in the fourth quarter related to clean-up costs associated with certain site closures. Over the full year, Petroleum's environmental costs were $3.3 million, consistent with $3.6 million in environmental costs incurred in 2006.

4.3.3.4 Business trends

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

4.3.3.5 2012 Strategic Plan

Our 2012 Strategic Plan consists of the following initiatives that represent a commitment to significant investment and will have a major impact on the delivery of our strategy and on our financial results.

2012 Strategic Plan and outlook

Enhancing interrelatedness

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

2012 Strategy and outlook	2008 Key points
Petroleum's cross-marketing programs will continue to include: > 'Multiplier' coupons that increase the Canadian Tire 'Money' offered on gas purchases paid for in cash or by Canadian Tire Options MasterCard; > coupons offering discounts on Canadian Tire merchandise with the purchase of gas; > Gas Advantage MasterCard rollout; and > car wash vouchers available for purchase at Canadian Tire stores.	In 2008, Petroleum will aggressively seek out additional cross-marketing opportunities to further leverage its interrelatedness strategy to drive customer traffic, transactions, customer loyalty and earnings across the enterprise.

Network renewal and new store concept

Petroleum's business is an integral part of the Canadian Tire organization as customers that use Petroleum's gas bars drive sales and traffic to our other business units. Over the 2012 Plan period, Petroleum will continue to develop its next three-year real estate plan, focusing on introducing new store concepts into its existing network of locations, while continuing to focus on renewing its current sites.

2012 Strategy and outlook	2008 Key points
Management will continue to evaluate the appropriate level of investment in Petroleum on an annual basis. Petroleum will support the CTR small market store initiative and, where practical, will be part of the site plan. Petroleum has developed a three-year program to refurbish or rebuild approximately 25 sites per year, bringing its network to the current standard.	In 2008, Petroleum will continue to strengthen the existing network by: > opening approximately eight new sites; and > refurbishing or rebuilding approximately 25 existing sites.

4.3.3.6 Business risks

Petroleum is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Petroleum's operations. Please also refer to section 9.0 for a discussion of some other industry-wide and Company-wide risks.

Commodity price and disruption risk The operating performance of petroleum retailers can be affected by fluctuations in the commodity cost of oil. The wholesale price of gasoline is subject to global oil price supply and demand conditions, which are increasingly a function of rising demand from fast-developing countries such as India and China, political instability in the Middle East, potential supply chain disruptions from natural and human-caused disasters, as well as commodity speculation. To mitigate this risk to profitability, Petroleum tightly controls its operating costs and enters into long-term gasoline purchase arrangements with integrated gasoline wholesalers.

Environmental risk Environmental risk within Petroleum is primarily associated with the handling of gasoline, oil and propane. Environmental contamination, if not prevented or remediated, could result in fines and sanctions and damage our reputation. Petroleum mitigates its environmental risks through a comprehensive regulatory compliance program, which involves environmental investigations, as required, and the remediation of any contaminated sites in a timely manner. Petroleum has environmental insurance coverage.

4.3.4 Canadian Tire Financial Services

4.3.4.1 Strategic Plan 2007 performance and final report

The following outlines Financial Services' performance in 2007 in the context of the 2005–2009 Strategic Plan, and provides our final report on these Strategic Plan initiatives. Please see section 4.3.4.5 for a discussion of our new 2012 Strategic Plan.

Strategic Plan performance

Total managed portfolio of loans receivable (credit card loans, personal loans and mortgage loans)

Financial Services plans to grow its portfolio through increases in average balances, new account acquisition, the introduction of new credit cards and continued testing of the personal loan portfolio and retail banking products. Financial Services is leveraging its low-cost in-store acquisition program as a high-volume channel to grow the base of customer accounts. The average balance on customer accounts is gradually increasing through initiatives such as low-rate balance transfer offers. In addition, management believes that there are further opportunities to grow the customer base by introducing premium and specialty credit cards with different bonus features. The Gas Advantage MasterCard, for example, offers a compelling customer value proposition which drives credit card balances while increasing gasoline volume at Petroleum. The average balance on Financial Services' credit card accounts is $1,899, well below the industry average of over $2,750, which translates into a substantial long-term growth opportunity.

What was planned

Financial Services set the following 2007 targets for the portfolio of loans receivable:

- increase the total managed portfolio of loans receivable to $3.9 billion;
- maintain an operating expense ratio of 8.0 to 9.0 percent; and
- maintain a return on the average total managed portfolio of 4.5 to 5.0 percent.

Financial Services also planned to introduce at least one new credit card product and expand the Gas Advantage MasterCard into other regions of the country.

2007 Performance

Fourth quarter

Gross average loans receivable were $3.8 billion in the fourth quarter. The growth reflects a 9.5 percent increase in the average account balance.

Full year 2007

In 2007, the total managed portfolio balance was $4.0 billion, up 8.8 percent. The growth primarily reflects a 7.1 percent increase in average account balances for the year.

The operating expense ratio finished the year at 7.9 percent and the return on the average managed portfolio was 5.1 percent, finishing slightly ahead of target.

Financial Services introduced the new Vacation Advantage™ MasterCard® pilot in Ontario, British Columbia, Nova Scotia and Newfoundland, piloted the Gas Advantage MasterCard in Quebec, and made revisions to the Cash Advantage® MasterCard® offerings.

Strategic Plan performance *(continued)*

Insurance and other ancillary products

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

What was planned	2007 Performance
Financial Services planned to increase revenues from insurance and warranty products by approximately nine percent in 2007.	Revenues from insurance and warranty products increased 8.4 percent in the fourth quarter and 9.6 percent in 2007 year-over-year.

Retail banking

Financial Services began offering retail banking products, including high interest savings accounts, guaranteed investment certificates and residential mortgages, in two pilot markets in 2006 and extended the pilot to a third market in 2007. The retail banking business leverages the trust and credibility Canadian Tire has earned over the last 40 years providing financial services to millions of customers.

What was planned	2007 Performance
Financial Services planned to introduce additional retail banking products in 2007. Financial Services planned to incur approximately $25 million in net expenses associated with the marketing and operations of the retail banking initiative in 2007. The retail banking pilot was planned to run for approximately 24 months, at which time its future potential would be assessed.	Financial Services launched its retail banking products in two pilot markets in 2006 and extended the pilot to another market in 2007. In the third quarter of 2007, Financial Services launched the Canadian Tire One-and-Only account which allows customers to pay off their mortgage faster by combining their line of credit, savings, mortgage and chequing balances in one account. Financial Services had accumulated over $100 million in deposits and approximately $35 million in mortgages as at the end of 2007. In 2007, Financial Services incurred $25.5 million in net expenses associated with the marketing and operations of the retail banking initiative.

4.3.4.2 Key performance indicators

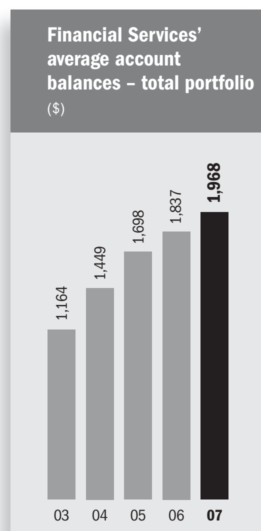
The following are key indicators of Financial Services' performance:

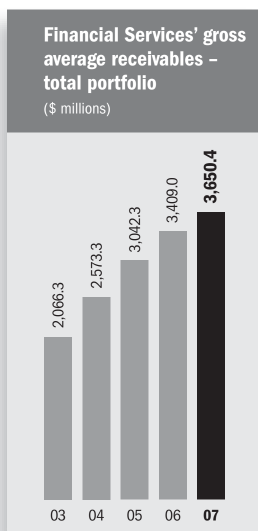
- size of the total managed portfolio;
- profitability of the portfolio;
- quality of the portfolio.

Financial Services' total managed portfolio of loans receivable

($ in millions, except where noted)	**Q4 2007**	Q4 2006	Change	**2007**	2006	Change
Average number of accounts with a balance (thousands)	**1,864**	1,885	(1.1)%	**1,854**	1,855	(0.1)%
Average account balance ($)	**$ 2,025**	$ 1,849	9.5%	**$ 1,968**	$ 1,837	7.1%
Gross average receivables (GAR)	**3,774.3**	3,485.1	8.3%	**3,650.4**	3,409.0	7.1%
Total managed portfolio (end of period)				**3,952.2**	3,632.5	8.8%
Net managed portfolio (end of period)				**3,898.1**	3,599.2	8.3%

Net managed portfolio
Financial Services' net managed portfolio is the total value, after allowances, of loans receivable including credit card loans, personal loans and residential mortgage loans.





Financial Services' gross average receivables were up in the fourth quarter and year-to-date, due primarily to increases in average account balances driven by the success of the balance transfer initiative. The continued success of the Gas Advantage MasterCard in Ontario contributed to the increase in total portfolio growth, offset slightly by a decline in personal loan accounts.

Financial Services' future growth will be driven by increases in average account balances, modest increases in new accounts and the introduction of new credit card and insurance products. Management regards new retail banking products as another high-potential channel for growth in the longer term.

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

Securitization of loans receivable
Securitization is the process by which interests in financial assets are sold to a third party. Financial Services routinely securitizes credit card loans receivable by selling an interest in those assets to trusts involved in the business of handling receivables portfolios. In the case of credit card loans, a co-ownership interest is sold to Glacier Credit Card Trust® (GCCT). Financial Services records these securitization transactions as a sale, and as a result, these assets are not included on the Company's Consolidated Balance Sheets, but are included in our total managed portfolio of loans receivable. Financial Services has traditionally securitized between 70 percent and 80 percent of loans receivable on an ongoing basis.

Financial Services' portfolio of credit card loans receivable

($ in millions, except where noted)	**Q4 2007**	Q4 2006	Change	**2007**	2006	Change
Average number of accounts with a balance (thousands)	**1,829**	1,843	(0.8)%	**1,816**	1,813	0.2%
Average account balance ($)	**$ 1,962**	$ 1,759	11.6%	**$ 1,899**	$ 1,736	9.4%
Gross average receivables	**3,588.2**	3,241.2	10.7%	**3,450.1**	3,148.4	9.6%
Total managed portfolio (end of period)				**3,770.5**	3,402.8	10.8%

Ending credit card loans receivable grew 10.8 percent to $3.8 billion at the end of the year primarily due to a 9.4 percent increase in the average account balance compared to the previous year.

Financial Services' profitability

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

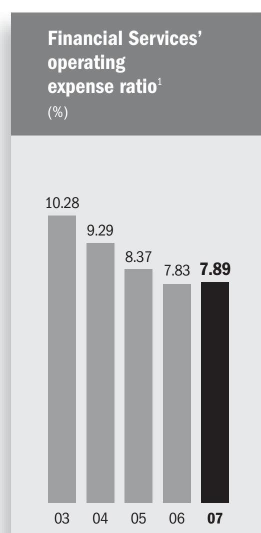
Profitability of total managed portfolio [1]

	2007	2006	2005
Total revenue as a % of GAR[2]	**24.78%**	24.98%	25.47%
Gross margin as a % of GAR[2]	**12.99%**	13.07%	13.14%
Operating expenses as a % of GAR[3]	**7.89%**	7.83%	8.37%
Return on average total managed portfolio[2,3,4]	**5.10%**	5.23%	4.77%

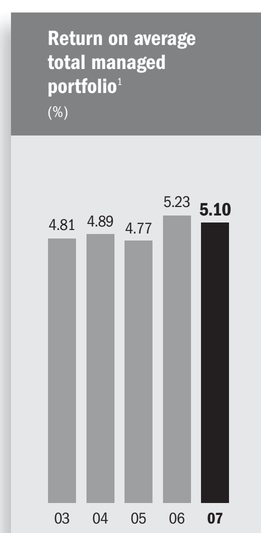
[1] Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable.
[2] Excludes the net effect of securitization activities and gain on disposal/redemption of investment.
[3] Excludes the impact of the modification to the stock option agreements in the fourth quarter of 2006.
[4] Return is calculated as earnings before taxes as a percentage of GAR.

Gross margin

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



[1] Excludes impact of 2006 stock option modification.



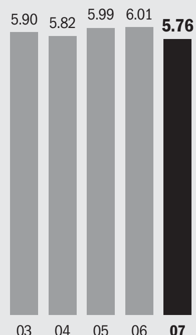
[1] Excludes net effect of securitization activities, disposal/redemption of MasterCard investment and impact of 2006 stock option modification.

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

As part of the strategic planning process, management set a long-term goal of managing Financial Services' pre-tax return on the total managed portfolio in the target range of 4.5 to 5.0 percent. As shown in the table above, Financial Services exceeded this target in 2006 and 2007.

Portfolio quality

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



Net write-offs

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

Financial Services' net write-off rate was 5.76 percent in 2007, falling within the target range of 5.0 to 6.0 percent and an improvement of 25 basis points over the previous year.

Allowance

The allowance is determined using historical loss experience of account balances based on the aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans.

Periodic fluctuations in write-offs, aging and allowances occur as a result of a variety of economic influences such as job growth or losses, personal debt levels and personal bankruptcy rates, as well as changes caused by adjustments to collection strategies.

4.3.4.3 Financial Services' financial results

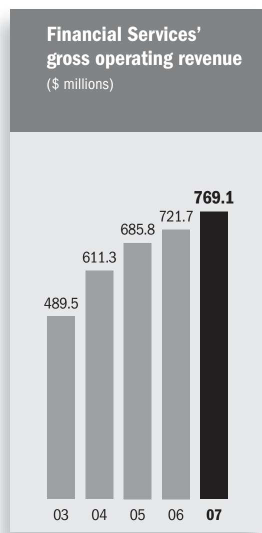
($ in millions)	**Q4 2007**	Q4 2006	Change	**2007**	2006	Change
Gross operating revenue	**$ 196.0**	$ 198.0	(1.0)%	**$ 769.1**	$ 721.7	6.6%
EBITDA[1]	**47.3**	62.5	(24.1)%	**227.6**	200.3	13.7%
Earnings before income taxes	**32.5**	53.7	(39.4)%	**190.3**	167.0	14.0%
Less adjustment for:						
Gain on disposal/redemption of investment	**–**	–		**18.4**	6.9	
Loss on disposals of property and equipment	**(0.2)**	(0.3)		**(0.4)**	(0.6)	
Net effect of securitization activities[1]	**(10.6)**	8.2		**(14.4)**	(12.7)	
Impact of stock option modification	**–**	(5.6)		**–**	(5.6)	
Adjusted earnings before income taxes[2]	**$ 43.3**	$ 51.4	(15.8)%	**$ 186.7**	$ 179.0	4.3%

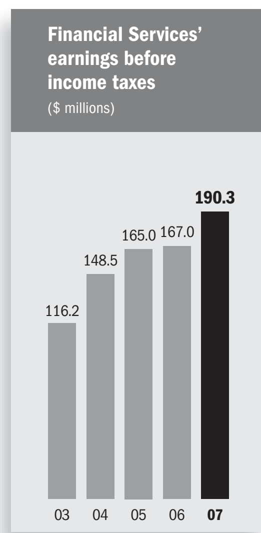
[1] Includes initial gain/loss on the sale of loans receivable, amortization of servicing liability, change in securitization reserve and gain/loss on reinvestment.
[2] See section 12.0 on non-GAAP measures.

Explanation of Financial Services' financial results

Fourth quarter Financial Services' fourth quarter earnings before taxes decreased 39.4 percent from the fourth quarter of 2006 primarily due to a loss from the net effect of securitization activities as compared with a gain in the fourth quarter of the prior year. This loss primarily resulted from the deferral of fourth quarter securitizations. Adjusted earnings before income taxes decreased 15.8 percent from the fourth quarter of 2006 as a result of a $6.4 million increase in marketing investments aimed at increasing the level of new accounts and growing future receivables. In addition, adjusted pre-tax earnings were impacted by a $6.7 million year-over-year increase in the allowance for credit card receivables due to growth in the portfolio and a small increase in aging.

Full year 2007 Financial Services' gross operating revenue increased in 2007 due to growth in loans receivable. Higher sales of balance-based insurance products, warranties and other ancillary products also drove the increase in gross operating revenue over the full year of 2007 as compared to 2006.





Strong performance resulting from growth in the portfolio and tight expense management were partially offset by ongoing net expenses of $25.5 million related to the retail banking initiative, compared to $9.6 million in 2006. Excluding the net earnings impact associated with the retail banking project, Financial Services' adjusted pre-tax earnings grew by 12.5 percent year-over-year.

4.3.4.4 Business trends

The total Canadian bank card market now represents over $74 billion in outstanding loans and has grown consistently over the past four years, offering an attractive growth opportunity despite intense competition. While Canada's major banks are the market leaders, U.S.-based credit card issuers are gaining market share and are redefining customer expectations. With the increasing number of credit cards available, consumers are looking for relationships with organizations that offer good value, exceptional service and programs that reward them for their loyalty.

4.3.4.5 2012 Strategic Plan

Our 2012 Strategic Plan consists of the following initiatives that represent a commitment to significant investment and will have a major impact on the delivery of our strategy and on our financial results.

2012 Strategic Plan and outlook

Total managed portfolio of loans receivable (credit card loans, personal loans and mortgage loans)

Financial Services plans to grow its portfolio through increases in average balances, new account acquisition, the introduction of new credit cards and continued testing of the personal loan portfolio.

2012 Strategy and outlook	2008 Key points
Financial Services' growth strategy includes plans to drive receivables growth through increasing the number of accounts with a balance and increasing average balances.	Financial Services has targeted the following performance objectives in 2008: > increase gross average credit card receivables by approximately eight percent; > increase number of accounts carrying a balance by approximately one percent; and > increase ending total managed portfolio balance to $4.3 billion. In addition, Financial Services is planning a major re-launch of the Canadian Tire Options MasterCard in 2008, incorporating a new card design and additional features designed to encourage usage and attract new customers.

Insurance and other ancillary products

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

2012 Strategy and outlook	2008 Key points
Financial Services plans to increase revenues from insurance and warranty products to drive double-digit revenue growth throughout the 2012 Plan period.	Financial Services plans to increase revenues from insurance and warranty products by approximately eight percent during 2008.

Retail banking

Financial Services began offering retail banking products in two pilot markets in October 2006, including high interest savings accounts, guaranteed investment certificates and residential mortgages. In 2007, the pilot was expanded to include a third market in Ontario along with the launch of the Canadian Tire One-and-Only account. The retail banking business leverages the trust and credibility Canadian Tire has earned over the last 40 years providing financial services to millions of customers.

2012 Strategy and outlook	2008 Key points
Financial Services plans to introduce additional retail banking products over the Plan period. Management will continue to assess the future potential of the retail banking pilot and determine a course of action for the Plan period.	Financial Services' retail banking plans include achieving the following targets for 2008: > increase the ending mortgage portfolio balance to over $132 million; and > increase ending deposit balances to over $186 million. Financial Services will incur approximately $28 million in net expenses associated with the marketing and operations of the retail banking initiative in 2008.

4.3.4.6 Business risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Financial Services' operations. Please also refer to section 9.0 for a discussion of some other industry-wide and Company-wide risks affecting the business.

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

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

Securitization funding risk Securitization is an important source of funding for Canadian Tire, involving the sale of credit card loans to GCCT and the sale of personal loans to another third party trust. Securitization enables Financial Services to diversify funding sources, and manage risks and capital requirements. Financial Services' securitization program relies on the marketability of the asset-backed commercial paper (ABCP) and notes issued by GCCT as described in section 6.3.6. A decline in the marketability of the commercial paper and notes would require the Company to find a new source of funding. Developments in the last half of 2007 in the international credit markets had an impact on some companies' securitization programs; see section 6.3.6 below.

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

Most of Financial Services' revenue is not interest rate sensitive as it is generated primarily from Canadian Tire MasterCards, which carry a fixed interest rate appropriate to customer segments with common credit ratings. The securitization program as described in section 6.3.7 of this MD&A reduces Financial Services' funding requirements. Canadian Tire constantly monitors the potential impact of interest rate fluctuations on its fixed versus floating rate exposure and manages its overall balance to reduce the magnitude of this exposure.

As the success of Financial Services is dependent upon its ability to access capital markets at favourable rates, and given the rapid growth of the total managed portfolio, maintaining the quality of the total managed portfolio and securitized loans receivable is a key priority of Financial Services. For additional information on Canadian Tire's liquidity and capital market activity, please refer to section 6.3 below.

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

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

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

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

5.0 NEW BUSINESS DEVELOPMENT

Canadian Tire will continue to identify and evaluate opportunities to enhance our growth and profitability beyond our current 2012 Strategic Plan period. Our business development team is focused on identifying potential retail and retail-related business opportunities that leverage our core capabilities and fit within our existing network of businesses. Canadian Tire's pilot launch of retail banking products in 2006 is an example of a potential new channel for growth that leverages Canadian Tire's brand, reputation and credit management capabilities to drive incremental growth beyond 2012.

6.0 CAPITAL STRUCTURE AND FINANCING

6.1 Capital structure

Improving our financial flexibility is one of our long-term goals and one of the imperatives of our 2012 Strategic Plan.

We regularly review our funding plan and capital structure to ensure that we have sufficient funding options to provide us with the financial flexibility to implement our growth initiatives and meet the targets of our 2012 Strategic Plan.

