



**CANADIAN TIRE CORPORATION, LIMITED**

---

**ANNUAL  
INFORMATION  
FORM**

**March 19, 2008**

---

**ANNUAL INFORMATION FORM**  
**CANADIAN TIRE CORPORATION, LIMITED**  
**TABLE OF CONTENTS**

1.	Corporate Structure .....	1
1.1	NAME, ADDRESS AND INCORPORATION .....	1
1.2	INTERCORPORATE RELATIONSHIPS .....	1
2.	General Development of the Business .....	2
2.1	THREE YEAR HISTORY .....	2
2.1.1	<i>Strategic Plan</i> .....	2
2.1.2	<i>Store Improvement Program</i> .....	2
2.1.3	<i>PartSource</i> .....	3
2.1.4	<i>Other CTR Initiatives</i> .....	4
2.1.5	<i>Distribution and Supply Chain</i> .....	4
2.1.6	<i>Mark's Work Wearhouse Ltd.</i> .....	4
2.1.7	<i>Petroleum</i> .....	5
2.1.8	<i>Canadian Tire Financial Services Limited and Canadian Tire Bank</i> .....	5
2.1.9	<i>MasterCard</i> .....	5
2.1.10	<i>Financing</i> .....	6
3.	Description of the Business .....	8
3.1	CANADIAN TIRE RETAIL.....	8
3.1.1	<i>Marketing</i> .....	9
3.1.2	<i>Distribution and Supply Chain</i> .....	10
3.1.3	<i>Dealer Relations, Dealer Finance and Store Design &amp; Support</i> .....	11
3.1.4	<i>PartSource</i> .....	12
3.1.5	<i>Real Estate and Construction</i> .....	12
3.2	MARK'S WORK WEARHOUSE LTD. ....	13
3.3	PETROLEUM .....	13
3.4	CANADIAN TIRE FINANCIAL SERVICES LIMITED, CANADIAN TIRE BANK AND CTFS BERMUDA LTD. ....	14
3.5	CANADIAN TIRE STORES AND CANADIAN TIRE DEALERS .....	15
3.6	INFORMATION TECHNOLOGY.....	17
3.7	EMPLOYEES .....	18
3.8	BUSINESS DEVELOPMENT INITIATIVES.....	18
3.9	COMPETITIVE CONDITIONS.....	18
3.9.1	<i>Canadian Tire Retail</i> .....	18
3.9.2	<i>Mark's Work Wearhouse Ltd.</i> .....	19
3.9.3	<i>Petroleum</i> .....	19
3.9.4	<i>Canadian Tire Financial Services Limited and Canadian Tire Bank</i> .....	20
3.10	BUSINESS SEASONALITY OF CANADIAN TIRE RETAIL AND MARK'S WORK WEARHOUSE LTD. ....	21
3.11	ENVIRONMENTAL PROTECTION.....	22
3.12	INTANGIBLE PROPERTIES .....	22
3.13	FOREIGN OPERATIONS.....	22
3.13.1	<i>Canadian Tire Retail</i> .....	23
3.13.2	<i>Mark's Work Wearhouse Ltd.</i> .....	23
3.13.3	<i>Canadian Tire Financial Services Limited and CTFS Bermuda Ltd.</i> .....	23
3.14	ECONOMIC DEPENDENCE.....	24
3.15	LENDING .....	24
3.16	SOCIAL AND ENVIRONMENTAL POLICIES.....	24
3.16.1	<i>Corporate Social Responsibility</i> .....	25
3.16.2	<i>Environmental Compliance</i> .....	25
3.16.2.1	Canadian Tire Retail .....	26
3.16.2.2	Mark's Work Wearhouse Ltd. ....	26
3.16.2.3	Petroleum .....	26
3.16.2.4	Canadian Tire Financial Services Limited .....	27
3.16.2.5	PartSource.....	27
3.16.2.6	Canadian Tire Real Estate Limited .....	27