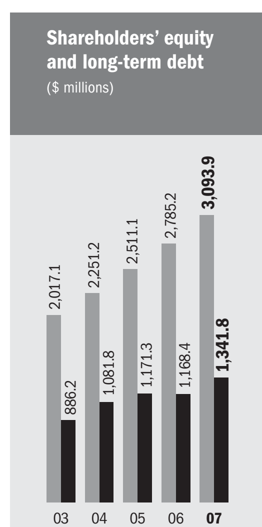
Our financial position at the end of 2007 included:

> long-term debt at approximately 31 percent of capitalization;
> $1.2 billion in committed lines of credit; and
> over $2 billion in book value of unencumbered real estate.

As at the dates indicated, our capital structure was as follows:

(% composition of total structure)	**At December 29, 2007**	At December 30, 2006
Shareholders' equity	**64.6%**	67.2%
Long-term debt[1]	**31.3%**	28.3%
Other long-term liabilities	**2.6%**	2.7%
Future income taxes	**1.5%**	1.8%
	100.0%	100.0%

[1] Includes the current portion of long-term debt.



Equity The book value of Common and Class A Non-Voting Shares at the end of 2007 was $37.98 per share compared to $34.19 at the end of 2006.

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

On February 7, 2008, we announced our intention to initiate a normal course issuer bid (NCIB) to purchase up to 3.6 million of the issued and outstanding Class A Non-Voting Shares over the 12-month period ending February 18, 2009.

A NCIB is a bid by a listed company to buy back its shares, up to a prescribed number, on a stock exchange, subject to certain rules that protect investors. A total of approximately 0.5 million Class A Non-Voting Shares were purchased in 2007 under the previous NCIB.

Shares outstanding

	2007	2006
Class A Non-Voting Shares (CTC.A)		
Shares outstanding at beginning of year	**78,047,456**	78,032,724
Shares issued under plans[1]	**457,606**	1,222,032
Shares purchased under NCIB	**(457,000)**	(1,207,300)
Shares outstanding at end of year	**78,048,062**	78,047,456
Common Shares (CTC)		
Shares outstanding at beginning and end of the year	**3,423,366**	3,423,366

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

Dividends Dividends of $60.4 million were declared on Common and Class A Non-Voting Shares in 2007 compared to dividends of $53.8 million in 2006. The increase in dividends declared reflected the Board of Directors' decision in February 2007 to increase the annual dividend rate by 12 percent from $0.66 per share to $0.74 per share. The fourth quarterly dividend at the 2007 rate was declared on December 6, 2007 in the amount of $0.185 per share payable on March 3, 2008 to shareholders of record as of January 31, 2008.

In February 2008, the Board of Directors approved a 13.5 percent increase in the annualized dividend per share for 2008 to $0.84, or $0.21 per quarter.

Dividend policy
Canadian Tire's policy is 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 requirements and investment opportunities. Normalized earnings per share for this purpose include gains and losses on the ordinary course disposition of property and equipment.

Debt market conditions In August and September of 2007, global debt markets experienced a credit crisis linked to problems in the U.S. sub-prime mortgage market. This caused a worldwide reassessment of the financial risks involved with asset-backed securities and led to market disruptions, constrictions and increased interest rates for borrowers looking to refinance their short-term debt.

Canadian Tire participates in the asset-backed security markets through the use of commercial paper and issuance of Medium Term Notes (MTNs). In the period following this crisis, GCCT has successfully refinanced its maturing commercial paper several times, although at a higher rate of interest. Our ability to increase our existing committed bank lines of credit and our success in rolling over both the Company's and GCCT's commercial paper, have demonstrated that these market challenges have not affected our ability to access funding, albeit at marginally higher rates than what we have previously experienced. Please refer to section 13.0 for additional information regarding a GCCT securitization transaction that occurred subsequent to year end.

6.2 Credit facilities

In the fourth quarter of 2007, the Company increased its committed bank lines by $535.0 million to a total of $1.2 billion. The bank lines are provided by 11 domestic and international banks reflecting the strong support for Canadian Tire and the GCCT commercial paper program. On December 29, 2007, $316.8 million was outstanding against these bank lines whereas there was no amount outstanding as at December 30, 2006.

The additional lines increase the Company's flexibility to support its growing retail and financial services businesses and better manage seasonal cash flow activity. In addition to the above-noted lines, Canadian Tire has the following sources of financing:

- A $750.0 million shelf prospectus for its MTN Program, $300.0 million of which was issued successfully in an oversubscribed transaction in October 2007; and
- An $800.0 million Canadian Tire commercial paper program that has strong investor demand at cost-effective rates and is fully supported by the aforementioned committed bank lines. There was no commercial paper outstanding as at December 29, 2007 or December 30, 2006.

The GCCT commercial paper program has access to $760.0 million of the total Canadian Tire committed lines and, as of December 29, 2007, GCCT had achieved compliance with DBRS® Global Liquidity Standards. Subsequent to year-end, market conditions surrounding the liquidity of ABCP have shown some improvement and spreads on ABCP have begun to tighten, which reduces GCCT's cost to reissue commercial paper. There is, however, a constrained amount of ABCP that GCCT is able to issue, as investor demand remains limited. As of December 29, 2007, $141.5 million of GCCT's commercial paper was outstanding and backed by the bank credit lines.

In December 2007 $472.5 million of GCCT Medium Term Notes (Series 2002-1) matured. This resulted in Canadian Tire Bank's (CTB) co-ownership interest in credit card receivables increasing by the same amount. This increase in assets was facilitated through inter-company loans that were funded in large part by the issuance of Canadian Tire's commercial paper and operating cash flows.

In November 2007, Canadian Tire received confirmation from its rating agencies on its various funding programs, all of which had a stable outlook.

Credit rating summary

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

[1] Asset-backed Series 2002 Senior and Subordinated Notes were discontinued on January 2, 2008.

Overall, Canadian Tire believes it is in a strong position with respect to its financial flexibility and is well positioned to support its proposed growth agenda.

As of the end of the fourth quarter of 2007, long-term debt included $28.9 million of capital leases.

Like most borrowers, we provide covenants to our lenders. We are in compliance with all of our debt covenants.

6.3 Funding program

6.3.1 Funding requirements

We fund our capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under the NCIB, from a combination of sources. In the fourth quarter of 2007, the primary sources of funding were:

- $626 million of cash generated from operating activities;
- $301 million of cash generated from the issuance of long-term debt; and
- $317 million of cash arising from drawn bank lines.

6.3.2 2007 Capital program

Canadian Tire's capital expenditures totaled $593 million in 2007 (as disclosed in the Consolidated Financial Statements of Cash Flows, see Note 12), a 6.3 percent increase from the $557 million spent in 2006. These 2007 capital expenditures were comprised of:

> $363 million for real estate projects, including $304 million associated with the rollout of CTR's Concept 20/20 stores;
> $113 million for the Eastern Canada distribution centre;
> $54 million for information technology; and
> $63 million for other purposes.

Overall, capital investments for real estate projects were up significantly year-over-year in 2007, primarily due to the acceleration of the Concept 20/20 store rollout, investment in the construction of an Eastern Canada distribution centre and other capital required for certain larger urban store developments.

6.3.3 2008 Capital plan

The 2008 capital plan is for net capital expenditures in the range of $430 million to $455 million (including the impact of $145 million in proceeds we expect to receive from the sale and leaseback of three CTR urban store developments during the year). The 2008 gross capital plan is comprised of the following, which total $588 million:

> $416 million for real estate projects, including $200 million associated with the rollout of CTR's Concept 20/20 stores;
> $71 million for the Eastern Canada distribution centre;
> $78 million for information technology; and
> $23 million for other purposes.

6.3.4 Working capital

Reducing our working capital requirements continues to be a long-term priority. The table below shows the change in the value of our working capital components at the end of 2007 and 2006.

Comparable working capital components

($ in millions)	**2007**	2006	Increase/(decrease) in working capital
Accounts receivable	**$ 707.1**	$ 340.5	$ 366.6
Merchandise inventories	**756.7**	667.3	89.4
Prepaid expenses and deposits	**29.5**	46.2	(16.7)
Income taxes (payable)/recoverable	**59.0**	(81.1)	140.1
Accounts payable and other	**(1,847.8)**	(1,579.5)	(268.3)
			$ 311.1

Accounts receivable increased in 2007 due to a significant sale of Dealer receivables in the fourth quarter of 2006 which was not repeated in 2007. To a much lesser degree, higher shipments in December 2007 increased accounts receivable year-over-year. Inventory levels increased over the previous year due to the timing of receipts for in-transit goods. Our income tax position changed from a payable in 2006 to an amount receivable at the end of 2007 due to our success in recovering various tax amounts previously paid from overseas jurisdictions.

6.3.5 Cash and cash equivalents

At December 29, 2007, the Company was in a negative cash position of $106 million compared to a positive cash position of $741 million at December 30, 2006. This change reflects the absence of a significant sale of Dealer receivables in the fourth quarter of 2007 and the absence of a fourth quarter sale of co-ownership interest in credit card receivables owned by CTB to GCCT, due to timing and market conditions. During the fourth quarter of 2007, we used cash primarily for the following:

- $629 million to fund further growth in loans receivable; and
- $168 million for the addition of property and equipment.

6.3.6 Asset-backed commercial paper

Background The global disruption in the market for such commercial paper experienced in August 2007 resulted in a sudden constraint on the liquidity of ABCP. DBRS placed certain of the ABCP "Under Review with Developing Implications" following an announcement on August 16, 2007 that a consortium representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim agreement regarding the ABCP (commonly referred to as "the Montreal Proposal"). Under this proposal, the affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled termination dates of the underlying assets. On September 6, 2007, a committee was formed to oversee the proposed restructuring process of the ABCP. On December 23, 2007, this committee announced that an agreement in principle had been reached regarding a comprehensive restructuring of the ABCP issued by 20 of the trusts covered by the Montreal Proposal with a final implementation scheduled for early 2008.

Classification As of December 29, 2007, the Company held third-party ABCP investments with an original cost of $8.9 million. These ABCP investments held by the Company were rated by DBRS as R-1 (High), the highest credit rating available for commercial paper. As of December 29, 2007, all of the ABCP held by the Company were with conduits that were not backed by a major bank and were part of the Montreal Proposal. The Company has classified its investment in ABCP as long-term investments, which were previously classified as cash and cash equivalents on the Consolidated Balance Sheet, as management anticipates that this investment may mature beyond a 365-day period.

Valuation During 2007, the Company recorded a $1.3 million before-tax provision for impairment of the ABCP in the Consolidated Statement of Earnings based on management's best estimate of impairment at the time. The valuation model used by the Company to estimate the fair value of the ABCP incorporates discounted cash flows considering the best available information regarding market conditions and other factors that a market participant would consider for such investments, assuming that a restructuring will be successful.

Assumptions underlying valuation The assumptions used in determining the estimated fair value reflect the public statements made by the committee that it expects the ABCP will be converted to long-term floating rate notes with maturities matching the maturities of the underlying assets. The Company's valuation assumes a redemption term of approximately seven years corresponding to the expected maturities of the ABCP held by the Company. The Company's valuation assumes that the replacement notes will bear interest rates similar to short-term instruments and that such rates would be commensurate with the nature of the underlying assets and their associated cash flows. The discount rate assumed in the valuation considers the rates available on a risk-free five- to ten-year government bond plus an additional risk premium. Assumptions have also been made as to the amount of restructuring and other costs that the Company will bear. The estimate has been calculated without the benefit of a full understanding of the underlying assets of each of the trusts it holds, as this information has not been provided by every trust.

Continuing uncertainties regarding the value of the underlying assets, the amount and timing of cash flows and the final outcome of the restructuring process could give rise to a further change in the value of the Company's investment in ABCP which would impact the Company's future earnings. The Company's interpretation of the available information required a significant amount of judgment.

Impact on debt covenants and ratings The write-down and reclassification of the Company's investment in ABCP affected by the aforementioned liquidity crisis has had no effect to date, nor does management anticipate any future effects on the Company's debt covenants, debt ratings or compliance with banking regulations governing Financial Services or Canadian Tire Bank.

As referenced in section 6.2, due to the recent increase in the amount of funds we expect to have available through committed lines of credit and various other forms of funding, the Company has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect a material adverse impact on its business as a result of this current third-party ABCP liquidity issue.

6.3.7 Loans receivable

Our loans receivable securitization program is designed to provide a cost-effective source of funding for Financial Services. Loans receivable were as follows at the indicated dates:

($ in millions)	**December 29, 2007**	December 30, 2006
Securitized	**$ 2,330.8**	$ 2,827.4
Unsecuritized	**1,567.3**	771.8
Net managed loans receivable	**$ 3,898.1**	$ 3,599.2

Net managed loans receivable continued to increase over the last 12 months as customers' use of the Canadian Tire MasterCard and Canadian Tire Gas Advantage MasterCard grew. At the end of the fourth quarter of 2007, net managed loans receivable were 8.3 percent higher than at the end of the fourth quarter of 2006.

Canadian Tire Bank sells co-ownership interests in credit card loans to GCCT. The Company does not have a controlling interest in GCCT, so we do not include financial results of GCCT in our Consolidated Financial Statements.

We record the sale of loans receivable in accordance with CICA's Accounting Guideline 12, "Transfers of Receivables". Please see Note 1 to the Consolidated Financial Statements found in this Financial Report.

Net credit losses for the owned portfolio for the fourth quarter were $33.9 million (2006 – $8.6 million). Net credit losses for the owned portfolio for 2007 were $81.4 million (2006 – $58.6 million). Net credit losses for the total managed portfolio for the fourth quarter were $58.5 million (2006 – $51.6 million). Net credit losses for the total managed portfolio for 2007 were $217.3 million (2006 – $207.4 million).

Cash flows from loan securitizations

($ in millions)	**Q4 2007**	Q4 2006	**2007**	2006
Proceeds from new securitizations	**$ –**	$ 570.0	**$ 148.6**	$ 838.3
Repurchase of securitized ownership interests	**(402.0)**	(248.4)	**(580.0)**	(558.1)
Proceeds from collections reinvested in previous securitizations	**2,246.1**	1,966.3	**8,525.0**	7,394.7
Other cash flows received on retained interest	**523.4**	448.8	**1,820.6**	1,624.5

In 2008, Financial Services expects to securitize approximately $1.3 billion of loans receivable through its securitization program. Please refer to section 13.0 for information regarding a GCCT securitization transaction that occurred subsequent to year end.

We expect the continued growth in the number and average balances of Canadian Tire MasterCard credit card accounts to lead to an increase in total loans receivable in 2008. Financial Services expects to continue to fund most of this increase from the sale of co-ownership interests in credit card loans to GCCT. GCCT is a third party trust that was formed to buy our credit card loans and also issues debt to third party investors to fund its credit card loans purchases. The success of the securitization program is mainly due to GCCT's ability to obtain funds from third parties by issuing debt instruments with high credit ratings. Please refer to section 6.2 above for a listing of GCCT's credit ratings.

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

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

Glacier Credit Card Trust asset-backed notes outstanding

($ in millions)	**At December 29, 2007**	At December 30, 2006	Repayment of principal begins	Estimated final dates for payment
Series 1997-1 Commercial Paper Notes[1]	**$ 141**	$ 100		
4.82% Series 2002-1 Senior Notes[2]	**–**	450	Fully repaid	Fully repaid
4.444% Series 2003-1 Senior Notes[2]	**542**	542	Aug. 1, 2008	Nov. 20, 2008
4.274% Series 2004-1 Senior Notes[2]	**591**	591	Aug. 1, 2009	Nov. 20, 2009
4.19% Series 2005-1 Senior Notes[2]	**345**	345	Aug. 1, 2010	Nov. 19, 2010
4.271% Series 2006-1 Senior Notes[2]	**300**	300	Aug. 1, 2011	Nov. 18, 2011
4.405% Series 2006-2 Senior Notes[2]	**239**	239	Feb. 3, 2014	May 20, 2014
5.88% Series 2002-1 Subordinated Notes[3]	**–**	23		
5.034% Series 2003-1 Subordinated Notes[3]	**28**	28		
4.674% Series 2004-1 Subordinated Notes[3]	**34**	34		
4.51% Series 2005-1 Subordinated Notes[3]	**20**	20		
4.571% Series 2006-1 Subordinated Notes[3]	**17**	17		
4.765% Series 2006-2 Subordinated Notes[3]	**14**	14		
Total	**$ 2,271**	$ 2,703		

[1] Commercial Paper Notes mature on a business day within one year of the date of issue.
[2] Repayment of principal begins from allocations to GCCT in the previous month. In some instances, earlier prepayment may be required. Final payment dates are estimated based on assumptions about the performance of the credit card loans and other factors.
[3] Repayment of principal for Subordinated Notes begins after all principal owing under the related series of Senior Notes has been repaid in full.

6.4 Financial ratios

We have ready access to funding from the financial markets because of our relatively strong balance sheet and healthy financial ratios. We have a long-standing policy of keeping our ratio of long-term debt to total capitalization below 50 percent.

The following table shows the changes in financial ratios over the past year.

	At December 29, 2007	At December 30, 2006
Ratio of long-term debt to total capitalization[1]	**31.3%**	28.3%
Ratio of current assets to current liabilities	**1.4:1**	1.5:1
Interest coverage[2]	**8.9 times**	8.4 times

[1] Long-term debt includes current portion.
[2] We calculate interest coverage on a rolling 12-month basis using earnings before interest, income taxes and minority interest.

6.5 Funding costs

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

Interest expense[1]

($ in millions)	2007	2006
Long-term interest expense	$ 67.1	$ 71.2
Short-term interest expense	11.3	4.5
Total	$ 78.4	$ 75.7
Effective blended cost of debt	6.40%	6.61%

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

The $300 million (5.22 percent) MTN issued October 1, 2007 effectively replaced higher costing debt which matured earlier in the year and was the primary contributor to a lower overall effective blended cost of debt for 2007, as compared with the prior year.

6.6 Foreign operations

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

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

7.0 TAX MATTERS

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

The Canada Revenue Agency (CRA) has reassessed and is also expected to issue further reassessments regarding the tax treatments of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 onwards) and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities have reassessed and are also expected to issue further reassessments for the corresponding periods. The Company does not have a significant exposure on these matters subsequent to the 2003 taxation year. The reassessments and expected reassessments in these matters are based on multiple grounds, some of which are highly unusual and the Company will appeal these reassessments as and when they are received.

If the CRA (and applicable provincial tax authorities) were entirely successful in their reassessments – an outcome that the Company and its tax advisors believe to be very unlikely – it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately $257.8 million. Although the Company will appeal these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately $159.5 million, of which $153.7 million had been remitted by the end of the year.

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

Income tax expense in the fourth quarter and full year of 2007 has been reduced by $8.5 million and $11.4 million, respectively, mainly due to settlements of various minor issues with the tax authorities and a reduction in tax rates required to be used in estimating income tax expense for accounting purposes as a result of the reduction of federal tax rates announced during the fourth quarter.

8.0 OFF-BALANCE SHEET ARRANGEMENTS

8.1 Glacier Credit Card Trust

As noted earlier, GCCT was formed to buy our credit card loans and it issues debt to third-party investors to fund its credit card loans purchases. Refer to section 6.2 for additional information on GCCT.

8.2 Trust financing for Dealers

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

Trust In 1995, a major Canadian bank set up a trust (the Trust) to provide financing to retail franchisees, and in 1997, began providing loans to our Dealers (Dealer Trust Loans) to finance a portion of their purchases of inventory and fixed assets. Each of these Dealer Trust Loans is secured by the store assets of the Dealer. The amount of Dealer Trust Loans was $923.5 million at December 29, 2007, compared to $880.1 million at December 30, 2006, reflecting Dealers' investment in Concept 20/20 store projects in 2007. In addition, Dealers use subordinated operating lines of credit from Canadian banks to finance seasonal fluctuations in inventory levels and meet other regular business needs. The Company does not normally lend money directly to Dealers, but we have done so on rare occasions in prior years.

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

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

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

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

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

> we provide credit enhancement in the form of guarantees of standby letters of credit provided to the Co-owner Trusts by several Canadian banks with acceptable credit ratings;

> we have agreed to indemnify the Co-owner Trusts and certain other parties against shortfalls in payments owed by the Co-owner Trusts resulting from certain events such as changes in laws and regulations (including tax legislation). The terms of these indemnification agreements do not put a limit on our total potential liability. To date, we have made only a nominal payment under these indemnifications, and we have not accrued any amount for these indemnifications in our 2007 Consolidated Financial Statements;

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

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

As consideration for our program support, the Trust, as servicer, pays us an amount after it has paid all of the Co-owner Trusts' expenses relating to Dealer Trust Loans, but before any distribution to their beneficiaries. The amount received depends on the average amount of Dealer Trust Loans outstanding and prevailing market interest rates. In 2007, the consideration amount received was adversely impacted by abnormal market interest rates resulting from the disruption in the credit markets as discussed in sections 6.1 and 6.3.6.

We also pay fees to the banks that provide the letters of credit to the Co-owner Trusts. The following table summarizes the consideration amounts received and letters of credit fees paid by us.

($ in millions)	**Q4 2007**	Q4 2006	**2007**	2006
Consideration amount received (net)	**$ 1.2**	$ 2.7	**$ 9.4**	$ 10.4
Letters of credit fees paid	**0.2**	0.2	**0.9**	0.6

The amount of our guarantees of the standby letters of credit provided by banks to the Co-owner Trusts was $167.2 million at December 29, 2007 compared to $165.0 million at December 30, 2006, reflecting growth in Dealer Trust Loans. The letters of credit benefit the Co-owner Trusts by helping them achieve a high credit rating on the debt they issue to fund their initial and ongoing purchases of Dealer Trust Loans.

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

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

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

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

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

> upon termination of the program.

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

We are not currently aware of any events, commitments, trends or uncertainties that are expected to have a negative impact on this arrangement, other than the market interest rates not having fully recovered to normal levels.

Terminating the arrangement None of the Company, the Trust and the Co-owner Trusts can unilaterally terminate the financing program before November 2009, and, after that date, any party deciding to terminate participation in the program must provide six months' written notice to the other parties.

The arrangement will automatically be terminated if:
> we become insolvent or default on a covenant;
> we do not meet our obligations to provide sufficient credit enhancement or indemnify the Co-owner Trusts in certain events;
> at least one of the Co-owner Trusts' credit ratings goes down significantly (and such Co-owner Trust(s) is not immediately replaced by us); or
> at least one of the banks which administers a Co-owner Trust no longer provides such Co-owner Trust with a liquidity line (and such Co-owner Trust(s) is not immediately replaced by us).

If the arrangement is terminated, the Dealers will need to replace the Dealer Trust Loans with alternative financing. We are under no contractual obligation to provide financial support for this arrangement.

8.3 Bank financing for Dealers and PartSource franchisees

We have guaranteed the bank debt of some Dealers and some PartSource franchisees. If a Dealer or PartSource franchisee fails to make scheduled debt payments on bank loans we have guaranteed, we may be required to pay the amount guaranteed to the bank. All of the credit guarantees expire in 2008 and can be extended, upon expiry, at our option.

As of December 29, 2007, the maximum amount we may be required to pay under these guarantees is $35.0 million, of which $28.5 million had been drawn at December 29, 2007, compared to $19.7 million at December 30, 2006. We have not accrued any specific amount for these guarantees in our Consolidated Financial Statements.

8.4 Derivative financial instruments

We use derivative financial instruments to manage our exposure to changes in interest rates and foreign currency exchange rates. We also use equity derivative contracts to hedge certain future stock-based compensation expenses. We do not use hedging to speculate, but rather as a risk management tool.

To manage the credit and market risks associated with derivative financial instruments, we:
> deal only with counterparties that are highly rated financial institutions; and
> restrict the amount of hedging we can transact with any one counterparty.

For details of how we account for derivative financial instruments, see Note 1 in the Notes to the Consolidated Financial Statements.

Our credit exposure to hedges and other derivatives is the current replacement value of contracts that are in a gain position. As at December 29, 2007, our credit exposure from interest rate swap, foreign exchange and equity derivative contracts was $14.2 million, compared to $55.9 million as at December 30, 2006.

9.0 ENTERPRISE RISK MANAGEMENT

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its Enterprise Risk Management (ERM) framework. Introduced in 2003, the ERM framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across the Company.

The intent of introducing our ERM framework was to establish an integrated approach to managing risks to assist in achieving our strategic objectives. Our ERM framework is:

> designed to provide an understanding of risks across the Company and the potential impacts of risks on every part of the organization;
> cross-functional in its perspective to provide a consistent discipline for managing risk;
> designed to allow for improved capital allocation decisions to optimize risk and reward; and
> designed to incorporate a number of tools for managing risk, including avoidance, mitigation, insurance and acceptance.

Our first steps were to develop a process for identifying our Principal Risks and to carry out an initial risk assessment, which we completed in 2004. We define a Principal Risk (Principal Risks) as one that can have a significant adverse impact on Canadian Tire's performance, reputation or ability to service its customers, and has, in the absence of controls, a reasonable possibility of occurring.

Based on our experience since 2004, we are now enhancing the processes and procedures that support the ERM framework, including performance metrics and Board reporting. We are also reviewing and enhancing policies relating to the management of our Principal Risks.

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

A management Enterprise Risk Committee was formed in 2006 to enhance the sustainability of the ERM framework. The Enterprise Risk Committee was created to oversee the management of Principal Risks and other enterprise-wide risks under the leadership of the Chief Risk and Compliance Officer and has the responsibility for reviewing and approving, for recommendation to the Board of Directors, the ERM policy and framework and specific policies addressing each of the Principal Risks.

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

9.1 Board accountability

The mandate of the Board of Directors includes overseeing the development of an ERM process, for which the Board has delegated primary responsibility to the Audit Committee (previously the Social Responsibility and Risk Governance Committee). The Audit Committee is responsible for gaining and maintaining reasonable assurance that management:

> appropriately identifies and manages risks;
> develops a policy that accurately sets out our risk philosophy, risk tolerance and the expectations and accountabilities for identifying, assessing, monitoring and managing risk (the ERM Policy);
> fully implements and sustains the ERM process in compliance with the ERM Policy and that the ERM Policy continues to accurately state our risk philosophy and risk tolerance, as well as our expectations and accountabilities for managing risks;
> identifies Principal Risks in a timely manner, including those risks relating to or arising from any weaknesses or threats to our business and our assumptions underlying our Strategic Plan; and
> effectively assesses, monitors and manages Principal Risks in compliance with the ERM Policy.

9.2 Principal risks

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

9.2.1 Information management

Achieving and maintaining the appropriate level of integrity, reliability, security and confidentiality for all types of information is essential to the Company. Inappropriate information management practices can result in inadequate reporting and decision-making, legal exposure and reputational harm.

The information management risk is currently managed at the individual business unit level through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management. With a view to enhancing and standardizing the controls to manage the information management risk, the Company is developing corporate operating policies which establish minimum standards for the usage, security, retention and appropriate destruction of information.

9.2.2 Technology

Technology is critical to our operations and is a key enabler to the execution of our strategic plans. Operationally, we must have the right technology and functionality to meet customer needs. Strategically, the Company's investment in technology ensures all business units remain competitive in the marketplace. Failure to monitor the availability of our information technology, assess its efficiency, stability and scalability and resolve any significant risks may negatively impact our operation, reputation and ability to serve customers.

Numerous controls are in place to manage the technology risk, including the monitoring of system availability and capacity as well as the monitoring of technology assets to sustain currency appropriate for the needs of the business.

9.2.3 Product safety

Unsafe products and services or products that do not meet regulatory requirements can pose a risk to the health and safety of customers, employees, members of the public or to the environment. This risk, should it materialize, could negatively impact the Company's relationship with its customers, or the Canadian Tire, Mark's Work Wearhouse, and PartSource brands, and could result in lost sales due to product re-work and recalls.

We are committed to mitigating the risks associated with our products and services. To this end, we employ quality assurance processes that test products for durability, safety and functionality. We also analyze product returns, review consumer reports and use the resulting information to include quality provisions in supplier contract negotiations. Further, all of our vendors are required to carry insurance to cover product liability and indemnify us.

9.2.4 Consumer credit

With a growing portfolio of consumer lending products, our Financial Services business unit assumes certain risks that include failure or inability to accurately predict the creditworthiness or credit behaviour of our customers. These risks could impact the Company's financial results, the valuation of receivables and the availability of financing.

In managing our consumer credit risk, the Company has a number of controls and processes in place, which include:

- performing credit risk assessments on each customer and granting credit based on the results of that assessment;
- employing appropriate technology and processes for collections of accounts receivable;
- measuring the overall exposure to credit risk to ensure that it is within the Company's risk tolerance, and using that information to adjust scoring models, credit criteria for customers and credit authorities limits for employees;
- monitoring the macro-economic environment, especially with respect to interest rates, employment levels and income levels.

9.2.5 Competitive

We compete for customers, employees, products and other important aspects of our business against international, national and regional retailers (department stores, mass merchandisers, home-improvement stores and warehouses, petroleum retailers and specialty marketers), banks and other financial services institutions which currently operate in one or more of our business segments. Material changes in the strategic direction and positioning or other practices of those competitors can create competitive risk to the Company.

We actively monitor and analyze competitive activity as part of our strategic planning process. This includes collecting competitive information, identifying material changes in the competitive environment, identifying material competitive risks and developing strategies to mitigate these risks. Each of our businesses has core strengths and initiatives that provide differentiation in the marketplace and enhance our competitive position, thereby reducing our overall competitive risk. The unique strengths and strategies of our businesses are described in more detail in sections 2.0 and 4.2 of this MD&A.

9.2.6 Economic

Shifts in the fundamentals of the Canadian economic environment – such as economic growth, inflation, exchange rates, levels of taxation and interest rates – can significantly affect consumer confidence and spending. Additionally, economic changes can impact our ability to provide service at a competitive cost as well as affect our ability to fund operations.

We constantly monitor economic developments in Canada. We use this information in our strategic and operational planning to adjust our initiatives as economic risks are identified and to facilitate ongoing investment decisions, design of marketing initiatives and operational practices.

9.2.7 Hazards, disasters and business interruptions

Events or a series of events such as natural, man-made or technological disasters or hazards causing loss, interruptions or disruptions to the continuity of business may compromise the safety of our employees or customers and our ability to provide products and services, and may result in significant financial loss or damage to our reputation.

Emergency response protocols, including the activation of business continuity plans, have been identified and we continue to regularly review and enhance these as appropriate. Training for the emergency response teams is being reviewed, evaluated and augmented to address any likely scenarios. Business continuity plans are reviewed by the Business Continuity Management Team to ensure completeness.

9.2.8 Geopolitical

Changes in the domestic and international political and economic environment may impact the Company's strategic and operational capabilities. As a result, our ability to source and provide products and services could be compromised. These risks may arise from domestic and foreign trade agreements, policies, laws and regulations, political events and other events with international or global implications and could result in financial loss.

In order to mitigate geopolitical risks the Company monitors the domestic and international economic and political environments of the countries with which we do business and responds appropriately to any changes which pose a significant risk to our investments and operations.

9.2.9 Legislative compliance

In operating our business, we must comply with all applicable foreign and domestic laws and regulations. Due to the nature of the Company's business activities, there are specific laws and regulations which have been identified as having a greater impact on business operations and/or our reputation such that they require formal procedures to address and mitigate the risk of non-compliance. These identified laws and regulations include, but are not limited to: environment, health and safety, competition law, privacy, disclosure, insider trading and laws and regulations which govern financial institutions. Failure to comply with applicable regulations could result in sanctions and financial penalties by regulatory bodies that could impact our earnings and reputation. At the corporate level, we have established a Risk Management and Compliance Services Department to provide, among other things, a framework for compliance oversight with laws and regulations applicable to our businesses.

> ***Environment, health and safety (EHS)*** In order to ensure that we meet our legislative obligations and mitigate EHS risks, we have in place an EHS policy and management system to guide compliance across the enterprise. In addition, we also have a number of practices in place to ensure a safe and quality workplace, including guidelines for physical and ergonomic workspaces and shared facilities.

> ***Competition law*** The primary manner in which the Company mitigates the risks associated with failure to comply with competition law is to provide ongoing, periodic training to personnel involved in marketing and advertising our products and services. The Company also employs legal personnel with expertise in competition law who regularly review the format and content of our various advertising vehicles and provide ongoing advice to our marketing and advertising staff in respect of other competition law matters.

> ***Privacy*** In order to mitigate the risk of non-compliance with privacy laws, we have a corporate privacy office, led by the Chief Privacy Officer, which is responsible for such activities as:
- monitoring privacy laws and setting minimum standards with respect to the collection, use, retention and destruction of personal information through the development of Privacy Policies;
- developing minimum content requirements for privacy training across the Company;
- consulting with and responding to inquiries from governmental and regulatory agencies responsible for privacy matters; and
- providing guidance and advice to all employees on privacy issues affecting the Company.

> ***Disclosure*** To ensure that we meet our obligations and mitigate risks associated with either the disclosure of inaccurate or incomplete information or a failure to disclose required information, we have in place a Disclosure Policy and a management Disclosure Committee to guide compliance. In addition, the CEO, Chief Financial Officer (CFO), General Counsel, Chairman of the Board of Directors and Chairman of the Audit Committee review all financial disclosures prior to submission to the Audit Committee for the Audit Committee's review and recommendation to the Board of Directors.

> ***Insider trading*** In order to mitigate the risks of illegal insider trading, we have in place a policy on insider trading which requires insiders to comply with all laws applicable thereto. In addition, the policy requires each member of the Board of Directors, senior management and certain other designated employees to pre-clear any trades with the General Counsel of the Company in order to ensure that no trades are made while such individuals possess undisclosed material information during predetermined quarterly blackout periods established pursuant to the policy.

> ***Financial Services*** Our Financial Services division relies on its Compliance Department to assist the Canadian Tire Bank in meeting all applicable legislative and regulatory requirements.

9.2.10 Accounting, valuation and reporting

We employ numerous professionally accredited accountants throughout our finance group and all of our divisional financial officers have a dotted line reporting relationship to our CFO. Senior finance representatives are assigned to all significant projects. Policies are in place to ensure the completeness and accuracy of reported transactions. Key transaction controls are also in place and there is a segregation of duties between transaction initiation, approval and processing. Accounting, measurement, valuation and reporting of accounts which involve estimates and/or valuations are reviewed quarterly by the CFO, the external auditor and the Audit Committee. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee, and a presentation of quarterly scorecards on operational results is made to the Audit Committee and Board of Directors.

9.2.11 Capital

The Company must maintain sufficient capital to operate our business and absorb the potential impact of unexpected losses. We maintain adequate access to debt markets to meet our funding requirements. Our Treasurer is responsible for the effective management of capital within the target limits approved by the Board of Directors. To monitor our adherence to established policies, a Financial Risk Management Report – which sets out targets and performance on debt to capital ratios, liquidity ratios and foreign exchange management – is provided to the Audit Committee on a quarterly basis. Our Financial Risk Management group approves financial risk management policies for recommendation to the Audit Committee and monitors compliance with those policies. The Funding Plan for the Company is prepared by our Treasury department and approved by the Board of Directors.

9.2.12 Financial instruments

The use of derivative financial products to hedge currency, interest rates and equity exposures and the use of other complex financial instruments pose certain risks. To reduce our risk, our Treasury department does not operate as a profit centre and controls are in place to detect and prevent speculative activity.

It is our policy to identify and manage currency and interest-rate risk proactively and conservatively. To attempt to ensure that any counterparty to our financial transactions has the ability to meet its financial commitments, we deal only with highly rated financial institutions. We also ensure that there is no undue concentration with any single counterparty. Further, we have monitoring of activity against policy limits and provide reporting to the Financial Risk Management group and to the Audit Committee.

9.2.13 Effective management

In order to mitigate the effective management risk, we have developed and implemented strategies and practices that enable the organization to attract, motivate, develop, retain and maximize the productivity of senior leaders required to achieve our strategic objectives and mitigate employee driven business risks. A compensation structure has also been implemented to attract, motivate and retain talented senior leaders.

9.2.14 Ethical business conduct

Integrity, honesty and respect are our core values, and Canadian Tire expects that each of its employees and directors will abide by the principles and expectations set out in our Code of Business Conduct (the Code) when conducting business on behalf of the Company. Unethical business conduct can negatively impact the Company's relationship with its employees, business partners, customers, investors, the public and the Canadian Tire, Mark's Work Wearhouse and PartSource brands. The Code sets out the Company's minimum expectations and accountabilities for managing the risks associated with unethical business conduct.

In order to oversee implementation and compliance with the Code, we established the Business Conduct Compliance Office (BCCO) in 2005. The BCCO is structured so as to provide multiple channels through which individuals may report (confidentially and anonymously) breaches of the Code for investigation and follow up. The BCCO also provides assistance and support to employees and directors with respect to interpreting the application of the Code. Employees have received targeted training to ensure that responsibilities and accountabilities under the Code are clearly understood. Further, all employees and directors are required to formally acknowledge and confirm their commitment to abide by the standards and expectations set out in the Code.

In order to ensure that our suppliers and vendors also abide by the same high standards of ethical business conduct, the Supplier Code of Conduct was introduced in 2005.

9.3 Operational risks

Other specific risk factors that may cause actual results or events to differ materially from those forecasted in this MD&A include:

- expansion activity planned for Mark's, PartSource, Petroleum and CTR, (the retail businesses), as well as the associated supply chain infrastructure, could be affected by weather conditions that could impact the timing of construction;
- the Company's ability to acquire and develop real estate properties, obtain municipal and other required government approvals, access construction labour and materials at reasonable prices, lease suitable properties and access sufficient funds from capital markets to finance the development of properties could also impact the timing of construction;
- expansion activity planned for the retail businesses, the associated supply chain infrastructure and Financial Services could be negatively affected by the Company's ability to access sufficient funds, in a cost-effective manner, to finance the building projects due to difficulties experienced in the capital markets;
- unseasonable weather patterns could affect the sales of seasonal merchandise at CTR and Mark's throughout the year, particularly in the second and fourth quarters, which historically are these divisions' largest selling periods;
- adverse environmental occurrences could damage the Company's reputation or threaten its licences to operate, particularly in the Petroleum division;
- changes in commodity prices could affect the profitability of Petroleum, CTR and Mark's;
- fluctuating foreign currency exchange rates could impact cross-border shopping patterns and employment levels in the manufacturing and export sectors and, consequently, negatively impact consumer spending practices;
- disruptions in the supply of gasoline could affect Petroleum's revenue and earnings;
- the earnings of Financial Services could be affected by customers' inability to repay their Canadian Tire credit card or loan balances or by an unsatisfactory response to the retail banking initiative; and
- failure to comply with applicable laws and regulations could result in sanctions and financial penalties by regulatory bodies that could impact our earnings and reputation. Areas of compliance include environmental, health and safety, competition law, transportation of dangerous goods, customs and excise tax and regulations governing financial institutions.

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

10.0 CONTRACTUAL OBLIGATIONS

Contractual obligations due by period

($ in millions)	Total	2008	In years 2009–2010	In years 2011–2012	After 2012
Long-term debt[1]	$ 1,469.4	$ 152.3	$ 453.1	$ 13.9	$ 850.1
Capital lease obligations	28.9	4.0	6.8	7.2	10.9
Operating leases	1,886.2	201.4	366.3	306.0	1,012.5
Purchase obligations	882.3	832.1	39.2	9.9	1.1
Other obligations	30.6	15.0	7.0	4.0	4.6
Total contractual obligations	$ 4,297.4	$ 1,204.8	$ 872.4	$ 341.0	$ 1,879.2

[1] The long-term debt number in the Consolidated Balance Sheet has been adjusted by $0.2 million due to the implementation of the new financial instrument standard.

11.0 CHANGES IN ACCOUNTING POLICIES

11.1 Financial instruments, hedging and comprehensive income

As part of Canada's move toward harmonization with International Accounting Standards for fiscal periods beginning on or after January 1, 2011, the CICA issued five new accounting standards that applied to the Company as of the first day of our 2007 fiscal year. These were CICA Handbook Section 3855 – Financial Instruments, Recognition and Measurement, CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation, CICA Handbook Section 3865 – Hedges, CICA Handbook Section 3251 – Equity and CICA Handbook Section 1530 – Comprehensive Income.

Financial instruments The standards related to financial instruments require us to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include Held for Trading, Held to Maturity, Available for Sale and Loans and Receivables. Classification choices for financial liabilities include Held for Trading and Other. All financial instruments are measured at fair value on initial recognition. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification.

Comprehensive income Under the new comprehensive income standard, we are required to report in a new financial statement entitled Statement of Comprehensive Income which consists of net earnings and other comprehensive income (OCI). OCI includes the after-tax unrealized gains and losses on financial assets classified as Available for Sale, unrealized foreign currency translation gains and losses arising from self-sustaining foreign subsidiaries and changes in the fair value of the effective portion of cash flow hedging instruments. The accumulated other comprehensive income (i.e., the portion of comprehensive income not already included in net earnings) is being presented as a separate line in shareholders' equity.

Hedges This new standard specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Company enters into various cash flow hedges as part of the Company's strategy to manage its exposure to interest and foreign currencies. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. In cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recorded in OCI, while the ineffective portion is recognized in net earnings. The Company also enters into various fair value hedges, including certain interest rate swap contracts. In fair value hedges the change in fair value of both the hedged item attributable to the risk being hedged and the entire hedging item are recorded in the net earnings for the respective period.

The maximum length of time over which the Company is hedging its exposure to future cash flow variability for anticipated transactions is 10 years.

Equity This new CICA Handbook section describes standards for the presentation of equity and changes in equity in the year, with specific reference to the new Comprehensive Income standard.

For a detailed description of the new accounting standards and their impact on the opening balances of retained earnings, accumulated comprehensive income and other balance sheet components, please see Note 1 to the Consolidated Financial Statements for the period ended December 29, 2007.

The impact of adopting the new standards on the 2007 fourth quarter net earnings was not significant.

While the new standards have resulted in changes to our financial results, revised accounting procedures and additional disclosures, they are not expected to have a material impact on the Company's cash flows, business strategy or risk management processes in the foreseeable future.

11.2 Capital management disclosures

In December 2006, the CICA issued CICA Handbook Section 1535 – Capital Disclosures.

CICA Handbook Section 1535 requires entities to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally imposed capital requirements. While the standard does not provide a set definition of capital, the standard does require entities to describe and provide quantitative data about what they manage as capital.

As this standard is effective for fiscal years beginning on or after October 1, 2007, we will implement it at the beginning of our 2008 fiscal year.

11.3 Financial instruments – disclosures and presentation

In December 2006, the CICA issued CICA Handbook Section 3862 – Financial Instruments – Disclosures and CICA Handbook Section 3863 – Financial Instruments – Presentation. These standards replace the existing CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation.

CICA Handbook Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed.

CICA Handbook Section 3863 carries forward the presentation standards for financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

As these standards are effective for fiscal years beginning on or after October 1, 2007, we will implement them in the first quarter of 2008.