3.17	RISK FACTORS .....	27
3.18	PRODUCTION AND SERVICES.....	27
3.19	SPECIALIZED SKILL AND KNOWLEDGE .....	28
	3.19.1 <i>Canadian Tire Retail</i> .....	28
	3.19.2 <i>Mark's Work Wearhouse Ltd.</i> .....	28
	3.19.3 <i>Petroleum</i> .....	28
	3.19.4 <i>Canadian Tire Financial Services Limited and Canadian Tire Bank</i> .....	28
3.20	NEW PRODUCTS.....	28
4.	Dividends .....	29
5.	Description of Capital Structure .....	30
5.1	GENERAL DESCRIPTION OF CAPITAL STRUCTURE.....	30
	5.1.1 <i>Material Characteristics of Common Shares</i> .....	30
	5.1.2 <i>Material Characteristics of Class A Non-Voting Shares</i> .....	30
	5.1.3 <i>Additional Dividend Rights</i> .....	31
	5.1.4 <i>Rights Upon Liquidation, Dissolution or Winding-Up</i> .....	31
	5.1.5 <i>Change in Class A Non-Voting Shares and Common Shares</i> .....	31
5.2	RATINGS .....	31
6.	Market for Securities.....	32
6.1	TRADING PRICE AND VOLUME .....	33
7.	Directors and Officers .....	34
8.	Legal Proceedings .....	37
9.	Transfer Agents and Registrars.....	37
10.	Material Contracts.....	38
11.	Interests of Experts.....	38
11.1	NAMES OF EXPERTS .....	38
12.	Audit Committee Information Required In An Annual Information Form.....	38
12.1	AUDIT COMMITTEE MANDATE AND CHARTER .....	38
12.2	COMPOSITION OF THE AUDIT COMMITTEE .....	38
12.3	RELEVANT EDUCATION AND EXPERIENCE .....	39
12.4	PRE-APPROVAL POLICIES AND PROCEDURES .....	40
12.5	EXTERNAL AUDITOR SERVICE FEES (BY CATEGORY) .....	40
	12.5.1 <i>Audit Fees</i> .....	40
	12.5.2 <i>Audit-Related Fees</i> .....	40
	12.5.3 <i>Tax Fees</i> .....	40
	12.5.4 <i>All Other Fees</i> .....	40
13.	Additional Information .....	41
ANNEX A	.....	A-1

Copies of the Company's 2008 Annual Information Form, as well the Company's 2007 Annual Report (including the 2007 Financial Report) and 2008 Management Information Circular may be obtained at [www.sedar.com](http://www.sedar.com).

## ANNUAL INFORMATION FORM

### CANADIAN TIRE CORPORATION, LIMITED

Unless otherwise specified herein, the information in this annual information form is presented as at December 29, 2007.

#### 1. Corporate Structure

##### 1.1 Name, Address and Incorporation

Canadian Tire Corporation, Limited (the “Company” or “Canadian Tire”, which terms refer to Canadian Tire Corporation, Limited, its predecessor corporations and all of its subsidiaries unless the context otherwise requires) was incorporated under the laws of the Province of Ontario by letters patent dated December 1, 1927 and is governed by the Business Corporations Act (Ontario). The Company was amalgamated with four of its wholly-owned subsidiaries pursuant to Articles of Amalgamation which became effective January 1, 1980. The Company’s articles were amended effective December 15, 1983 to reorganize the capital of the Company, among other things. The registered and principal office of the Company is located at 2180 Yonge Street, P.O. Box 770, Station K, Toronto, Ontario, M4P 2V8.

##### 1.2 Intercorporate Relationships

All of the subsidiaries of Canadian Tire are beneficially wholly-owned, either directly or indirectly. The only subsidiaries of the Company whose total assets constitute more than 10 percent of the consolidated assets of the Company, or whose total sales and operating revenues constitute more than 10 percent of the consolidated sales and operating revenues of the Company are:

- (a) each of Canadian Tire Financial Services Limited (“Financial Services”), which was continued under the laws of Canada, and its wholly-owned subsidiary, Canadian Tire Bank (“CTB”), which was incorporated under the laws of Canada;
- (b) Canadian Tire Real Estate Limited (“CTREL”), which was incorporated under the laws of Ontario; and
- (c) CTC Holdings, Inc., which was incorporated under the laws of Delaware.

The business of each subsidiary and other entity under Canadian Tire’s direction or control functions so as to contribute to the retailing, financial services and petroleum businesses carried on by the Company.

## 2. General Development of the Business

### 2.1 Three Year History

The general development of the Company's business during the past three financial years has been influenced by Canadian Tire's continued expansion of its core businesses, Canadian Tire Retail ("CTR") including PartSource stores, Canadian Tire Petroleum ("Petroleum"), Mark's Work Warehouse Ltd. ("Mark's"), Financial Services including CTB and CTFS Bermuda Ltd. ("CTFS Bermuda").

Set out below are highlights of developments in the businesses of the Company over the past three years.