11.4 Inventories

In June 2007, the CICA issued CICA Handbook Section 3031 – Inventories, which replaces CICA Handbook Section 3030 – Inventories. The new standard is harmonized with International Financial Reporting Standard IAS 2.

The new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs, administrative overheads that do not contribute to bringing the inventories to their present location and condition, and selling costs are specifically excluded from the cost of inventories and are expensed in the period incurred. Reversals of previous write-downs to net realizable value are now required when there is a subsequent increase in the value of inventories. The cost of inventories should be determined using either a first-in, first-out or weighted average cost formula. Techniques for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies adopted in measuring inventories, the carrying amount of inventories, amount of inventories recognized as an expense during the period, the amount of write-downs during the period and the amount of any reversal of any write-down that is recognized as a reduction of expenses.

As this standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008, we will implement it at the beginning of our 2008 fiscal year. The Company will be adopting the new standard retrospectively with a restatement of prior year amounts as if the new accounting policy had always been applied.

A preliminary estimate of the impact to the Company from adopting the new standard is approximately $6.8 million in reduced earnings in 2008. The final adjustments for inventory values will be dependent upon business activities and inventory levels during 2008 and will be reflected as appropriate in the Company's Consolidated Financial Statements each quarter. It is anticipated that the restatement of the Company's comparative Consolidated Financial Statements for 2007 will lead to a reduction of 2007 pre-tax earnings of approximately $7.0 million.

It is expected that the implementation of the new standard will have the greatest impact on Mark's due to the nature of its operations and current accounting policies and practices.

11.5 International Financial Reporting Standards

The Accounting Standards Board of the CICA announced on February 13, 2008 that Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP-based clauses (including debt covenants), long-term employee compensation plans and performance metrics. Accordingly the Company's implementation plan includes measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge amongst management, the Board and Audit Committee and investor relations. It is anticipated that additional resources will be engaged to ensure the timely conversion to IFRS.

11.6 Goodwill and intangible assets

In February 2008, the CICA issued CICA Handbook Section 3064 – Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062 – Goodwill and Other Intangible Assets and CICA Handbook Section 3450 – Research and Development. CICA Handbook Section 1000 – Financial Statement Concepts has also been amended.

This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

As this standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the Company will adopt this new standard effective January 4, 2009 retrospectively with a restatement of prior periods.

We are currently evaluating the potential impact of this new standard on our Consolidated Financial Statements for 2009 and will adjust our systems and processes as necessary to comply with this new standard.

12.0 NON-GAAP MEASURES

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

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

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

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

Reconciliation of EBITDA to GAAP measures[1]

($ in millions)		**Q4 2007**		Q4 2006		**2007**		2006
EBITDA and minority interest								
CTR	**$**	**160.3**	$	135.1	**$**	**569.4**	$	551.7
Financial Services		**47.3**		62.5		**227.6**		200.3
Petroleum		**8.1**		(1.9)		**37.2**		9.8
Mark's		**62.6**		54.9		**125.9**		108.9
Eliminations		**(19.1)**		(11.8)		**(54.7)**		(45.5)
Total EBITDA and minority interest	**$**	**259.2**	$	238.8	**$**	**905.4**	$	825.2
Less: Depreciation and amortization expense								
CTR	**$**	**44.2**	$	38.7	**$**	**159.1**	$	147.7
Financial Services		**3.4**		3.9		**12.8**		13.0
Petroleum		**4.4**		4.1		**16.7**		15.2
Mark's		**5.1**		4.3		**18.3**		15.8
Total depreciation and amortization expense	**$**	**57.1**	$	51.0	**$**	**206.9**	$	191.7
Interest expense								
CTR	**$**	**34.4**	$	24.9	**$**	**105.6**	$	97.9
Financial Services		**11.4**		4.9		**24.5**		20.3
Mark's		**0.9**		0.6		**3.0**		3.0
Eliminations		**(19.1)**		(11.8)		**(54.7)**		(45.5)
Total interest expense	**$**	**27.6**	$	18.6	**$**	**78.4**	$	75.7
Earnings (loss) before income taxes and minority interest								
CTR	**$**	**81.7**	$	71.5	**$**	**304.7**	$	306.1
Financial Services		**32.5**		53.7		**190.3**		167.0
Petroleum		**3.7**		(6.0)		**20.5**		(5.4)
Mark's		**56.6**		50.0		**104.6**		90.1
Total earnings before income taxes and minority interest	**$**	**174.5**	$	169.2	**$**	**620.1**	$	557.8

[1] Differences may occur due to rounding.

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

Same store sales Same store sales is the metric used by management, and most commonly used in the retail industry, to compare retail sales growth in a more consistent manner across the industry. CTR's same store sales includes sales from all stores that have been open for more than 53 weeks and therefore allows for a more consistent comparison to other stores open during the period and to results in the prior year.

13.0 SUBSEQUENT EVENT

Subsequent to December 29, 2007, the Company entered into an agreement which closed on February 11, 2008, whereby the Company sold a portion of its loans receivable to GCCT in a securitization transaction. The loans receivable will be removed from the Consolidated Balance Sheet in 2008.

The Company received net proceeds of approximately $630 million from this securitization of its loans receivable.

14.0 CONTROLS AND PROCEDURES

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

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

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of management, including the CEO and CFO, as of December 29, 2007. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of December 29, 2007.

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

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

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the design of our internal controls over financial reporting was conducted, under the supervision of management, including the CEO and CFO, as of December 29, 2007. Based on that evaluation, the CEO and the CFO have concluded that the design of internal controls over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP as of December 29, 2007.

Management has evaluated whether there were changes in our internal controls over financial reporting during the interim period ended December 29, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Management has determined that no material changes occurred in the fourth quarter.

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

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

The Company's Annual Information Form, Management Information Circular and quarterly reports are also available on the SEDAR (System for Electronic Disclosure and Retrieval) web site at www.sedar.com.

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

Management's Responsibility for Financial Statements

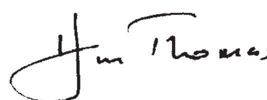
The Management of Canadian Tire Corporation, Limited is responsible for the accompanying Consolidated Financial Statements and all other information in the Annual Report. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles, which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

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

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

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

Thomas K. Gauld
President and
Chief Executive Officer
March 6, 2008



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

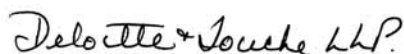
Auditors' Report

To the Shareholders, Canadian Tire Corporation, Limited

We have audited the consolidated balance sheets of Canadian Tire Corporation, Limited as at December 29, 2007 and December 30, 2006, the consolidated statements of earnings, changes in shareholders' equity and cash flows for the years then ended and the consolidated statement of comprehensive income for the year ended December 29, 2007. 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 December 29, 2007 and December 30, 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
March 6, 2008

Consolidated Statements of Earnings

For the years ended (Dollars in millions except per share amounts)	**December 29, 2007**	December 30, 2006
Gross operating revenue	**$ 8,621.4**	$ 8,269.1
Operating expenses		
Cost of merchandise sold and all other operating expenses except for the undernoted items	**7,685.1**	7,415.7
Interest		
Long-term debt	**67.1**	71.2
Short-term debt	**11.3**	4.5
Depreciation and amortization	**206.9**	191.7
Employee profit sharing plan (Note 10)	**30.9**	28.2
Total operating expenses	**8,001.3**	7,711.3
Earnings before income taxes and minority interest	**620.1**	557.8
Income taxes (Note 11)		
Current	**210.3**	222.7
Future	**(7.8)**	(21.9)
Total income taxes	**202.5**	200.8
Net earnings before minority interest	**417.6**	357.0
Minority interest (Note 17)	**–**	2.4
Net earnings	**$ 417.6**	$ 354.6
Basic earnings per share	**$ 5.12**	$ 4.35
Diluted earnings per share (Note 9)	**$ 5.12**	$ 4.31
Weighted average number of Common and Class A Non-Voting Shares outstanding (Note 9)	**81,502,273**	81,575,556

Consolidated Statements of Cash Flows

For the years ended (Dollars in millions)	**December 29, 2007**	December 30, 2006
		(Note 21)
Cash generated from (used for):		
Operating activities		
Net earnings	**$ 417.6**	$ 354.6
Items not affecting cash		
Depreciation and amortization of property and equipment	**204.5**	189.1
Net provision for loans receivable (Note 2)	**81.4**	58.6
Employee future benefits expense (Note 8)	**6.5**	7.2
Fair market value adjustment and impairments on property and equipment (Note 5)	**3.9**	1.0
Other	**2.5**	(1.6)
Amortization of other assets	**2.4**	4.7
Impairment of other long-term investments (Note 19)	**1.3**	–
Loss on sale of Associate Dealer receivables (Note 12)	**–**	2.5
Future income taxes	**(7.8)**	(21.9)
Gain on disposals of property and equipment	**(17.4)**	(58.4)
Gain on disposals/redemptions of shares	**(18.4)**	(6.9)
Securitization loans receivable	**(52.7)**	(39.9)
Gain on sales of loans receivable	**(83.6)**	(78.9)
	540.2	410.1
Changes in other working capital components (Note 12)	**(365.5)**	(14.8)
Cash generated from operating activities	**174.7**	395.3
Investing activities		
Additions to property and equipment	**(587.7)**	(529.2)
Net securitization of loans receivable	**(420.1)**	291.7
Investment in loans receivable, net	**(296.5)**	(269.9)
Purchases of stores	**(11.4)**	(7.8)
Reclassification of other long-term investments (Note 19)	**(8.9)**	–
Asset retirement obligations	**(2.0)**	(2.1)
Employee future benefits (Note 8)	**(1.9)**	(1.9)
Proceeds on disposals/redemptions of shares	**18.4**	6.9
Long-term receivables and other assets	**20.8**	(85.6)
Proceeds on disposition of property and equipment	**30.0**	340.1
Sale of Associate Dealer receivables (Note 12)	**–**	347.5
Cash generated from (used for) investing activities	**(1,259.3)**	89.7
Financing activities		
Issuance of long-term debt	**300.9**	1.2
Class A Non-Voting Share transactions (Note 9)	**0.2**	(25.3)
Repayment of limited partnership interest (Note 17)	**–**	(300.0)
Repayment of long-term debt (Note 6)	**(4.5)**	(205.4)
Dividends	**(58.8)**	(52.2)
Cash generated from (used for) financing activities	**237.8**	(581.7)
Cash used in the year	**(846.8)**	(96.7)
Cash and cash equivalents, beginning of year	**741.3**	838.0
Cash and cash equivalents, end of year (Note 12)	**$ (105.5)**	$ 741.3

Consolidated Statement of Comprehensive Income

For the year ended (Dollars in millions)	**December 29, 2007**
Net earnings	**$ 417.6**
Other comprehensive income (loss), net of taxes	
Loss on derivatives designated as cash flow hedges (net of tax of $(40.3))	**(80.2)**
Reclassification to non-financial assets of gain on derivatives designated as cash flow hedges (net of tax of $11.5)	**22.8**
Reclassification to earnings of gain on derivatives designated as cash flow hedges (net of tax of $(0.7))	**(1.2)**
Other comprehensive loss	**(58.6)**
Comprehensive income	**$ 359.0**

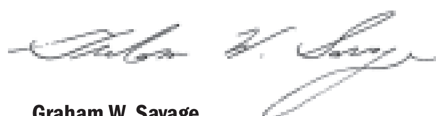
Consolidated Statements of Changes in Shareholders' Equity

For the years ended (Dollars in millions)	**December 29, 2007**	December 30, 2006
Share capital		
Balance, beginning of year	**$ 702.7**	$ 702.7
Transactions, net	**(2.0)**	–
Balance, end of year	**$ 700.7**	$ 702.7
Contributed surplus		
Balance, beginning of year	**$ 0.1**	$ 1.5
Transactions, net	**2.2**	(1.4)
Balance, end of year	**$ 2.3**	$ 0.1
Foreign currency translation adjustment		
Balance, beginning of year as previously reported	**$ (5.7)**	$ (5.7)
Reclassification to accumulated other comprehensive income (loss)	**5.7**	5.7
Balance, beginning of year as restated and end of year	**$ –**	$ –
Retained earnings		
Balance, beginning of year as previously reported	**$ 2,088.1**	$ 1,812.6
Transitional adjustment on adoption of new accounting policies (Note 1)	**(4.4)**	–
Balance, beginning of year as restated	**2,083.7**	1,812.6
Net earnings for the year	**417.6**	354.6
Dividends	**(60.4)**	(53.8)
Repurchase of Class A Non-Voting Shares	**–**	(25.3)
Balance, end of year	**$ 2,440.9**	$ 2,088.1
Accumulated other comprehensive income (loss)		
Balance, beginning of year as previously reported	**$ –**	$ –
Reclassification from foreign currency translation adjustment	**(5.7)**	(5.7)
Balance, beginning of year as restated	**(5.7)**	(5.7)
Transitional adjustment on adoption of new accounting policies (Note 1)	**14.3**	–
Other comprehensive loss for the year	**(58.6)**	–
Balance, end of year	**$ (50.0)**	$ (5.7)
Retained earnings and accumulated other comprehensive income (loss)	**$ 2,390.9**	$ 2,082.4

Consolidated Balance Sheets

As at (Dollars in millions)	December 29, 2007	December 30, 2006
ASSETS		
Current assets		
Cash and cash equivalents (Note 12)	**$ –**	$ 741.3
Accounts receivable (Note 12)	**707.1**	340.5
Loans receivable (Note 2)	**1,486.1**	694.2
Merchandise inventories	**756.7**	667.3
Income taxes recoverable	**59.0**	–
Prepaid expenses and deposits	**29.5**	46.2
Future income taxes (Note 11)	**77.7**	51.5
Total current assets	**3,116.1**	2,541.0
Long-term receivables and other assets (Note 3)	**231.2**	283.5
Other long-term investments, net (Note 19)	**7.6**	–
Goodwill (Note 4)	**51.8**	46.4
Intangible assets (Note 4)	**52.4**	52.4
Property and equipment (Note 5)	**3,283.6**	2,881.3
Total assets	**$ 6,742.7**	$ 5,804.6
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 12)	**$ 105.5**	$ –
Accounts payable and other	**1,847.8**	1,579.5
Income taxes payable	**–**	81.1
Current portion of long-term debt (Note 6)	**156.3**	3.0
Total current liabilities	**2,109.6**	1,663.6
Long-term debt (Note 6)	**1,341.8**	1,168.4
Future income taxes (Note 11)	**71.8**	75.0
Other long-term liabilities (Note 7)	**125.6**	112.4
Total liabilities	**3,648.8**	3,019.4
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**700.7**	702.7
Contributed surplus	**2.3**	0.1
Accumulated other comprehensive loss	**(50.0)**	(5.7)
Retained earnings	**2,440.9**	2,088.1
Total shareholders' equity	**3,093.9**	2,785.2
Total liabilities and shareholders' equity	**$ 6,742.7**	$ 5,804.6

Maureen J. Sabia
Director



Graham W. Savage
Director

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries and partnership (up until April 3, 2006 – see Note 17), collectively referred to as the "Company".

Fiscal year The fiscal year of the Company consists of a 52- or 53-week period ending on the Saturday closest to December 31. The fiscal years for the Consolidated Financial Statements and Notes presented for 2007 and 2006 are the 52-week periods ended December 29, 2007 and December 30, 2006, respectively.

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

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

The Company reviews all legal structures in which the Company has a potential financial interest including Associate Dealer ("Dealer") corporations, Petroleum Agent corporations, PartSource and Mark's Work Wearhouse (Mark's) franchisee corporations, financing trusts referred to in Notes 2 and 14 and external suppliers. The Company has identified that some of the corporations owned and operated by Dealers and Mark's and PartSource franchisees are VIEs.

The Company enters into various forms of agreements with independent owner-operators of Canadian Tire Associate Stores (Dealers) and franchisees of Mark's and PartSource stores.

The Company's agreement with each Dealer generally permits the Dealer to own and operate the retail business of a Canadian Tire Associate Store under the Canadian Tire trademark. The Company has a policy to offer new Dealers smaller Canadian Tire Associate Stores and, based upon successful operation of their Canadian Tire Associate Stores, to offer Dealers larger locations from time to time pursuant to the Dealer mobility system. When eligible, Dealers may obtain financing through a structure involving independent trusts to facilitate the purchase of core-level inventory and fixed assets. These trusts are administered by independent major Canadian banks. Dealers may also obtain financing through traditional financial institutions. The Company monitors the financial condition of its Dealers and provides for estimated losses when appropriate.

The Company's agreements with each Mark's and PartSource franchisee also permit the franchisees to own and operate retail businesses under their respective trademarks. Franchisees obtain financing through traditional financial institutions. The Company monitors the financial condition of its franchisees and provides for estimated losses when appropriate.

The Company is the primary beneficiary of a small number of these corporations. These VIEs have not been consolidated in these financial statements, as the impact was not material.

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

For foreign subsidiaries that are considered self-sustaining, the current rate method of translating foreign currencies has been used. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at each accounting period end date and revenues and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in other comprehensive income (loss). The Company does not currently own any self-sustaining foreign subsidiaries.

For foreign subsidiaries that are considered integrated, the temporal method of translating foreign currencies has been used. Under this method, monetary items are translated into Canadian dollars at the exchange rates in effect at each accounting period end date. Non-monetary items and their related amortization are translated at their historical exchange rates. Revenues and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in net earnings.

Financial instruments The CICA issued the following new accounting standards that apply to the Company as of the first day of the Company's 2007 fiscal year: a) CICA Handbook Section (HB) 3855 Financial Instruments – Recognition and Measurement; b) CICA HB 3861 Financial Instruments – Disclosure and Presentation; c) CICA HB 3865 Hedges; d) CICA HB 1530 Comprehensive Income; and e) CICA HB 3251 Equity.

Financial Instruments – Recognition and Measurement CICA HB 3855 establishes standards for recognizing financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the Consolidated Balance Sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition.

The standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale — measured at fair value with changes in fair value recognized in other comprehensive income (loss) until realized through disposal or impairment; and d) loans and receivables — recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading — measured at fair value with changes in fair value recorded in net earnings and b) other — measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is derecognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Prepaid expenses and deposits	Held for trading	Fair value
Loans receivable	Loans and receivables	Amortized cost
Long-term receivables and other assets	Loans and receivables	Amortized cost
Other long-term investments	Held for trading	Fair value
Bank indebtedness	Held for trading	Fair value
Commercial paper	Other liabilities	Amortized cost
Accounts payable and other	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Other long-term liabilities	Other liabilities	Amortized cost

Included in the above financial statement captions are the following:

- while prepaid expenses are not within the scope of the new accounting standards as they are not financial assets, certain deposits included in prepaid expenses and deposits are financial assets and are classified as held for trading and measured at fair value;
- interest-only strip related to the sale of loans receivable, which is included in long-term receivables and other assets, has been classified as held for trading and measured at fair value;
- certain investments which are included in long-term receivables and other assets have been classified as held to maturity and measured at amortized cost; and
- an equity investment included in long-term receivables and other assets has been classified as available for sale and measured at cost (nominal value) because this equity investment does not have a quoted price in an active market.

Other balance sheet accounts, such as merchandise inventories, prepaid expenses, current and future income taxes, goodwill, intangible assets and property and equipment are not within the scope of the new accounting standards as they are not financial assets or financial liabilities.

Transaction costs related to financial liabilities classified as other liabilities are now expensed as incurred. Upon transition to the new standards on December 31, 2006, the Company elected to charge the remaining unamortized transaction costs related to debt financing in the amount of $2.9 million (net of tax) to retained earnings.

Credit card balance transfer promotions offered by the Company at rates not equal to market value are now measured at fair value at date of acquisition and then subsequently accounted for at amortized cost using the effective interest method. The difference between the promotional rates offered and market rates are recorded as an expense under the new standards. This resulted in a $3.7 million decrease in loans receivable and a $2.4 million decrease (net of tax) to opening retained earnings on transition.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to December 28, 2002 and determined that the Company does not currently have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

Comprehensive Income CICA HB 1530 introduces comprehensive income, which consists of net earnings and other comprehensive income (OCI). OCI represents changes in Shareholders' Equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign subsidiaries and changes in the fair value of the effective portion of cash flow hedging instruments. The Company has chosen to report a new financial statement entitled "Consolidated Statement of Comprehensive Income" for the changes in these items, net of taxes, since December 31, 2006.

1. Significant Accounting Policies (continued)

The cumulative changes in OCI are included in accumulated other comprehensive income (loss) (AOCI), which is presented as a new category in Shareholders' Equity on the Consolidated Balance Sheets. The AOCI represents the cumulative portion of comprehensive income not already included in net earnings.

Hedges CICA HB 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Company enters into various cash flow hedges as part of the Company's strategy to manage its exposure to interest and foreign currencies. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. For each derivative, a determination is made whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of foreign currency exposure of an investment in a self-sustaining foreign subsidiary. For our detailed accounting policy on hedge accounting, refer to the Derivatives section below in Note 1.

Equity CICA HB 3251 describes standards for the presentation of equity and changes in equity during the period with reference to the new comprehensive income standard.

The new standards were applied retrospectively without restatement of prior periods on December 31, 2006 (the first day of the Company's 2007 fiscal year), and thus prior periods presented have not been restated with the exception of accumulated foreign currency translation adjustment. The opening balance of retained earnings, net of income taxes, has been adjusted by the following:

- the difference between the previous carrying amount and the fair value of financial assets and liabilities designated as held for trading;
- the cumulative ineffective portion of the gain or loss on the hedging items in designated cash flow hedging relationships and the total gain or loss on the hedging items in designated fair value hedging relationships; and
- unamortized deferred debt issue expenses.

The opening balance of accumulated other comprehensive income (loss), net of income taxes, has been similarly adjusted by the following:

- the cumulative effective portion of the gain or loss on the hedging items that are included in designated cash flow hedging relationships; and
- restatement of current and prior periods to reflect the accumulated foreign currency translation adjustment on the translation of certain subsidiaries from a separate category of shareholders' equity.

The transitional impact of the new standards on relevant items in the Company's opening Balance Sheet for 2007 is summarized as follows:

1. Accounts receivable (derivative assets) – increase of $37.0 million
2. Loans receivable – decrease of $3.7 million
3. Long-term receivables and other assets (debt issue expenses net of derivative assets) – decrease of $0.9 million
4. Future income taxes (current asset) – decrease of $9.7 million
5. Future income taxes (long-term liability) – decrease of $4.4 million
6. Accounts payable – increase of $6.8 million
7. Other long-term liabilities (derivative liabilities) – increase of $12.9 million
8. Long-term debt – decrease of $2.5 million
9. Opening retained earnings – decrease of $4.4 million
10. Accumulated other comprehensive income – increase of $14.3 million

Revenue recognition The Company's shipments of merchandise to Canadian Tire Retail's (CTR) Dealers and PartSource franchisees (retail store owner-operators) are recorded as revenue when delivered and are net of returns. Revenue on the sale of gasoline by Canadian Tire Petroleum (Petroleum) is recorded upon sale to the customer. Revenue for Mark's is recognized at the time goods are sold by its corporate-owned stores to its customers and is net of returns. Royalties, based on sales by Mark's franchisees, are recorded in income as they are earned. Interest income and service charges on loans receivable are accrued each month according to the contractual provisions of the loan agreements. Merchant fees on credit card transactions are taken into revenue at the time transactions are recorded. Revenue from separately priced extended warranty contracts is recorded on a straight-line basis over the term of the contracts.

Cash consideration given to a customer Effective January 1, 2006, the Company implemented, on a retroactive basis, the Emerging Issues Committee of the CICA's Abstract 156 (EIC-156), Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products). This Abstract requires a vendor to generally record cash consideration given to a customer as a reduction to the selling price of the vendor's products or services and reflect it as a reduction of revenue when recognized in the income statement. Certain exceptions apply where the vendor receives an identifiable benefit in exchange for the consideration and the vendor can reasonably estimate the fair value of the identifiable benefit, in which case the cost is reflected in operating expenses.

Stock-based compensation plans Stock-based awards are measured and recognized using a fair value-based method. Stock options granted after December 28, 2002 and up to December 31, 2005, were measured on grant date using a fair value-based method and expensed over the vesting period. The counterpart was recorded as contributed surplus. When employees exercised their stock options, share capital was 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. For stock options granted to employees prior to December 29, 2002, the Company recorded no compensation cost. Accordingly, the Company previously disclosed pro forma net earnings and earnings per share as if the fair value-based method had been used for stock options granted between December 30, 2001 and December 28, 2002.

Stock options (referred to as "stock options with tandem stock appreciation rights") were granted in 2006 and 2007, with a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of a Class A Non-Voting Share at the exercise date and the exercise price of

the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised.

On November 9, 2006, the Board of Directors approved an amendment to the Company's stock option agreements dated prior to 2006, providing employees holding such stock options the right to elect to surrender options and receive a direct cash payment in lieu of exercising the options in the traditional fashion. The cash payment is calculated as the difference between the exercise price of the stock option and the market price of the Company's Class A Non-Voting Shares as calculated on the date of surrender, multiplied by the number of Class A Non-Voting Shares covered by the stock options surrendered. Upon amendment to the stock option agreements, the Company was required to recognize an obligation and corresponding expense for the current intrinsic value of stock options subject to vesting. The obligation is revalued at each reporting period based on the changes in the market price of the Company's Class A Non-Voting Shares for the unexercised stock options subject to vesting.

Compensation expense is recognized for the Company's contributions under the Employee Profit Sharing Plan and the Employee Stock Purchase Plan. Compensation expense is also recorded for the Deferred Share Unit Plan, the Performance Share Unit Plan, the Performance Conditioned Share Unit Plan, the Performance Driven Share Unit Plans and the Deferred Share Unit Plan for Executives (see Note 10 and Note 15).

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.

Cash and cash equivalents Cash and cash equivalents is defined as cash and short-term investments less bank indebtedness. Short-term investments held include primarily Canadian and United States government securities and notes of other creditworthy parties due within three months, and highly rated money market funds.

Loans receivable Loans receivable include credit card, personal and residential mortgage loans. Loans receivable are recorded at cost net of unearned interest income and of allowances established for future credit losses. An allowance for credit losses is calculated using the historical loss experience of account balances based on aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans.

A loan is classified as impaired when there has been a deterioration in the credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Interest income on impaired loans is not recognized.

Credit card loans that have a payment which is 180 days past due are considered impaired and are written off. Personal loans are considered impaired when principal or interest payments are over 90 days past due and are written off when they are one year past due. Residential mortgage loans are considered impaired when principal or interest payments are over 90 days past due except when fully secured or fully insured. Fully secured residential mortgage loans are classified as impaired when principal and interest payments are over 180 days past due. Residential mortgage loans that are insured are classified as impaired when principal and interest payments are 365 days past due.

When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. Recoveries of amounts previously written off and any increase in the estimated realizable value of the loan are credited to the provision for credit losses. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest and payments are current.

The Company recognizes gains or losses on its loans receivable securitizations that qualify as sales. The gain or loss on the sale of the loans receivable depends in part on the previous carrying amount of the loans involved in the sale. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair values at the date of sale. The Company estimates fair value based on the present value of future expected cash flows using management's estimates of the key assumptions (see Note 2).

Loan securitization The Company sells pools of loans receivable (the Loans) to third party trusts (the Trusts) in transactions known as securitizations. The transactions are accounted for as sales in accordance with Accounting Guideline 12 (AcG-12), Transfers of Receivables, and the Loans are removed from the Consolidated Balance Sheets.

The Company retains the interest-only strip, and, for the personal loan securitization, a subordinated interest in the loans sold (the "seller's interest") and cash deposited with one of the Trusts (the "securitization reserve"), which are components of retained interests. The interest-only strip represents the present value of the expected spread to be earned over the collection period on the loans receivable sold. The expected spread is equal to the yield earned, less the net write-offs and interest expense on the loans receivable sold. The seller's interest and securitization reserve provide the Trust with a source of funds in the event that the interest and principal collected on the Loans is not sufficient to pay the Trust's creditors. The Trusts' recourse to the Company is limited to the interest-only strip, the seller's interest and the securitization reserve.

The proceeds of the sale are deemed to be the cash received, interest-only strip and securitization reserve, less any servicing obligation assumed. The servicing liability represents the Company's estimated cost of servicing the securitized loans and is amortized over the life of the securitized loans. The proceeds are allocated between the Loans, interest-only strip, seller's interest and securitization reserve based on their relative fair value at the date of sale, with any excess or deficiency recorded as a gain or loss on sale, respectively.

The Trusts have not been consolidated in these financial statements because either they meet the criteria for a qualified special purpose entity (which are exempt from consolidation) or the Company is not the primary beneficiary.

1. Significant Accounting Policies (continued)

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.

Vendor rebates The Company records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction to cost of goods sold and related inventory when recognized in the Consolidated Statements of Earnings and Consolidated Balance Sheets. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for assets or services delivered to the vendor, in which case the cost is reflected in operating expenses.

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

Income taxes Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. A future income tax asset or liability is estimated for each temporary difference using substantively enacted income tax rates and laws for the year when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

Deferred expenses The Company capitalizes both direct and indirect costs with respect to certain 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 also defers acquisition expenses related to non-retail services and amortizes them into income 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.

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 estimated fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess, if any.

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

Property and equipment Property and equipment are stated at cost. The cost of real estate includes all direct costs, financing costs on specific and general corporate debt relating to major projects until project completion and certain pre-development costs. Depreciation is provided for using the declining balance method commencing in the month that the equipment or facilities are placed into service.

Amortization of leasehold improvements and lease inducements, and lease expense are recognized on a straight-line basis over the terms of the respective leases. 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, unless the terms of the lease provide for the transfer of ownership or a bargain purchase option at the end term of the lease. In these cases depreciation is provided for using the declining balance method for comparably owned assets.

Property and equipment are subjected to an assessment for impairment. Property and equipment assets are grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. An impairment loss is recognized when the carrying amount of property and equipment is not recoverable and exceeds its fair value.

Asset retirement obligations Legal obligations associated with site restoration costs on the retirement of property and equipment are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The obligations are initially measured at fair value and discounted to present value. A corresponding amount equal to that of the initial obligation is added to the capitalized costs of the related asset. Over time, the discounted asset retirement obligation amount accretes due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to income for the period. The initial costs are depreciated over the useful lives of the related property and equipment.

Actuarial liabilities Actuarial liabilities for reinsurance of coverages provided to the Company's credit card holders include an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claim severity and frequency. While management believes that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided and any adjustments will be reflected in the periods in which they become known. These amounts are included in "Accounts payable and other" in the Consolidated Balance Sheets.

Employee future benefits The Company provides certain health care, dental care, life insurance and other benefits, but not pensions, for certain retired employees pursuant to Company policy. The Company accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The discount rate used is based on market rates as at the measurement date. The net actuarial gains and losses that exceed 10 percent of the accrued benefit obligation are amortized on a straight-line basis over the expected average remaining service life of employees.

Derivatives Derivatives are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. All derivative instruments are recorded on the Consolidated Balance Sheets at fair value, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. For each derivative, a determination is made whether hedge accounting can be applied.

The maximum length of time over which the Company is hedging its exposure to future cash flow variability for anticipated transactions is ten years.

Hedge accounting Where hedge accounting can be applied, a hedge relationship is designated and documented at the inception of the derivative contracts to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in achieving its object of offsetting either changes in the fair value or anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

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

The Company enters into fair value hedges, including certain interest rate swap contracts. The fair value of these hedges is included in other long-term liabilities. In fair value hedges, the changes in fair value of both the hedged item attributable to the risk being hedged and the entire hedging item are recorded in net earnings for the respective period.

Cash flow hedges For cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recognized in OCI, while the ineffective portion is recognized in net earnings. When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to income during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains and losses on derivatives are reclassified immediately to net earnings when the hedged item is sold or terminated early.

The Company enters into foreign currency contracts to hedge the exposure to foreign currency risk on the future payment of foreign currency denominated inventory purchases. The fair value of these contracts is included in accounts receivable or accounts payable and other, depending on the derivative's fair value. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. Once the inventory has been recognized, the Company has elected to reclassify the related accumulated other comprehensive income amount to merchandise inventories. Subsequent changes in the fair value of the foreign currency contracts are recorded in net earnings. The Company enters into equity derivative contracts to hedge certain future stock-based compensation expenses. The fair value of these contracts are included in accounts receivable and long-term receivables and other assets depending on the derivative's maturity. The changes in fair value of these contracts is included in other comprehensive income to the extent the hedges continue to be effective. The related other comprehensive income amounts are reclassified to net earnings based on vesting of the respective stock-based share units. The Company also enters into certain interest rate swap contracts to manage its exposure to interest rate risks. The fair value of these contracts is included in accounts payable and other and other long-term liabilities depending on the derivative's maturity. The changes in fair value of these contracts is included in other comprehensive income to the extent the hedges continue to be effective. The related other comprehensive income amounts are allocated to net earnings in the same period in which the hedged item affects net earnings.

Use of estimates The preparation of the Consolidated Financial Statements in conformity with 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 amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used when accounting for items such as income taxes, impairment of assets (including goodwill), employee benefits, product warranties, inventory provisions, amortization, uncollectible loans receivable, environmental reserves, asset retirement obligations, financial instruments and the liability for the Company's loyalty programs.

Future accounting changes

Capital management disclosures In December 2006, the CICA issued CICA HB 1535 – Capital Disclosures. CICA HB 1535 requires entities to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally imposed capital requirements. While the standard does not provide a set definition of capital, the standard does require entities to describe and provided quantitative data about what they manage as capital.

As this standard is effective for fiscal years beginning on or after October 1, 2007, the Company will adopt this new standard effective December 30, 2007 (the first day of the Company's 2008 fiscal year). The adoption of this new standard does not require any changes to the Company's accounting, but does require additional note disclosure.

Financial Instruments – Disclosures and Presentation In December 2006, the CICA issued CICA HB 3862 – Financial Instruments – Disclosures and CICA HB 3863 – Financial Instruments – Presentation. These standards replace the existing CICA HB 3861 – Financial Instruments – Disclosure and Presentation.

CICA HB 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed.

CICA HB 3863 carries forward the presentation standards for financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

1. Significant Accounting Policies (continued)

As these standards are effective for fiscal years beginning on or after October 1, 2007, the Company will adopt these new standards effective December 30, 2007. The adoption of these new standards does not require any changes to the Company's accounting, but does require additional note disclosure.

Merchandise inventories In June 2007, the CICA issued CICA HB 3031 – Inventories, which replaces CICA HB 3030 – Inventories.

This new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs, administrative overheads that do not contribute to bringing the inventories to their present location and condition, and selling costs are specifically excluded from the cost of inventories and are expensed in the period incurred. Reversals of previous writedowns to net realizable value are now required when there is a subsequent increase in the value of inventories. The cost of inventories should be determined using either a first-in, first-out or weighted average cost formula. Techniques for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies adopted in measuring inventories, the carrying amount of inventories, amount of inventories recognized as an expense during the period, the amount of writedowns during the period and the amount of any reversal of any writedown that is recognized as a reduction of expenses.

As this standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008, the Company will adopt this new standard effective December 30, 2007 retrospectively with a restatement of prior year amounts as if the new accounting policy had always been applied. It is anticipated that the restatement upon adoption will result in a reduction of 2007 pre-tax earnings by approximately $7 million.

It is expected that the implementation of the new standard will have the greatest impact on Mark's due to the nature of its operations and current accounting policies and practices.

Goodwill and Intangible Assets In February 2008, the CICA issued CICA HB 3064 – Goodwill and Intangible Assets, which replaces CICA HB 3062 – Goodwill and Other Intangible Assets, as well as CICA HB 3450 – Research and Development.

This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

As this standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the Company will adopt this new standard effective January 4, 2009 (the first day of the Company's 2009 fiscal year) retrospectively with a restatement of prior periods.

The Company is evaluating the potential impact of this new standard on its Consolidated Financial Statements for 2009 and will adjust its systems and processes as necessary to comply with this new standard.

2. LOANS RECEIVABLE

Quantitative information about loans receivable managed and securitized by the Company is as follows:

	Total principal amount of receivables[1]		Average balances[1]	
(Dollars in millions)	**2007**	2006	**2007**	2006
Total net managed credit card loans	**$ 3,719.1**	$ 3,372.3	**$ 3,416.0**	$ 3,115.8
Credit card loans sold	**(2,271.5)**	(2,702.9)	**(2,647.8)**	(2,413.7)
Credit card loans held	**1,447.6**	669.4	**768.2**	702.1
Total net managed personal loans[2]	**143.6**	225.5	**184.1**	256.6
Loans sold	**(59.4)**	(124.5)	**(89.5)**	(164.6)
Loans held	**84.2**	101.0	**94.6**	92.0
Total net managed mortgage loans[3]	**35.4**	1.4	**13.1**	0.1
Total loans receivable	**1,567.2**	771.8	**$ 875.9**	$ 794.2
Less: long-term portion[4]	**81.1**	77.6		
Current portion of loans receivable	**$ 1,486.1**	$ 694.2		

[1] Amounts shown are net of allowance for credit losses.

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

[3] Mortgage loans are issued for terms of up to ten years, have fixed or variable interest rates, are secured and include a mix of both high and low ratio loans. High ratio loans are fully insured and low ratio loans are partially insured.

[4] The long-term portion of loans receivable is included in "Long-term receivables and other assets".

Net credit losses for the owned portfolio for the year ended December 29, 2007 were $81.4 million (2006 – $58.6 million, see Note 21). Net credit losses for the total managed portfolio for the year ended December 29, 2007 were $217.3 million (2006 – $207.4 million, see Note 21). Net credit losses are charge-offs net of recoveries.

For both the credit card and personal loans, the retained interests include the interest-only strip and the servicing liability. For the personal loan securitization, retained interests also include the seller's interest and the securitization reserve.

The following tables show the key economic assumptions used in measuring the fair value of retained interests at the date of securitization. The tables also display the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions at year end.

Credit card loans

	Assumptions	Impact of adverse changes on fair value of retained interest[1]		Assumptions
(Dollars in millions)	**2007**	10%	20%	2006
Yield[2]	**15.20%**	$ (10.5)	$ (20.8)	16.10%
Liquidation rate[3]	**25.61%**	(9.0)	(16.3)	25.71%
Expected credit losses[2]	**5.40%**	(0.1)	(0.2)	5.80%
Discount rate[2]	**12.00%**	(0.1)	(0.2)	12.00%
Servicing rate[2,4]	**2.00%**	(1.3)	(2.7)	2.00%

Personal loans

	Assumptions	Impact of adverse changes on fair value of retained interest[1]		Assumptions
(Dollars in millions)	**2007**	10%	20%	2006
Yield[2]	**12.82%**	$ (0.4)	$ (0.9)	12.48%
Payment rate[3]	**91.70%**	(0.2)	(0.4)	89.11%
Expected credit losses[2]	**12.76%**	(0.4)	(0.9)	10.68%
Discount rate[2]	**8.00%**	(0.1)	(0.3)	8.00%
Servicing rate[2,4]	**1.00%**	(0.1)	(0.1)	1.00%

[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 these tables, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower payments and increased credit losses), which might magnify or counteract the sensitivities.
[2] Yield, expected credit losses and discount and servicing rates are forecasted for the next 12 months.
[3] Based on historical patterns, credit card loans are estimated to be collected in 12 months. Personal loans are collected over terms of three to five years.
[4] The servicing liability as at December 31, 2007 was $13.9 million (2006 – $17.7 million) and is included in "Accounts payable and other".

Details of cash flows from the securitization of loans are as follows:

(Dollars in millions)	**2007**	2006
		(Note 21)
Proceeds from new securitizations	**$ 148.6**	$ 838.3
Repurchase of securitized ownership interests	**(580.0)**	(558.1)
Proceeds from collections reinvested in previous securitizations	**8,525.0**	7,394.7
Other cash flows received on retained interests	**1,820.6**	1,624.5

3. LONG-TERM RECEIVABLES AND OTHER ASSETS

(Dollars in millions)	**2007**	2006
Loans receivable (Note 2)	**$ 81.1**	$ 77.6
Mortgages receivable (Note 20)	**62.8**	64.9
Interest-only strip	**35.8**	43.4
Seller's interest	**19.0**	39.4
Pledged collateral (Note 6)	**15.4**	16.2
Other receivables	**7.0**	11.0
Other assets	**6.3**	27.5
Securitization reserve	**3.8**	3.5
	$ 231.2	$ 283.5

4. GOODWILL AND INTANGIBLE ASSETS

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

(Dollars in millions)	CTR	Mark's	Total
Balance, December 30, 2006	$ 9.6	$ 36.8	$ 46.4
Goodwill acquired	0.8	4.6	5.4
Balance, December 29, 2007	**$ 10.4**	**$ 41.4**	**$ 51.8**

Intangible assets were acquired in February 2002 and March 2005:

(Dollars in millions)	**2007**	2006
Mark's Work Wearhouse/L'Équipeur store banner	**$ 46.0**	$ 46.0
Mark's private label brands	**4.4**	4.4
Mark's Franchise Agreements	**2.0**	2.0
	$ 52.4	$ 52.4

These intangible assets are considered to have indefinite lives because they are expected to generate cash flows in perpetuity. There were no writedowns of goodwill or intangible assets due to impairment during 2007 and 2006.

5. PROPERTY AND EQUIPMENT

	2007			2006			
(Dollars in millions)	**Cost**	**Accumulated depreciation and amortization**	**Net book value**	Cost	Accumulated depreciation and amortization	Net book value	Depreciation amortization rate/term
Land	**$ 749.7**	**$ –**	**$ 749.7**	$ 717.1	$ –	$ 717.1	
Buildings	**2,230.3**	**733.5**	**1,496.8**	2,006.0	666.4	1,339.6	4%–10%
Fixtures and equipment	**627.7**	**416.7**	**211.0**	581.2	381.0	200.2	10%–33%
Leasehold improvements	**402.4**	**123.9**	**278.5**	323.5	105.3	218.2	Term of lease
Computer software	**427.1**	**308.5**	**118.6**	384.7	262.5	122.2	Up to 5 years
Asset under capital lease	**33.7**	**4.8**	**28.9**	8.3	6.0	2.3	Term of lease/ 12.5% declining balance
Construction in progress	**400.1**	**–**	**400.1**	281.7	–	281.7	
	$ 4,871.0	**$ 1,587.4**	**$ 3,283.6**	$ 4,302.5	$ 1,421.2	$ 2,881.3	

Included in property and equipment are land and buildings held for sale with a cost of $28.0 million (2006 – $9.2 million) and accumulated depreciation of $10.0 million (2006 – $4.6 million). The Company capitalized interest of $15.2 million (2006 – $7.8 million) on indebtedness related to property and equipment under construction. Impairments of property and equipment charged against earnings for the year were $3.9 million (2006 – $1.0 million).