#### 2.1.1 *Strategic Plan*

Reference is made to pages 8 to 9 of Management's Discussion and Analysis (the "MD&A") in the 2007 Financial Report section of the Company's 2007 Annual Report for a discussion of the Company's strategic plan. The Company's 2007 Annual Report is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

#### 2.1.2 *Store Improvement Program*

The purpose of CTR's store improvement program, which began in 1994, is to renew the Canadian Tire store network through building, replacing, retrofitting or expanding Canadian Tire stores ("Canadian Tire Store(s)"). As a result, the Canadian Tire Store network has increased by 48 stores to 473 stores since the commencement of the program, representing an increase of approximately 11 million square feet in total retail selling space since 1994.

The following table shows the number of Canadian Tire Stores that the Company built, replaced, retrofitted or expanded in 2005, 2006 and 2007 respectively:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
New Builds	5	7	8
Replacement	13	12	10
Retrofits/Expansions	11	54	49

The "Class Of" concept, the first major store concept in the store improvement program, was introduced in 1994 and was phased out in 2000. The "Next Generation" concept, the second major concept in the program, was introduced in 2000 and was phased out beginning in 2003 when the "Concept 20/20" format, the third major concept, was introduced. The last Next Generation concept store was built in 2005.

The Concept 20/20 format includes an updated layout and new and expanded merchandise assortments, a customer care centre, new store signage and a revitalized exterior façade, and is designed to boost store sales by 20 percent in the first year following a conversion to the format. The first four Concept 20/20 stores opened on a test basis in 2003. 28, 73 and 66 Concept 20/20 stores were built or existing stores were retrofitted to the

Concept 20/20 format in 2005, 2006 and 2007 respectively and there are 192 Concept 20/20 stores currently open for business. These stores make up approximately 41 percent of the Canadian Tire stores and approximately 58 percent of the retail selling space in the Canadian Tire Store network. In 2006, new and retrofitted Concept 20/20 stores incorporated a refined layout that improved the overall automotive shopping experience and brought together categories with strong appeal to female shoppers in an inspiring, pleasant shopping experience. The Concept 20/20 format continued to evolve in 2007 with additional refinements in the merchandising layout for kitchen, home products and tools.

During 2007, two “Mark’s-inside-CTR” stores were opened in Waterdown, Ontario and Dartmouth, Nova Scotia. The Mark’s-inside-CTR format, which incorporates a full Mark’s Work Wearhouse store within a Canadian Tire Store, will continue to be rolled out in coming years.

In 2007, development of a “Small Market” format began that also incorporates a full Mark’s Work Wearhouse store within a Canadian Tire Store. This format will be used to replace existing traditional stores, and will allow CTR to enter incremental markets. Small Market format stores will be paired with a Petroleum gas bar where appropriate. The first Small Market store will open in the summer of 2008.

Also in 2007, development began on our fourth major concept since the inception of the store improvement program. Test stores of this fourth major concept, which is intended to enhance the productivity of CTR’s product assortments, merchandising and use of space, are scheduled to open during the fall of 2008.

### 2.1.3 *PartSource*

In the years 2005, 2006 and 2007, the Company opened seven, six and eight new PartSource stores respectively to bring the total number of PartSource branded stores opened in Ontario and Western Canada to 71.

PartSource began testing corporate stores in 2005, and as a result of the initial success of this pilot, plans to increase the number of corporate stores by building or acquiring new corporate stores, and converting franchised PartSource stores to corporate stores when the opportunity arises.

During 2006, PartSource converted to the PartSource brand three automotive parts stores acquired in 2005, two of which are located in Thunder Bay, Ontario and one in Cobourg, Ontario. In 2007, PartSource acquired three more such stores which are located in Mississauga, Ontario, Niagara Falls, Ontario and Sault Ste. Marie, Ontario. Two of these stores were converted to the PartSource brand in 2007, and the third store will be converted in 2008.

During 2005, 2006 and 2007 PartSource grew overall sales and enhanced its business, in particular with commercial customers, through PartSource’s comprehensive product range of national brands, emergency parts sourcing and delivery, and specialized, knowledgeable staff in PartSource stores.

#### 2.1.4 *Other CTR Initiatives*

In 2007, the Company introduced or continued from previous years certain other initiatives including 'exciting, new and exclusive products' ("ENE"), Debbie Travis-branded products, the National Association for Stock Car Auto Racing ("NASCAR") promotional partnership and 'E-Learning'. The ENE initiative was originally designed to highlight unique and innovative products that are available only at Canadian Tire Stores to improve the initial sales impact of these products when introduced, and to build consumer recognition of Canadian Tire Stores as retailers that carry innovative products which make consumers' lives easier. During 2007, CTR shifted its ENE focus from highlighting innovative products to bringing innovation to programs and product categories. The expansion of Debbie Travis-branded products, which are available only at Canadian Tire Stores, continued in 2007 and the brand is now available in many of CTR's home and décor product categories. In September 2006, a 9 ½ year partnership was established among CTR, NASCAR and TSN creating the 'NASCAR Canadian Tire Series', which was launched in May 2007. The E-Learning initiative is directed to Canadian Tire Store staff and is intended to improve their product knowledge and confidence to enable them to better serve customers.