6. LONG-TERM DEBT

(Dollars in millions)	**2007**	2006
Medium term notes		
5.70% due June 9, 2008	**$ 150.0**	$ 150.0
5.22% due October 1, 2010	**300.0**	–
4.95% due June 1, 2015	**300.0**	300.0
6.25% due April 13, 2028	**150.0**	150.0
6.32% due February 24, 2034	**200.0**	200.0
5.61% due September 4, 2035	**200.0**	200.0
Debentures, 12.10% maturing May 10, 2010	**150.0**	150.0
Capital lease obligations	**28.9**	2.3
Promissory note	**13.8**	14.1
Other	**5.4**	5.0
Total long-term debt	**1,498.1**	1,171.4
Less: amounts due within one year	**156.3**	3.0
Total – net of current portion	**$ 1,341.8**	$ 1,168.4

Medium term notes 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.

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.

Promissory note On March 31, 2006, a mortgage payable on a shopping centre in Kitchener, Ontario, with a maturity date of October 2011 and an interest rate of 7.6 percent that was assumed in 2005, was refinanced with a promissory note with the same terms and conditions. The promissory note is secured by a portfolio of bonds and cash totaling $15.4 million, which is included in long-term receivables and other assets (see Note 3).

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 4.66 percent and an average remaining term of 88 months.

Debt covenants The Company has provided covenants to certain of its lenders. All of the covenants were complied with during 2007 and 2006.

Repayment requirements

(Dollars in millions)	2008	2009	2010	2011	2012	Thereafter	Total[1]
Medium term notes	$ 150.0	$ –	$ 300.0	$ –	$ –	$ 850.0	$ 1,300.0
Debentures	–	–	150.0	–	–	–	150.0
Capital lease obligations	4.0	3.4	3.4	3.5	3.7	10.9	28.9
Promissory note	0.3	0.4	0.4	12.7	–	–	13.8
Other	2.0	1.2	1.1	0.7	0.5	0.1	5.6
	$ 156.3	**$ 5.0**	**$ 454.9**	**$ 16.9**	**$ 4.2**	**$ 861.0**	**$ 1,498.3**

[1] The long-term debt number in the Consolidated Balance Sheets has been adjusted by $0.2 million due to the implementation of the new Financial Instrument standard.

7. OTHER LONG-TERM LIABILITIES

(Dollars in millions)		**2007**		2006
Employee future benefits (Note 8)	**$**	**52.0**	$	47.4
Deferred gains (Note 20)		**48.1**		51.5
Asset retirement obligations		**14.9**		13.5
Interest rate swap contracts		**10.6**		–
	$	**125.6**	$	112.4

8. 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)		**2007**		2006
Accrued benefit obligation, beginning of year	**$**	**71.3**	$	71.0
Current service cost		**1.9**		2.2
Interest cost		**3.8**		3.6
Benefits paid		**(1.9)**		(1.9)
Actuarial gains		**(3.5)**		(0.2)
Plan amendments		**–**		(3.4)
Accrued benefit obligation, end of year[1]		**71.6**		71.3
Unamortized past service costs		**3.0**		3.4
Unamortized net actuarial losses		**(22.6)**		(27.3)
Accrued benefit liability	**$**	**52.0**	$	47.4
Elements of benefit plan costs recognized				
Current service cost	**$**	**1.9**	$	2.2
Interest cost		**3.8**		3.6
Plan amendments		**–**		(3.4)
Actuarial gains		**(3.5)**		(0.2)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**$**	**2.2**	$	2.2
Differences between costs arising in the period and costs recognized in the period in respect of:				
Actuarial gains (losses)[2]		**4.7**		1.6
Plan amendments		**(0.4)**		3.4
Benefit costs recognized	**$**	**6.5**	$	7.2

[1] The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets.
[2] Includes actuarial (gains) losses amortized of $1.2 million (2006 – $1.4 million) less actuarial (gains) losses incurred of $(3.5) million (2006 – $(0.2) million).

Significant actuarial assumptions used:

	2007	2006
Accrued benefit obligation		
Discount rate	**5.50%**	5.25%
Benefit costs recognized		
Discount rate	**5.25%**	5.00%

For measurement purposes, a 5.93 percent weighted average health care fund rate was assumed for 2007 (2006 – 6.23 percent). The rate was assumed to decrease gradually to 4.20 percent for 2014 (2006 – decrease gradually to 4.20 percent for 2014) and remain at that level thereafter. The expected average remaining service period of the active employees covered by the benefit plan is 16 years (2006 – 16 years).

The most recent actuarial valuation of the obligation was performed as of November 1, 2006. The next required valuation will be as of November 1, 2009.

Sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2007:

(Dollars in millions)	Increase	Decrease
Total of service and interest cost	$ 0.8	$ (0.6)
Accrued benefit obligation	10.1	(8.0)

9. SHARE CAPITAL

(Dollars in millions)		**2007**	2006
Authorized			
3,423,366	Common Shares		
100,000,000	Class A Non-Voting Shares		
Issued			
3,423,366	Common Shares (2006 – 3,423,366)	**$ 0.2**	$ 0.2
78,048,062	Class A Non-Voting Shares (2006 – 78,047,456)	**700.5**	702.5
		$ 700.7	$ 702.7

During 2007 and 2006, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, to the extent of any previous net excess from the issue of shares with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2007 and 2006:

	2007		2006	
(Dollars in millions)	**Number**	**$**	Number	$
Shares outstanding at the beginning of the year	**78,047,456**	**$ 702.5**	78,032,724	$ 702.5
Issued				
Dividend reinvestment plan	**30,459**	**2.3**	32,976	2.2
Stock option plan	**4,600**	**0.3**	660,798	19.9
Employee Stock Purchase Plan	**338,236**	**25.9**	370,091	24.9
Employee Profit Sharing Plan	**46,140**	**3.6**	58,084	3.6
Associate Dealer profit sharing plans	**38,171**	**3.0**	100,083	6.8
Repurchased	**(457,000)**	**(34.9)**	(1,207,300)	(82.7)
Excess of repurchase price over issue price (issue price over repurchase price)	**–**	**(2.2)**	–	25.3
Shares outstanding at the end of the year	**78,048,062**	**$ 700.5**	78,047,456	$ 702.5

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

Subsequent to the end of the fiscal year, from December 30, 2007 to March 6, 2008, the Company issued 103,396 Class A Non-Voting Shares for proceeds of $6.7 million.

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

	2007	2006
Average number of shares for basic earnings per share calculations	**81,502,273**	81,575,556
Dilutive options	**–**	640,953
Average number of shares for diluted earnings per share calculations	**81,502,273**	82,216,509

9. Share Capital (continued)

Effective November 2006, all outstanding stock options have a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised. Accordingly, outstanding stock options have no dilutive impact on the average number of shares outstanding.

Conditions of Class A Non-Voting Shares and Common Shares The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of $0.01 per share per annum. After payment of 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.

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 December 29, 2007, the Company had dividends payable to holders of Class A Non-Voting Shares and Common Shares of $15.1 million (2006 – $13.4 million).

10. STOCK-BASED COMPENSATION PLANS

The following describes the Company's stock-based compensation plans.

Profit sharing plan for certain employees The Company has a profit sharing plan for certain of its employees. The amount awarded to employees is contingent on the Company's profitability. The maximum contribution is 6.75 percent of earnings before income taxes and minority interest, after certain adjustments. A portion of the award is contributed to a Deferred Profit Sharing Plan (DPSP) for the benefit of the employees. The maximum amount of the Company's contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 percent of his or her holdings in the DPSP in the Company's Class A Non-Voting Shares. The Company's contributions to the DPSP in respect of each employee vest 20 percent after one year of continuous service and 100 percent after two years of continuous service.

In 2007, the Company contributed $17.8 million (2006 – $16.7 million) under terms of the DPSP, towards the Trustee-managed investment portfolio. As of December 29, 2007, the DPSP held 419,280 Common Shares (2006 – 419,280) and 1,047,214 Class A Non-Voting Shares (2006 – 1,063,926) 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 338,236 Class A Non-Voting Shares in 2007 (2006 – 370,091). The Company's matching contribution of $10.4 million in 2007 (2006 – $10.8 million) was used to purchase Class A Non-Voting Shares in the open market. In addition, the Company recorded as compensation expense $6.7 million (2006 – $6.3 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 December 29, 2007, was $4.1 million (2006 – $4.0 million).

Performance Share Unit Plan The Company had granted performance share units (PSUs) to certain employees. Each PSU entitled 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 performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. The performance period was a maximum of three years less 45 days from the date of grant. Compensation expense related to the PSUs was accrued over the term of the performance period based on the expected total compensation paid out at the end of the performance period, factoring in the probability of any performance-based criteria met during that period. As the end of the performance period was January 27, 2006, all PSUs have been settled. The compensation expense recorded for the year ended December 29, 2007 in respect of this plan was $nil (2006 – $0.6 million).

Performance Conditioned Share Unit Plan The Company had granted performance conditioned share units (PCSUs) to certain employees. Each PCSU entitled 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 performance period, multiplied by applicable multipliers determined by specific performance-based criteria. Compensation expense related to PCSUs was accrued over the term of the performance period based on the expected total compensation to be paid out at the end of the performance period, factoring in the probability of any performance-based criteria being met during that period. As the end of the performance period was March 9, 2007, all PCSUs have been settled. Compensation expense recorded for PCSUs for the year ended December 29, 2007 was $(0.1) million (2006 – $3.2 million).

Performance Driven Share Unit Plans The Company has granted performance driven share units (PDSUs) to certain employees. Each PDSU entitles the participant to receive a cash payment in an amount equal to the weighted average share price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the performance period. Compensation expense related to PDSUs is accrued over the term of the respective performance period based on the expected total compensation to be paid out at the end of the respective performance period. The compensation expense recorded for PDSUs for the year ended December 29, 2007 was $15.8 million (2006 – $9.0 million).

Deferred Share Unit Plan for certain executives The Company has granted deferred share units (DSUs) to certain executives. The DSU account for each executive includes the value of dividends, if any, as if reinvested in additional DSUs. Each DSU entitles the executive to receive a cash payment in an amount equal to the weighted average share price of Class A Non-Voting Shares traded on the Toronto Stock Exchange on the tenth business day prior to the settlement date. Compensation expense related to these DSUs for the year ended December 29, 2007 was $0.1 million (2006 – $1.9 million).

Stock options The Company has granted options to certain employees for the purchase of Class A Non-Voting Shares. The exercise price of each option equals the weighted average closing price of Class A Non-Voting Shares on the Toronto Stock Exchange for the 10-day period preceding the date of grant. Stock options granted prior to 2006 generally vest on a graduated basis over a four-year period and are exercisable over a term of 10 years. Stock options granted in 2006 and 2007 vest on a graduated basis over a three-year period and are exercisable over a term of seven years. At December 29, 2007, approximately 2.5 million Class A Non-Voting Shares were issuable under the stock option plan.

Stock options (referred to as "stock options with tandem stock appreciation rights") were granted in 2006, with a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised.

On November 9, 2006, the Board of Directors approved an amendment to the Company's stock option agreements dated prior to 2006, providing employees holding such stock options the right to elect to surrender options and receive a direct cash payment in lieu of exercising the options in the traditional fashion. The cash payment is calculated as the difference between the exercise price of the stock option and the market price of the Company's Class A Non-Voting Shares as calculated on the date of surrender, multiplied by the number of Class A Non-Voting Shares covered by the stock options surrendered. Upon amendment to the stock option agreements, the Company was required to recognize an obligation and corresponding expense for the current intrinsic value of stock options subject to vesting. The obligation is revalued at each reporting period based on the changes in the market price of the Company's Class A Non-Voting Shares for the unexercised stock options subject to vesting. The Company recorded a pre-tax expense for these stock options of $40.5 million in the fourth quarter of 2006.

The compensation expense recorded for stock options for the year ended December 29, 2007 was $9.1 million (2006 – $41.6 million).

The outstanding options as at December 29, 2007 were granted at prices between $16.47 and $83.16 and expire between February 2008 and December 2014.

10. Stock-Based Compensation Plans (continued)

Stock option transactions during 2007 and 2006 were as follows:

	2007		2006	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**1,124,166**	**$ 40.61**	1,649,977	$ 28.43
Granted	**552,854**	**72.47**	432,799	64.78
Exercised	**(317,089)**	**31.87**	(879,055)	28.32
Forfeited and expired	**(66,454)**	**61.15**	(79,555)	54.74
Outstanding at end of year	**1,293,477**	**$ 55.30**	1,124,166	$ 40.61
Stock options exercisable at end of year	**541,546**		657,232	

The following table summarizes information about stock options outstanding at December 29, 2007:

	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 December 29, 2007	Weighted average exercise price
$ 71.90 to 83.16	**518,236**	**6.21**	**$ 72.49**	**–**	**$ –**
64.82 to 71.04	**310,236**	**5.22**	**64.95**	**97,490**	**64.90**
29.63 to 63.20	**236,306**	**4.38**	**35.90**	**215,357**	**33.26**
16.47 to 29.17	**228,699**	**3.35**	**23.29**	**228,699**	**23.29**
$ 16.47 to 83.16	**1,293,477**	**5.13**	**$ 55.30**	**541,546**	**$ 34.74**

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

Pro forma stock option disclosure With the amendments to the Company's stock options effective November 9, 2006, the Company now expenses the intrinsic value of stock options over their respective vesting periods. Consequently, there is no longer a requirement to provide proforma stock option disclosure.

11. 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)	**2007**	2006
Income taxes based on a combined Canadian federal and provincial income tax rate of 35.10% (2006 – 35.26%)	**$ 217.6**	$ 196.6
Adjustment to income taxes resulting from:		
Prior years' tax settlements	**(10.7)**	–
Lower income tax rates on earnings of foreign subsidiaries	**(4.7)**	(6.0)
Prior years' tax adjustments	**3.6**	26.4
Non-taxable portion of gain on real estate disposition	**(2.7)**	(10.7)
Future tax rate adjustment	**(2.2)**	(6.2)
Other	**1.6**	0.7
Income tax expense	**$ 202.5**	$ 200.8

11. Income Taxes (continued)

The following are the components of the income tax provision:

(Dollars in millions)	**2007**	2006
Current tax expense	**$ 210.3**	$ 222.7
Future income tax benefit relating to the origination and reversal of temporary differences	**(5.6)**	(15.7)
Future income tax benefit resulting from change in tax rate	**(2.2)**	(6.2)
Income tax expense	**$ 202.5**	$ 200.8

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

(Dollars in millions)	**2007**	2006
Current		
Reserves and deferred income	**$ 60.1**	$ 55.7
Deferred items	**(7.5)**	(10.6)
Other	**3.5**	6.4
Other comprehensive income	**21.6**	–
Current future income taxes	**$ 77.7**	$ 51.5
Long-term		
Property and equipment	**$ (80.8)**	$ (78.0)
Deferred items	**(13.2)**	(18.6)
Post retirement benefits	**15.1**	15.4
Reserves and deferred income	**10.6**	11.1
Intangible assets	**(7.4)**	(8.4)
Other	**3.9**	3.5
Long-term future income taxes	**$ (71.8)**	$ (75.0)

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

The Canada Revenue Agency (CRA) has reassessed and is also expected to issue further reassessments regarding the tax treatments of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 onwards), and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities have reassessed and are also expected to issue further reassessments for the corresponding periods. The Company does not have a significant exposure on these matters subsequent to the 2003 taxation year. The reassessments and expected reassessments in these matters are based on multiple grounds, some of which the Company believes are highly unusual. The Company has and will appeal these reassessments as and when they are received.

If the CRA (and applicable provincial tax authorities) were entirely successful in their reassessments – an outcome that the Company and its tax advisors believe to be very unlikely – it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately $257.8 million. Although the Company will appeal these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately $159.5 million, of which $153.7 million had been remitted by the end of the year.

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

Income tax expense for 2007 has been reduced by $11.4 million mainly due to settlements of various minor issues with the tax authorities and a reduction in tax rates required to be used in estimating income tax expense for accounting purposes as a result of the reduction of federal tax rates announced during the fourth quarter.

12. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Working capital components

(Dollars in millions)	**2007**	2006
Cash generated from (used for):		
Accounts receivable	**$ (363.0)**	$ (37.1)
Accounts payable and other	**203.0**	2.6
Income taxes payable	**(140.1)**	9.9
Merchandise inventories	**(82.1)**	13.6
Prepaid expenses and deposits	**16.7**	(3.8)
Change in other working capital components	**$ (365.5)**	$ (14.8)

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

(Dollars in millions)	**2007**	2006
Cash	**$ 71.8**	$ (52.3)
Bank indebtedness	**(316.8)**	–
Short-term investments	**139.5**	793.6
Cash and cash equivalents (bank indebtedness)	**$ (105.5)**	$ 741.3

As at December 29, 2007, the balance of ($105.5) million has been classified as bank indebtedness. The bank indebtedness represents line of credit borrowings.

Supplementary information For the year ended December 29, 2007, the Company paid income taxes amounting to $348.4 million (2006 – $212.5 million) and made interest payments of $88.5 million (2006 – $87.3 million).

For the year ended December 29, 2007, property and equipment were acquired at an aggregate cost of $592.7 million (2006 – $557.4 million). The amount of property and equipment acquired that is included in accounts payable and other at December 29, 2007 is $65.1 million (2006 – $60.1 million).

Sale of Associate Dealer receivables During 2006, the Company sold certain Dealer receivables to an independent investor and recognized a loss on the sale of Dealer receivables of $2.5 million. The Company did not sell any Dealer receivables in 2007. Quantitative information about accounts receivable managed by the Company is as follows:

	Total principal amount of receivables	
(Dollars in millions)	**2007**	2006
Associate Dealer receivables	**$ 608.4**	$ 579.9
Associate Dealer receivables sold	**–**	(350.0)
Other accounts receivable	**98.7**	110.6
Accounts receivable	**$ 707.1**	$ 340.5

13. LEASES

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

The minimum annual rental payments for equipment and property under operating leases are as follows:

(Dollars in millions)	
2008	$ 201.4
2009	189.6
2010	176.7
2011	160.1
2012	145.9
2013–2043	1,012.5
	$ 1,886.2

Capital leases The minimum annual rental payments for equipment under capital leases are as follows:

(Dollars in millions)	
2008	$ 5.3
2009	4.5
2010	4.3
2011	4.3
2012	4.3
2013–2017	11.8
Total minimum lease payments	34.5
Less: financing expenses included in minimum lease payments	5.6
	$ 28.9

14. GUARANTEES, COMMITMENTS AND CONTINGENCIES

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

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

Standby letters of credit and performance guarantees The Company has arranged for several major Canadian banks to provide standby letters of credit (the "LCs") to an independent trust (the "Independent Trust"), which provides loans to Dealers for their purchase of inventory and fixed assets (the "Dealer Loans"). During 2004, the Independent Trust sold all of its rights in the LCs and the then outstanding Dealer Loans to other independent trusts set up by major Canadian banks (the "Co-owner Trusts") that raise funds in the capital markets to finance their purchase of these undivided co-ownership interests. As a result, the Independent Trust's only remaining role is that of originator, seller and servicer of the Dealer Loans. Total Dealer Loans as at December 29, 2007 were $923.5 million (2006 – $880.1 million).

In the event that a Dealer defaults on a loan, the Company has the right to purchase such loan from the Co-owner Trusts, at which time the Co-owner Trusts will assign such Dealer's debt instrument and related security documentation to the Company. The assignment of this documentation provides the Company with first priority security rights over all of such Dealer's assets, subject to certain prior ranking statutory claims. In most cases, the Company would expect to recover any payments made to purchase a defaulted loan, including any associated expenses. In the event the Company does not elect to purchase a defaulted Dealer Loan, the Co-owner Trusts may draw against the LCs.

The Co-owner Trusts may also draw against the LCs to cover any shortfalls in certain related fees owing to them. In any case where a draw is made against the LCs, the Company has agreed to reimburse the bank issuing the LCs for the amount so drawn. In the unlikely event that all the LCs had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $167.2 million at December 29, 2007 (2006 – $165.2 million). The Company has not recorded any liability for these amounts, due to the credit quality of the Dealer Loans and to the nature of the underlying collateral, represented by the inventory and fixed assets of the borrowing Dealers.

14. Guarantees, Commitments and Contingencies (continued)

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 January 2016. The Company has also guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. These lease agreements have expiration dates through September 2016. The maximum amount that the Company may be required to pay under both of these types of agreements is $11.7 million (2006 – $11.0 million), except for two lease agreements for which the maximum amount cannot be reasonably estimated. In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the Consolidated Financial Statements with respect to these lease agreements.

Third party debt agreements The Company has guaranteed the debt of certain PartSource franchisees and Dealers. These third party debt agreements require the Company to make payments if the franchisee or Dealer fails to make scheduled debt payments. The majority of these third party debt agreements have expiration dates extending to January 31, 2008. The maximum amount that the Company may be required to pay under these types of debt agreements is $35.0 million, of which $28.5 million (2006 – $19.7 million) has been drawn at December 29, 2007. No amount has been accrued in the Consolidated Financial Statements with respect to these debt agreements.

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

Other indemnification commitments In the ordinary course of business, the Company provides other additional indemnification commitments to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above) and the arrangements with the Independent Trust and Co-owner Trusts discussed above. These additional indemnification agreements require the Company to compensate the counterparties for certain amounts and costs incurred, including costs resulting from changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these additional indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such additional indemnifications and no amount has been accrued in the Consolidated Financial Statements with respect to these additional indemnification commitments.

Other commitments and contingencies As at December 29, 2007, 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 letters of credit aggregating $24.8 million (2006 – $40.8 million) relating to the importation of merchandise inventories and to facilitate various real estate activities for the Company's merchandise operations.

The Company has commitments of approximately $182.6 million (2006 – $257.2 million) for the acquisition of property and equipment and the expansion of retail store facilities and the eastern distribution centre in Quebec.

The Company has committed to pay a minimum of $54.6 million (2006 – $72.1 million) in total to third parties for credit card processing and information technology services mainly in support of the Company's credit card and retail banking services for periods up to 2013.

The Company has committed to pay a minimum of $21.2 million (2006 – $20.0 million) for various commitments and contingent liabilities including merchandise inventory buy-back agreements, a customs bond, the guarantee of a franchisee's total indebtedness, and the obligation to buy back two franchise stores.

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.

15. FINANCIAL INSTRUMENTS

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

The Company records financial instruments classified as held for trading, including all derivative instruments, at fair values. Fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. The Company determines fair values by reference to quoted bid and ask prices, as appropriate, when available. In the absence of an active market, fair values are based on internal valuation models, such as discounted cash flow analyses, using market observed inputs. The estimated fair values of financial instruments as at December 29, 2007 and December 30, 2006 were based on relevant market prices and information available at that time. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company uses primarily external readily observable market inputs including factors, such as interest yield curves. The detailed processes for determining fair values have been documented and applied consistently. Fair value amounts may change in subsequent periods due to market conditions, particularly changes in interest rates and exchange rates, or other factors. For interest rate swaps, foreign exchange and equity derivative contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates, and reflect the time value of money. The equity derivative contracts were valued by the counterparties based on year-end market interest rates, implied Company volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange.

As a result of adopting the new financial instruments accounting standards, certain financial instruments are now measured at fair value which were previously reported at cost or amortized cost. This is primarily due to the reclassification of certain securities as held for trading, using the fair value option. The following table provides a comparison of carrying and fair values of financial instruments as at December 29, 2007 and December 30, 2006:

							2007	2006
(Dollars in millions)	**Held for trading (fair value)**	**Available for sale (fair value)**	**Held to maturity investments (amortized cost)**	**Loans and receivables (amortized cost)**	**Other financial liabilities (amortized cost)**	**Total carrying amount**	**Fair value**	Fair value
Cash and cash equivalents/ (bank indebtedness)	**$ (105.5)**	**$ –**	**$ –**	**$ –**	**$ –**	**$ (105.5)**	**$ (105.5)**	$ 741.3
Accounts receivable[1]	**2.6**	**–**	**–**	**705.2**	**–**	**707.8**	**707.8**	376.4
Loans receivable	**–**	**–**	**–**	**1,567.2**	**–**	**1,567.2**	**1,567.2**	771.8
Deposits (recorded in Prepaids and deposits)	**10.0**	**–**	**–**	**–**	**–**	**10.0**	**10.0**	13.4
Long-term receivables and other assets[2]	**36.8**	**–**	**15.4**	**90.2**	**–**	**142.4**	**142.4**	206.4
Other long-term investments	**7.6**	**–**	**–**	**–**	**–**	**7.6**	**7.6**	–
Accounts payable and other[3]	**$ 70.6**	**$ –**	**$ –**	**$ –**	**$ 1,768.5**	**$ 1,839.1**	**$ 1,839.1**	$ 1,596.8
Long-term debt	**–**	**–**	**–**	**–**	**1,491.1**	**1,491.1**	**1,611.6**	1,243.1
Other long-term liabilities[4]	**10.6**	**–**	**–**	**–**	**–**	**10.6**	**10.6**	–

[1] The fair value and carrying amount of Accounts receivable include derivative assets of $2.6 million as at December 29, 2007 (2006 – $37.0 million).
[2] The fair value and carrying amount of Long-term receivables and other assets include derivative assets of $1.3 million as at December 29, 2007 (2006 – $18.0 million).
[3] The fair value and carrying amount of Accounts payable and other include derivative liabilities of $70.6 million as at December 29, 2007 (2006 – $nil).
[4] The fair value and carrying amount of Other long-term liabilities include derivative liabilities of $10.6 million as at December 29, 2007 (2006 – $12.9 million).

Financial instruments recorded at amortized cost

		2007
(Dollars in millions)	**Amortized cost**	**Fair value**
Accounts receivable	**$ 705.2**	**$ 705.2**
Loans receivable	**1,567.2**	**1,567.2**
Long-term receivables and other assets	**105.6**	**105.6**
Accounts payable and other	**$ 1,768.5**	**$ 1,768.5**
Long-term debt	**1,491.1**	**1,611.6**

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.

15. Financial Instruments (continued)

With respect to the new standard related to hedging, the Company enters into various cash flow hedges with approved creditworthy counterparties to manage exposure to predetermined risks. Interest rate swap contracts manage the Company's current and anticipated exposure to interest rate risk. Foreign exchange contracts, primarily in U.S. dollars, hedge future purchases of foreign currency denominated goods and services. Equity derivative contracts hedge certain future stock-based compensation expenses. The notional principal amounts of these outstanding financial instruments are not recorded on the Consolidated Balance Sheets. The fair value of these contracts is included in the Balance Sheet as accounts payable and other, other long-term liabilities, accounts receivable or long-term receivables depending on the derivative's maturity and value. Changes in fair value of these contracts is included in other comprehensive income (loss) for cash flow hedges to the extent the hedges continue to be effective. The related other comprehensive income (loss) amounts are reclassified to net earnings in the same period in which the hedged item affects net earnings.

The following table presents the gains and losses that occurred during 2007 due to changes in the fair values of financial assets and liabilities classified as held for trading:

(Dollars in millions)	Fair value gains (losses) recognized in net earnings[1]	Fair value gains (losses) reclassified from other comprehensive income to net earnings	Fair value gains (losses) recognized in other comprehensive income
Derivative assets	$ 1.5	$ 2.7	$ 0.4
Other long-term investments	(1.6)	–	–
Derivative liabilities	16.4	(0.7)	(120.9)

[1] Fair value gains and losses recognized in net earnings are recorded in "Cost of merchandise sold and all other operating expenses", except for fair value changes in other long-term investments which are recorded in "Gross operating revenue". In addition, the fair value gains of $16.4 million on derivative liabilities include gains of $1.5 million related to interest swaps which are recorded in "Long-term interest expense".

The Company has estimated the net amount of gains and losses reported in accumulated other comprehensive income, which is currently expected to be reclassified to net earnings within the next 12 months, as a loss of approximately $35.7 million (net of tax).

Interest rate risk The following table identifies the Company's financial assets and liabilities that are exposed to interest rate price risk, which is the risk that the fair value of the asset or liability will change when interest rates change, or to interest rate cash flow risk, which is the risk that the cash flows of the asset or liability will change when interest rates change.

	2007				2006			
(Dollars in millions)	**Interest rate price risk**	**Interest rate cash flow risk**	**No interest rate risk**	**Total**	Interest rate price risk	Interest rate cash flow risk	No interest rate risk	Total
Cash and cash equivalents/ (bank indebtedness)	**$ 138.8**	**$ –**	**$ (244.3)**	**$ (105.5)**	$ 151.8	$ –	$ 589.5	$ 741.3
Accounts receivable	**–**	**–**	**707.8**	**707.8**	–	–	340.0	340.0
Loans receivable	**1,559.2**	**8.0**	**–**	**1,567.2**	771.8	–	–	771.8
Deposits (recorded in Prepaids and deposits)	**–**	**–**	**10.0**	**10.0**	–	–	13.4	13.4
Long-term receivables and other assets	**140.6**	**–**	**1.8**	**142.4**	176.7	–	20.5	197.2
Other long-term investments	**7.6**	**–**	**–**	**7.6**	–	–	–	–
Accounts payable and other	**$ 10.5**	**$ 105.2**	**$ 1,723.4**	**$ 1,839.1**	$ 0.7	$ 1.5	$ 1,594.6	$ 1,596.8
Long-term debt	**1,491.1**	**–**	**–**	**1,491.1**	1,164.1	–	–	1,164.1
Other long-term liabilities	**10.6**	**–**	**–**	**10.6**	–	–	–	–

The Company enters into interest rate swap contracts to manage its exposure to interest rate risk. As at December 29, 2007, the Company had entered into contracts that exchanged a net notional amount of $350 million from fixed to floating interest rate exposure (2006 – $274.9 million exchanged from floating to fixed). In addition, the Company entered into Forward Rate Agreements maturing in less than one year, to exchange $150 million of floating interest rate exposure back to a fixed rate of interest. These contracts hedge the Company's net balance sheet interest rate sensitivity position. A one percent change in interest rates would not materially affect the Company's earnings, cash flow or financial position.

The following table presents interest revenue and interest expense related to financial assets and liabilities that were not classified as held for trading:

(Dollars in millions)	**2007**	2006
Total interest revenue reported in gross operating revenue	**$ 450.1**	$ 422.9
Total interest expense	**67.0**	74.7

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

The credit exposure with respect to hedges and similar financial instruments is spread across eleven financial institutions and represents the current replacement value of only those contracts which are in a gain position. As at December 29, 2007, the credit exposure due to interest rate swaps, foreign exchange contracts and equity derivative contracts was $14.2 million (2006 – $55.9 million). The Company believes that its exposure to credit and market risks for these instruments is negligible.

16. SEGMENTED INFORMATION

The Company's reportable operating segments are strategic business units that offer different products and services. The Company has four reportable operating segments: Canadian Tire Retail (CTR), Canadian Tire Financial Services (Financial Services), Canadian Tire Petroleum (Petroleum) and Mark's Work Wearhouse (Mark's). CTR derives its revenue primarily from shipments of merchandise to Dealers and PartSource franchisees. Financial Services, which has a wholly-owned bank, is primarily engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards and also derives revenue from a personal loan and mortgage portfolio and from ancillary products such as extended warranty contracts. Petroleum revenue arises primarily from the sale of petroleum products through its agents. Mark's revenue arises from the sale of merchandise to customers from its corporate-owned stores.

The accounting policies of the segments are the same as those described in the significant accounting policies in Note 1. The Company evaluates each segment's performance based on earnings before income taxes 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		Eliminations		Total	
(Dollars in millions)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Gross operating revenue[1]	**$ 5,485.1**	$ 5,355.4	**$ 769.1**	$ 721.7	**$ 1,666.5**	$ 1,545.3	**$ 825.3**	$ 762.3	**$ (124.6)**	$ (115.6)	**$ 8,621.4**	$ 8,269.1
Earnings (loss) before income taxes and minority interest	**304.7**	306.1	**190.3**	167.0	**20.5**	(5.4)	**104.6**	90.1	**–**	–	**620.1**	557.8
Income taxes											**(202.5)**	(200.8)
Minority interest											**–**	(2.4)
Net earnings											**$ 417.6**	$ 354.6
Interest revenue[2]	**$ 47.0**	$ 40.4	**$ 465.1**	$ 441.4	**$ –**	$ –	**$ –**	$ –	**$ (54.7)**	$ (45.5)	**$ 457.4**	$ 436.3
Interest expense[2]	**105.6**	97.9	**24.5**	20.3	**–**	–	**3.0**	3.0	**(54.7)**	(45.5)	**78.4**	75.7
Depreciation and amortization	**159.1**	147.7	**12.8**	13.0	**16.7**	15.2	**18.3**	15.8	**–**	–	**206.9**	191.7
Total assets	**5,498.4**	4,502.5	**1,852.0**	1,476.0	**573.4**	477.9	**454.2**	406.7	**(1,635.3)**	(1,058.5)	**6,742.7**	5,804.6
Capital expenditures[3]	**508.1**	481.2	**14.9**	16.9	**29.5**	24.1	**40.2**	35.2	**–**	–	**592.7**	557.4

[1] Gross operating revenue includes dividend and interest revenue.
[2] Interest revenue and expense are not allocated to Petroleum.
[3] Capital expenditures are presented on an accrual basis (see Note 12).

17. MINORITY INTEREST

The Company was the general partner in a limited partnership for purposes of raising $300 million of capital in relation to a portfolio of its retail properties. The partnership invested in the retail properties by way of a note and equity in an entity that owns the portfolio of properties. The partnership had an indefinite life, but could be liquidated in certain circumstances. The assets and liabilities, results of operations and cash flows of the partnership were included in the financial statements of the Company. The preferred interest was treated as minority interest on the Consolidated Balance Sheets and in the Consolidated Statements of Earnings.

On April 3, 2006, the $300 million note was repaid and the equity was redeemed. The limited partnership repaid the limited partners. Accordingly, the minority interest ceased to be reflected on the Consolidated Balance Sheets after April 3, 2006, and no further charge has been reflected in the Consolidated Statements of Earnings after April 3, 2006.

18. RELATED PARTY TRANSACTIONS

During the year ended December 29, 2007, the Company purchased the shares of a corporation, one of the owners of which is a Dealer and also a director of the Company. The purchase price was $3.7 million. The purchased corporation owns the real estate for a Canadian Tire store. The purchase price was considered to be fair market value, based on independent appraisals. The land and building acquired is included in "Property and equipment". As the purchase price has not yet been fully paid by the Company, $3.0 million is included in "Accounts payable and accrued liabilities".

Separately, during the year ended December 29, 2007, the Company provided to the same Dealer a loss mitigation agreement for the first two years of operation in respect of a new Canadian Tire Associate store, as it does, in various forms, for Dealers from time to time, to help mitigate some of the financial risk inherent in a new store. Losses, if any, that the Company shares with the Dealer pursuant to the agreement would not be material to the Company and may be partially recoverable by the Company over the following three years from the Dealer.

19. OTHER LONG-TERM INVESTMENTS

As at December 29, 2007, the Company held third-party asset-backed commercial paper (ABCP) with an original cost of $8.9 million. These ABCP held by the Company were rated by the Dominion Bond Rating Service (DBRS) as R-1 (High), the highest credit rating for commercial paper since the ABCP are backed by R-1 (High) rated assets.

A global disruption in the market for such commercial paper in mid-August 2007 resulted in a sudden constraint on the liquidity of ABCP. DBRS placed certain of the ABCP "Under Review with Developing Implications" following which a consortium representing banks, asset providers and major investors agreed in principle to a long-term proposal and interim agreement regarding the ABCP (commonly referred to as "the Montreal Proposal"). Under this proposal, the affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled termination dates of the underlying assets. The Montreal Proposal called for the investors to continue to roll their ABCP during the standstill period. A Pan-Canadian Investors Committee (the Committee) was subsequently formed to oversee the proposed restructuring process of the ABCP during this standstill period. A restructuring plan was announced on December 23, 2007 which is anticipated to be finalized by April 2008. All of the ABCP held by the Company were with conduits that were not backed by a major bank and are part of the Montreal Proposal.

There are continuing uncertainties regarding the final outcome of the restructuring process being considered and in estimating the value of the assets which underlie these ABCP. As a result, the Company used its best judgement to assess the market conditions at December 29, 2007, and using a discounted cash flow model, has estimated the fair value of these ABCP. The valuation model used by the Company considered the best available information regarding market conditions and other factors that a market participant would consider for such investments, assuming that a restructuring will be ultimately successful. The assumptions used in determining the estimated fair value reflect the public statements made by the Committee that it expects the ABCP will be converted into long-term floating rate notes with maturities matching the maturities of the underlying assets and the cash flows they are expected to generate. The valuation assumes a redemption term of approximately 7 years corresponding to the expected maturities of ABCP held by the Company. The Company's valuation assumes that the replacement notes will bear interest rates similar to short-term instruments and that such rates would be commensurate with the nature of the underlying assets and their associated cash flows. The discount rate assumed in the valuation considers the rates available on a risk-free 5–10 year government bond plus an additional risk premium. Assumptions have also been made as to the amount of restructuring and other costs that the Company will bear. The estimate has been calculated without the benefit of a full understanding of the underlying assets of each of the trusts it holds as this information has not been provided by each trust. The Company has classified its ABCP, previously classified as "Cash and cash equivalents", as Long-term investments on the balance sheet, as management anticipates that this investment will mature beyond a 365-day period.

As a result of the valuation, the Company has recorded for the year ended December 29, 2007 a $1.3 million before tax provision for impairment of the ABCP in the Consolidated Statement of Earnings. Continuing uncertainties regarding the value of the assets that underlie the ABCP, the amount and timing of cash flows and the final outcome of the restructuring process could give rise to a further change in the value of the Company's investment in ABCP which would impact the Company's future earnings.

20. DISPOSITION OF PROPERTIES

On January 31, 2006, the Company and a third party completed the sale and leaseback agreements for the two distribution centres. The proceeds from the sale of the two distribution centres totaled $229.1 million, resulting in a net pre-tax gain of approximately $46.3 million. As the Company entered into long-term leasebacks of two of the Company's distribution centres from the third party, the gain is being amortized over the lease terms. The unamortized gain is included in other long-term liabilities (see Note 7).

On December 7, 2006, the Company completed the sale of surplus land at one of its locations in Toronto, Ontario for total consideration of $149.7 million, of which $134.7 million took the form of an interest-free mortgage in favour of the Company. A total gain of $119.6 million was recorded on the transaction, with $49.2 million recognized on closing. The balance is being reflected as imputed interest income on the interest-free mortgage (see Note 3), the principal amount of which is payable over 10 years, or earlier, at the option of the purchaser.

21. COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified to conform to the current year's presentation, including amounts with respect to securitizations and net provision for loans receivable in the Consolidated Statements of Cash Flows and cash flow from operations which has been restated by $280.3 million for the year ended December 30, 2006 with a corresponding offset to investing activities. There is no impact on cash generated/used in the year ended December 30, 2006.

22. SUBSEQUENT EVENT

Subsequent to December 29, 2007, the Company entered into an agreement which closed on February 11, 2008, whereby the Company sold a portion of its loans receivable to Glacier Credit Card Trust, a third party trust in which the Company does not have a controlling interest, in a securitization transaction. The loans receivable will be removed from the Consolidated Balance Sheet in 2008.

The Company received net proceeds of approximately $630 million from this securitization of its loans receivable.

Supplementary Information: Interest Coverage

The Company's long-term interest requirements for the 52 weeks ended December 29, 2007, after annualizing interest on long-term debt issued and retired during this period, amounted to $93.1 million. The Company's earnings before interest on long-term debt, income taxes and minority interest for the 52 weeks then ended were $686.2 million, which is 7.4 times the Company's long-term interest requirements for this period.

2007 Quarterly Information

(Dollars in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (December 31, 2006 to March 31, 2007)	Second Quarter (April 1, 2007 to June 30, 2007)	Third Quarter (July 1, 2007 to September 29, 2007)	Fourth Quarter (September 30, 2007 to December 29, 2007)	Total
Canadian Tire Retail					
Gross operating revenue	$ 1,074.7	$ 1,517.5	$ 1,307.1	$ 1,585.8	$ 5,485.1
Earnings before income taxes and minority interest	40.0	88.6	94.4	81.7	304.7
Canadian Tire Petroleum					
Gross operating revenue	362.8	445.6	424.0	434.1	1,666.5
Earnings (loss) before income taxes	2.5	6.4	7.9	3.7	20.5
Mark's Work Wearhouse					
Gross operating revenue	152.1	187.2	159.8	326.2	825.3
Earnings before income taxes	11.3	24.5	12.2	56.6	104.6
Canadian Tire Financial Services					
Gross operating revenue	182.3	197.5	193.3	196.0	769.1
Earnings before income taxes	45.4	68.7	43.7	32.5	190.3
Total					
Gross operating revenue	$ 1,743.4	$ 2,316.7	$ 2,053.4	$ 2,507.9	$ 8,621.4
Cost of merchandise sold and all expenses except for the undernoted items	1,574.0	2,052.7	1,816.4	2,242.0	7,685.1
Interest					
Long-term debt	15.7	14.3	16.6	20.5	67.1
Short-term debt	0.3	2.1	1.8	7.1	11.3
Depreciation and amortization	48.4	50.2	51.2	57.1	206.9
Employee profit sharing plan	5.8	9.2	9.2	6.7	30.9
Earnings before income taxes and minority interest	99.2	188.2	158.2	174.5	620.1
Income taxes	34.7	65.9	52.5	49.4	202.5
Minority interest	–	–	–	–	–
Net earnings	64.5	122.3	105.7	125.1	417.6
Basic earnings per share[1]	0.79	1.50	1.30	1.53	5.12
Diluted earnings per share[2]	0.79	1.50	1.30	1.53	5.12
Canadian Tire Retail					
Retail sales growth	3.1%	3.8%	(0.7%)	0.4%	1.5%
Same store sales growth	1.3%	1.7%	(2.7%)	(1.8%)	(0.5%)
Net shipments growth (year-over-year)	11.1%	(0.5%)	1.4%	0.4%	2.3%
Number of Concept 20/20 stores	132	165	167	192	
Number of new-format stores	235	205	205	189	
Number of traditional stores	101	96	96	92	
Cumulative number of Canadian Tire Retail stores	468	466	468	473	
Number of PartSource stores	64	67	68	71	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	415.3	437.4	434.3	450.5	1,737.5
Number of gas bars	265	264	265	266	
Number of car washes	75	75	75	74	
Number of convenience stores	256	256	257	258	
Mark's Work Wearhouse					
Retail sales growth	17.6%	9.7%	3.9%	5.0%	8.0%
Same store sales growth	15.7%	6.9%	0.6%	1.4%	4.8%
Number of Mark's Work Wearhouse stores	340	341	348	358	
Canadian Tire Financial Services[3]					
Gross average receivables	3,517.9	3,599.6	3,709.8	3,774.3	3,650.4
Average number of account with a balance (thousands)	1,845	1,855	1,854	1,864	1,854
Average account balance ($)	1,907	1,940	2,001	2,025	1,968
Class A Non-Voting Shares					
High	$ 75.00	$ 84.50	$ 87.75	$ 87.00	$ 87.75
Low	68.05	73.70	73.08	67.40	67.40
Close	74.74	84.05	79.37	73.53	73.53
Volume (thousands of shares)	15,652	12,878	11,334	15,331	55,194
Common Shares					
High	$ 101.00	$ 102.45	$ 97.89	$ 96.00	$ 102.45
Low	88.25	83.00	83.00	80.00	80.00
Close	92.00	97.00	84.51	81.47	81.47
Volume (thousands of shares)	29	38	25	37	129

[1] Quarterly basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the quarter, while annual basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the full year.