In 2007, the Company reached an agreement with representatives of the Canadian Tire Dealers ("Dealers") on certain amendments to the form of contract signed by individual Dealers (the "2007 Amendments"). Further information concerning this form of contract and the 2007 Amendments are set out under the heading "Canadian Tire Stores and Canadian Tire Dealers" on page 15. In keeping with the 2007 Amendments, CTR has undertaken an automotive infrastructure initiative that will be implemented beginning in 2008. 'Automotive Infrastructure' is a growth initiative comprised of three key components: doubling the assortment within CTR's three main auto parts facilities, installing a comprehensive technology infrastructure to improve retail operating systems, purchasing and inventory management, warehouse processes and customer service at the store level, and creating a network of approximately 23 PartSource "hub stores" across Canada which will supply automotive hard parts on a same day basis for 75 to 80 percent of the 473 Canadian Tire Stores.

#### 2.1.5 *Distribution and Supply Chain*

Information concerning the development of CTR's distribution and supply chain operations including its three and a half year agreement with Uni-Select Inc. for emergency auto parts which took effect in January 2008, and the commencement of construction in July 2006 of CTR's 1.5 million square foot distribution centre in Coteau du Lac, Quebec, is set out under the heading "Distribution and Supply Chain" on page 10.

Information concerning the sale and leaseback of two of the Company's distribution centres in January 2006 is set out under the heading "Financing" on page 6.

#### 2.1.6 *Mark's Work Wearhouse Ltd.*

In February 2002, the Company acquired all of the shares of Mark's for \$110.8 million. Mark's is a chain of 358 stores across Canada that offer casual and industrial clothing and footwear to men and women for work and leisure and operates as a separate business unit of the Company. Mark's business focus, financial performance, growth strategy and

management team made it a very attractive acquisition for Canadian Tire and the acquisition has enhanced the Company's earnings. Mark's substantially completed implementation of the first phase of its 'superbranding' strategy from 2002 to 2004, being the conversion of most of its Work World stores to the Mark's Work Wearhouse banner. During 2005, 2006 and 2007 Mark's continued to build a Canadian superbrand by pursuing its strategic initiatives including store network expansion and developing, among other things, consumer awareness of the Mark's brand and customer understanding of the Mark's "Clothes that Work" message.

#### *2.1.7 Petroleum*

In 2005, 2006 and 2007, Petroleum continued executing its growth plan, which included opening new gas bar sites, re-branding competitors' gas bar sites, building or acquiring car washes, retrofitting convenience stores to a new convenience store design and upgrading and building new kiosks.

Petroleum opened two 'Q' stores in early 2005 and a third 'Q' store in 2006. The 'Q' store format is Petroleum's state-of-the-art gas bar and convenience store format which is larger than Petroleum's existing convenience stores, and is integrated with a gas bar and car wash and may be co-located with other key retail banners including Starbucks Coffee®. Petroleum does not have plans for additional 'Q' stores.

#### *2.1.8 Canadian Tire Financial Services Limited and Canadian Tire Bank*

CTB operates as a wholly-owned subsidiary of Financial Services and manages the Canadian Tire MasterCard, retail credit card and personal loan businesses. Operating the credit card and personal loan businesses in CTB enables the Company to offer lending services consistently across the country. The Canadian Tire personal loan program has over 34,000 approved personal loans. In October 2006, Financial Services commenced a pilot project through which high interest savings accounts, guaranteed investment certificates and residential mortgages are offered by CTB in two test markets, Calgary, Alberta and Kitchener-Waterloo, Ontario. A third test market, London, Ontario, was added in June 2007. In September 2007, the Canadian Tire One and Only Account was launched as part of the pilot project. The Canadian Tire One and Only Account is a product that combines a customer's mortgage, chequing and savings accounts and loans and credit card balances in one account. The pilot is expected to continue in 2008. In January 2008, CTB acquired a \$29.4 million line of credit portfolio of unsecured receivables previously owned and managed by a Canadian chartered bank under the Canadian Tire name.

#### *2.1.9 MasterCard*

During the past three years, Financial Services has grown its Canadian Tire MasterCard account portfolio through increases in average balances, new account acquisition and introduction of new credit cards. Financial Services, through its wholly-owned subsidiary CTB, manages a portfolio of over 1.8 million active Canadian Tire MasterCard accounts.