[2] Quarterly diluted earnings per share are calculated using the diluted weighted average number of Common and Class A Non-Voting shares outstanding for the quarter, while annual diluted earnings per share are calculated using the average of the quarterly weighted average numbers of diluted Common and Class A Non-Voting shares outstanding.

[3] Total portfolio of loans receivable.

2006 Quarterly Information

(Dollars in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (January 1, 2006 to April 1, 2006)	Second Quarter (April 2, 2006 to July 1, 2006)	Third Quarter (July 2, 2006 to September 30, 2006)	Fourth Quarter (October 1, 2006 to December 30, 2006)	Total
Canadian Tire Retail					
Gross operating revenue	$ 969.2	$ 1,518.8	$ 1,290.6	$ 1,576.8	$ 5,355.4
Earnings before income taxes and minority interest	38.5	97.9	98.2	71.5	306.1
Canadian Tire Petroleum					
Gross operating revenue	335.1	408.1	427.0	375.1	1,545.3
Earnings (loss) before income taxes	1.7	(1.2)	0.1	(6.0)	(5.4)
Mark's Work Wearhouse					
Gross operating revenue	128.7	170.1	154.0	309.5	762.3
Earnings before income taxes	8.4	20.3	11.4	50.0	90.1
Canadian Tire Financial Services					
Gross operating revenue	161.7	179.6	182.4	198.0	721.7
Earnings before income taxes	29.4	44.5	39.4	53.7	167.0
Total					
Gross operating revenue	$ 1,572.1	$ 2,247.6	$ 2,023.3	$ 2,426.1	$ 8,269.1
Cost of merchandise sold and all expenses except for the undernoted items	1,424.5	2,008.5	1,802.2	2,180.5	7,415.7
Interest					
Long-term debt	18.7	19.5	16.8	16.2	71.2
Short-term debt	0.4	1.6	0.1	2.4	4.5
Depreciation and amortization	46.6	47.2	46.9	51.0	191.7
Employee profit sharing plan	3.9	9.3	8.2	6.8	28.2
Earnings before income taxes and minority interest	78.0	161.5	149.1	169.2	557.8
Income taxes	28.1	58.1	53.7	60.9	200.8
Minority interest	2.3	0.1	–	–	2.4
Net earnings	47.6	103.3	95.4	108.3	354.6
Basic earnings per share[1]	0.58	1.27	1.17	1.33	4.35
Diluted earnings per share[2]	0.58	1.25	1.16	1.32	4.31
Canadian Tire Retail					
Retail sales growth	4.7%	5.3%	7.3%	4.4%	5.4%
Same store sales growth	2.8%	3.3%	5.6%	2.2%	3.5%
Net shipments growth (year-over-year)	(0.1%)	10.0%	4.2%	3.8%	4.9%
Number of Concept 20/20 stores	55	91	93	126	
Number of new-format stores	292	258	257	237	
Number of traditional stores	117	115	115	105	
Cumulative number of Canadian Tire Retail stores	464	464	465	468	
Number of PartSource stores	58	59	61	63	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	384.8	418.0	441.0	457.4	1,701.2
Number of gas bars	264	262	262	260	
Number of car washes	73	73	73	74	
Number of convenience stores	250	248	250	251	
Mark's Work Wearhouse					
Retail sales growth	11.4%	16.0%	18.4%	12.4%	14.2%
Same store sales growth	10.0%	15.2%	18.1%	10.0%	13.0%
Number of Mark's Work Wearhouse stores	334	330	328	339	
Canadian Tire Financial Services[3]					
Gross average receivables	3,313.3	3,376.6	3,460.8	3,485.1	3,409.0
Average number of account with a balance (thousands)	1,808	1,846	1,882	1,885	1,885
Average account balance ($)	1,832	1,829	1,839	1,849	1,837
Class A Non-Voting Shares					
High	$ 70.00	$ 71.71	$ 72.00	$ 75.22	$ 75.22
Low	61.77	61.70	61.25	68.71	61.25
Close	62.60	66.18	70.17	70.88	70.88
Volume (thousands of shares)	17,347	19,141	13,058	11,889	61,435
Common Shares					
High	$ 135.00	$ 134.90	$ 120.00	$ 110.00	$ 135.00
Low	113.50	95.00	101.90	99.99	95.00
Close	132.50	115.00	107.50	102.00	102.00
Volume (thousands of shares)	35	33	16	33	117

[1] Quarterly basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the quarter, while annual basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the full year.

[2] Quarterly diluted earnings per share are calculated using the diluted weighted average number of Common and Class A Non-Voting shares outstanding for the quarter, while annual diluted earnings per share are calculated using the average of the quarterly weighted average numbers of diluted Common and Class A Non-Voting shares outstanding.

[3] Total portfolio of loans receivable.

Ten-Year Financial Review

(Dollars in millions except per share amounts)	2007	2006	2005
Consolidated Statements of Earnings			
Gross operating revenue[2]	**$ 8,621.4**	$ 8,269.1	$ 7,721.6
Earnings before interest, income taxes, depreciation & amortization and minority interest	**905.4**	825.2	796.8
Earnings before income taxes and minority interest	**620.1**	557.8	527.7
Income taxes	**202.5**	200.8	190.0
Net earnings before minority interest	**417.6**	357.0	337.7
Minority interest	**–**	2.4	7.6
Net earnings	**417.6**	354.6	330.1
Cash generated from operations[3]	**540.2**	410.1	700.7
Cash generated from operating activities[3]	**174.7**	395.3	413.5
Earnings retained and reinvested	**357.2**	300.8	282.7
Capital expenditures	**592.7**	557.4	391.1
Consolidated Balance Sheets			
Current assets	**$ 3,116.1**	$ 2,541.0	$ 2,973.1
Long-term receivables and other assets[4]	**343.0**	382.3	238.6
Property and equipment	**3,283.6**	2,881.3	2,743.9
Total assets	**6,742.7**	5,804.6	5,955.6
Current liabilities	**2,109.6**	1,663.6	1,821.0
Long-term debt (excludes current portion)	**1,341.8**	1,168.4	1,171.3
Other long-term liabilities	**125.6**	112.4	63.2
Future income taxes	**71.8**	75.0	89.0
Minority interest	**–**	–	300.0
Shareholders' equity	**3,093.9**	2,785.2	2,511.1
Consolidated per Share[5]			
Basic earnings per share	**$ 5.12**	$ 4.35	$ 4.04
Diluted earnings per share[6]	**5.12**	4.31	3.98
Cash generated from operations[3]	**6.63**	5.03	8.57
Cash generated from operating activities[3]	**2.14**	4.85	5.06
Dividends declared	**0.74**	0.66	0.58
Shareholders' equity	**37.98**	34.19	30.83
Statistics at Year End			
Number of Canadian Tire stores	**473**	468	462
Number of PartSource stores[7]	**71**	63	57
Number of gas bars	**266**	260	259
Number of car washes	**74**	74	67
Number of Mark's Work Wearhouse stores[8]	**358**	339	334

[1] 53-week period.
[2] Gross operating revenue has been re-stated for the impact of EIC-156 as required by the CICA.
[3] Certain 2006 cash flow figures have been reclassified to conform to the current year's presentation with respect to securitizations and net provision for loans receivable. Data required to reclassify the information prior to 2006 is not available.
[4] Includes goodwill and intangible assets.
[5] Per share numbers are calculated using total shares outstanding as at the Company's year-end date, except for net earnings per share and diluted earnings per share which are calculated using the weighted average number of shares.
[6] Data required to calculate diluted earnings per share prior to 1998 is not available.
[7] Total in 2005 includes three unbranded PartSource stores purchased in December 2005 which were branded in 2006.
[8] Mark's Work Wearhouse was acquired on February 1, 2002.

2004	2003[1]	2002	2001	2000	1999	1998
$ 7,070.0	$ 6,494.8	$ 5,895.6	$ 5,331.4	$ 5,183.6	$ 4,707.1	$ 4,325.4
709.9	605.0	553.0	496.6	457.8	447.3	410.2
460.9	365.9	311.3	272.1	236.0	222.2	248.8
162.5	116.0	103.0	98.0	90.9	79.4	82.4
298.4	249.9	208.3	174.1	145.1	142.8	166.4
6.9	8.7	7.4	0.6	–	–	–
291.5	241.2	200.9	173.5	145.1	142.8	166.4
630.4	534.5	460.1	362.4	350.0	323.6	315.6
413.1	520.1	442.0	189.4	504.1	326.1	364.9
251.0	208.7	169.3	142.0	113.8	112.0	135.1
340.7	278.9	249.8	358.4	382.3	377.7	303.2
$ 2,434.6	$ 2,291.5	$ 2,303.1	$ 1,985.0	$ 1,519.6	$ 1,896.1	$ 1,504.9
223.4	156.7	211.5	134.4	122.9	105.4	36.0
2,585.2	2,444.9	2,351.1	2,245.0	2,098.4	1,865.5	1,619.7
5,243.2	4,893.1	4,865.7	4,364.4	3,740.9	3,867.0	3,160.6
1,487.4	1,612.0	1,577.0	1,106.5	1,119.6	1,434.0	1,042.0
1,081.8	886.2	1,125.2	1,310.0	1,115.0	1,050.3	815.0
55.6	46.9	43.7	38.6	34.2	15.9	6.3
67.2	30.9	23.7	15.0	18.9	25.4	36.0
300.0	300.0	300.0	300.0	–	–	–
2,251.2	2,017.1	1,796.1	1,594.3	1,453.2	1,341.4	1,261.3
$ 3.60	$ 2.99	$ 2.54	$ 2.21	$ 1.85	$ 1.85	$ 2.09
3.53	2.95	2.51	2.19	1.85	1.82	2.04
7.78	6.63	5.82	4.61	4.47	4.19	3.96
5.10	6.45	5.59	2.41	6.43	4.22	4.57
0.50	0.40	0.40	0.40	0.40	0.40	0.40
27.75	24.98	22.49	20.29	18.50	17.17	16.19
457	452	451	450	441	432	430
47	39	33	30	28	8	5
253	232	212	203	206	202	195
58	47	33	20	16	10	8
333	322	306	–	–	–	–

Directors

Maureen J. Sabia
Ontario, Canada
Chairman of the Board of the Company, President, Maureen Sabia International, a consulting firm, and Corporate Director

Martha G. Billes[2,4]
Alberta, Canada
President, Albikin Management Inc., an investment holding company

Owen G. Billes[4]
Ontario, Canada
Canadian Tire Dealer-in-Training

Austin E. Curtin[4]
Alberta, Canada
President, Austin Curtin Sales Ltd., which operates a Canadian Tire Store

H. Garfield Emerson[2,3]
Ontario, Canada
Principal, Emerson Advisory, an independent business and financial advisory firm, and a Corporate Director

Daniel E. Fournier[1,3]
Quebec, Canada
President, ACNG Capital Inc., a real estate value creation and strategic planning firm

Robert M. Franklin[1]
Ontario, Canada
President, Signalta Capital Corporation, an investment holding company, and Corporate Director and Trustee

Thomas K. Gauld
Ontario, Canada
President and Chief Executive Officer of the Company

Keith E. Gostlin[4]
British Columbia, Canada
President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire Store

James R. Neale[1,3]
Alberta, Canada
President of Neale Management Consultants Ltd., a consulting firm specializing in accounting, finance and tax services

Suzanne R. Perles[2,4]
California, U.S.A.
Managing Director, The Corporate Development Company, a corporate advisory firm

Frank Potter[3]
Ontario, Canada
Chairman, Emerging Market Advisors Inc., a consulting firm dealing with international direct investment

Timothy R. Price
Ontario, Canada
Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company

James A. Riley[2,3]
Ontario, Canada
Partner, Goodmans LLP, a law firm

Graham W. Savage[1,2]
Ontario, Canada
Chairman, Callisto Capital LP, a merchant banking partnership, and Corporate Director

Stephen G. Wetmore[1,3]
Ontario, Canada
President & CEO, Bell Aliant Regional Communications Income Fund, a communications service provider

[1] **Audit Committee**
Chairman, Graham W. Savage

[2] **Governance Committee**
Chairman, James A. Riley

[3] **Management Resources and Compensation Committee**
Chairman, Frank Potter

[4] **Social Responsibility Committee**
Chairman, Suzanne R. Perles

Further information on Canadian Tire's corporate governance is provided in the Company's Management Information Circular which is available on the System for Electronic Document Analysis and Retrieval at www.sedar.com, or in the investor relations section of Canadian Tire's website at **http://investor.relations.canadiantire.ca**

Officers

Maureen J. Sabia
Chairman of the Board

Thomas K. Gauld
President and Chief Executive Officer

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

Mike Arnett
President, Canadian Tire Retail

Marco Marrone
President, Canadian Tire Financial Services Limited

Mike Medline
President, Dealer Relations and Diversified Businesses

Paul Wilson
President, Mark's Work Wearhouse Ltd.

Tim Condon
Senior Vice-President, Chief Strategy Officer

Laura Dunne
Senior Vice-President, Human Resources

Stanley W. Pasternak
Senior Vice-President and Treasurer

Michel Petrucci
Senior Vice-President and Chief Information Officer

Kenneth Silver
Senior Vice-President, Real Estate and Construction

Patrick R. Sinnott
Senior Vice-President, Supply Chain, Canadian Tire Retail

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

Andrew T. Wnek
Senior Vice-President, Finance and Administration, Canadian Tire Retail

Robyn A. Collver
Vice-President, Regulatory Affairs and General Counsel, Canadian Tire Financial Services Limited and Assistant Secretary, Canadian Tire Corporation, Limited

Candace A. MacLean
Vice-President and Assistant Treasurer

Glossary of Terms

Asset-backed commercial paper (ABCP)
A secured short-term debt obligation. Traditionally, the underlying assets of ABCP are made up of mortgages and various types of consumer loans and receivables.

Associate Dealer/Dealer
The independent business owners who own and operate our Canadian Tire retail stores.

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

Basis point
One hundredth of a percentage point.

Comparable store sales
Include sales from stores that have been open for more than 53 weeks and that have not been expanded by more than 25 percent in the last year.

Comprehensive income
A component of the shareholders' equity financial statement comprised of net income and other comprehensive income (see also other comprehensive income).

Concept 20/20 store
Current Canadian Tire store format that was introduced in 2003. These stores are bigger, brighter and have, among other features, wider aisles and displays that draw attention to featured merchandise than our previous store formats.

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.

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

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

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.

Derivative equity contract
A financial instrument used to hedge the anticipated exposure relating to certain stock-based compensation plans.

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

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

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

Embedded derivative
A component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

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

Financial instrument
Any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

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

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

Hub store
A PartSource store that is designed to provide a broader assortment of automotive hard parts inventory to service a particular region's Canadian Tire and PartSource customers.

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

Glossary of Terms

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

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

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

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.

Loans receivable
The aggregate amount of outstanding balances owed to the Company by Canadian Tire credit card holders, personal loan and mortgage loan customers.

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

Mark to market
The valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Mark's-inside-a-CTR concept store
A new CTR store concept that includes a full-sized Mark's store as a specialty department within the store. This store concept is still in the pilot phase.

Medium term note (MTN)
Debt instrument with maturity ranging from nine months to 30 years that is offered on a continuous basis, which means that it is issued and sold as buyers request it, 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 managed portfolio
The total value, after allowances, of the loans receivable portfolio which includes credit card receivables, personal loans and mortgage loans. A significant portion of the managed loan portfolio has been securitized.

New-format store
A Canadian Tire store format that was used in stores opened starting in 1994. This format was phased out starting in 2003 with the launch of the Concept 20/20 format. It incorporates, among other features, a larger, more convenient layout and expanded merchandising offering.

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

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

Other comprehensive income (OCI)
An amount representing changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as Available for Sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

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

Rebranding
In the context of Canadian Tire Petroleum's strategy, rebranding is the conversion of a competitor's gas bar and kiosk (in most cases) to the Canadian Tire brand. Generally, Petroleum incurs relatively low costs to convert the site. In exchange for the conversion, the rebranding partner participates in the profits of the converted site or is paid a fixed rent depending upon the agreement.

Related party
Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include members of the Board of Directors, management and immediate family members.

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.

Glossary of Terms

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

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

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

Same store sales
Include sales from stores that have been open for more than 53 weeks.

Securitization
The process by which financial assets are sold to a third party. At Financial Services, credit card loan receivables are routinely financed through a co-ownership interest sold to Glacier Credit Card Trust. We record these transactions as a sale, and as a result, these assets are not included on our Consolidated Balance Sheets.

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

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

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 across Canada.

Total managed portfolio
The total value, before allowances, of the loans receivable portfolio which includes credit card receivables, personal loans and mortgage loans. A significant portion of the managed loan portfolio has been securitized.

Traditional store
A Canadian Tire store that is not a new-format or Concept 20/20 store. These stores were built prior to the introduction of the new-format store in 1994.

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

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

Variable interest entity (VIE)
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

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

Shareholder and Corporate Information

Home Office

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Fax 416-544-7715
website: www.canadiantire.ca

Shareholder Contacts

Sharon Mathers
Vice-President
Corporate Affairs and Investor Relations

Karen Meagher
Manager, Investor Relations

Investor Relations e-mail:
investor.relations@cantire.com

Annual Meeting of Shareholders

The Suites at 1 King West
Grand Banking Hall
1 King Street West
Toronto, Ont. M5H 1A1
Thursday, May 8, 2008
10 a.m. EDT

Exchange Listings

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

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
National Bank of Canada

Registrar and Transfer Agent

Computershare Trust Company of Canada
100 University Avenue
9th Floor, North Tower
Toronto, Ont. M5J 2Y1
Telephone 514-982-7555
Toll free 1-800-564-6253
Fax 1-866-249-7775
e-mail: service@computershare.com

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

Disclosure Documents

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

Version française du rapport

Pour obtenir la version française du rapport annuel de Canadian Tire, veuillez vous adresser au Service des relations extérieures en composant le 1-800-564-6253 ou écrire à :

La Société Canadian Tire
C.P. 770, succursale K
Toronto (Ontario) M4P 2V8

DESIGN: BRYAN MILLS IRADESSO WWW.BMIR.COM, TORONTO

Visit our website at
www.canadiantire.ca

Investor Relations
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Canadian Tire's Core Strengths

Our attributes and interdependencies set us apart and will help build a **bigger and better** Canadian Tire

Brand recognition and trust
Virtually all Canadians know Canadian Tire, an enterprise that consistently ranks among the nation's most reputable and trusted companies. The quality and integrity of our brand comes to life in our products, services and the dedicated efforts of over 57,000 team members.

Canadian Tire 'Money'®
Our customers benefit from one of Canada's most long-standing and popular loyalty programs, Canadian Tire 'Money'. Customers who use their Canadian Tire Options® MasterCard® for any purchase, shop at a Canadian Tire Retail (CTR) store, or fill up at Canadian Tire gas bars earn CTR-redeemable 'Money'.

National reach and scale
Through our network of over 1,160 Canadian Tire, Mark's Work Wearhouse, PartSource and Petroleum stores and outlets, in addition to over four million MasterCard account holders, Canadian Tire is a part of Canadians' daily lives in many ways.

Real estate management
Owning more than 75 per cent of our CTR real estate with an unencumbered book value in excess of $2 billion enables our stores to gain strategic advantage from convenient locations. At the same time, the Corporation has selectively realized a small percentage of the value of our real estate portfolio, receiving proceeds of $690 million from sale/leasebacks and sales of high-value development sites and surplus stores over the last decade.

Innovative store formats, products and services
Throughout its 85-year history, Canadian Tire has constantly renewed itself in order to continue to meet customer needs. The tradition continues today. Financial Services is testing a retail banking initiative, Mark's clothing and footwear continues to focus on value-added functional improvements, CTR is broadening its assortment and Petroleum and PartSource are expanding their retail presence for greater convenience.

Marketing and advertising
As one of Canada's largest marketers, we take advantage of the power and potential of traditional and new media opportunities. Our award-winning television, radio, online and in-store campaigns are complemented by popular regular flyers and one of Canada's most-visited retail websites.

Supply chain
Intra-Canada and global supply chain know-how has formed the foundation for growth at Canadian Tire. We continue to invest in skilled expertise and state-of-the-art technology and systems, including a new major distribution centre in Coteau-du-Lac, Que., and more than 22 larger PartSource hub stores with double the number of automotive hard parts to supply both PartSource and CTR stores.

Credit risk capabilities
With more than four decades of industry experience, Financial Services combines customized world-class credit risk management systems with best-in-class industry tools. We achieve targeted write-off rates through improved up-front risk assessments, tight credit line management, call centre excellence and enhanced collections procedures.