### 2.1.10 *Financing*

During March 2007, the Company's public medium term note program was continued for a further 25-month period under a shelf prospectus filed with the securities regulatory authorities in each province and territory of Canada that allows the Company to issue medium term notes up to an aggregate of \$750 million. On October 1, 2007 the Company issued \$300 million in three-year medium term notes at a rate of 5.22 percent per annum pursuant to the March 2007 shelf prospectus. The proceeds from the issue were used for general corporate purposes. The Company has outstanding \$1,450 million of medium term notes and debentures.

On January 16, 2006, the Company repaid \$200 million in medium term notes which had matured. On April 1, 2005, the Company redeemed \$225 million in medium term notes due May 18, 2006. During May 2005, the Company issued \$300 million in 10-year medium term notes, and during September 2005, issued an additional \$200 million in 30-year medium term notes. Both of these issuances were made pursuant to the March 2005 shelf prospectus. The proceeds from the May 2005 issue were used primarily to refinance the April 1, 2005 redemption of medium term notes, and the proceeds from the September 2005 issue were used primarily to pre-fund the repayment of \$200 million in medium term notes which matured in January 2006. The Company obtained the May 2005 10-year financing at a coupon rate of 4.95 percent per annum, and the September 2005 30-year financing at a coupon rate of 5.61 percent per annum.

In November 2007, the Company announced a \$535 million increase in its committed bank lines to a total of \$1.2 billion. Reference is made to the MD&A on pages 39 to 40 of the 2007 Financial Report section of the Company's 2007 Annual Report for a discussion of the Company's committed bank lines.

Since 2003 CTB, and prior to that, Financial Services, sold undivided co-ownership interests in a revolving pool of Canadian Tire® and MasterCard® credit card receivables (the "Receivables"), and the proceeds therefrom, to Glacier Credit Card Trust ("GCCT") (formerly Canadian Tire Receivables Trust). GCCT changed its name to Glacier Credit Card Trust on June 30, 2003 to comply with federal regulatory requirements in connection with the formation of CTB. CTB has agreed to carry out certain administrative and management activities for and on behalf of GCCT. CTB also acts as the seller and servicer of the ownership interest in the Receivables under a pooling and servicing agreement with GCCT. CTB has appointed Financial Services as sub-servicer of the ownership interest in the Receivables and sub-administrator under these agreements. Under these agreements, ownership interests in the Receivables are created and sold to GCCT in series. Each series ownership interest owned by GCCT entitles it to receive a share of future collections from the Receivables. The ownership interests in each series have terms, distribution dates, revolving periods, liquidation periods and amortization events which differ.

Under the pooling and servicing agreement, CTB, as servicer, is obligated to use its best efforts to service and administer the Receivables and the proceeds therefrom, accumulate all collections, make all required distributions, transfers and deposits, maintain records with respect to the credit card accounts and the Receivables, and report to the custodian and CTB at the times prescribed in the series purchase agreements.

GCCT has entered into subordinated loan agreements with CTB under which GCCT has obtained or may obtain one or more non-revolving advances. The subordinated loans bear interest at fixed rates and repayment dates are determined at the date of each advance. GCCT has utilized subordinated loans from CTB to finance the payment of start-up costs, including fees arising from the issuance of notes by GCCT so that it may fund the purchase of the Receivables.

GCCT's recourse in connection with the Receivables is generally limited to CTB's and Financial Services' earned and unearned income on the Receivables and any contractual recourse it may have against those entities in connection with their obligations as seller and servicer or sub-servicer of credit card accounts in the pool. GCCT's undivided co-ownership interest in the pool of Receivables is \$2.3 billion. GCCT has outstanding \$2.1 billion of Senior and Subordinated Asset-Backed Promissory Notes and approximately \$141 million of Asset-Backed Commercial Paper. GCCT is not owned or controlled by the Company, and as a result the financial statements of GCCT are not consolidated with those of the Company. In February 2008, GCCT issued additional Senior and Subordinated Asset-Backed Promissory Notes for gross proceeds of \$634.9 million.

GCCT is a reporting issuer and information prepared by it, but which is not incorporated by reference into the continuous disclosure of the Company, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

GCCT participates in the Canadian asset securitization market. As noted above, CTB has agreed to carry out management and certain administrative activities for and on behalf of GCCT. CTB assesses securitization market conditions continually and will, from time to time, sell receivables to GCCT so that GCCT can structure and bring to market new issues of asset-backed securities. The type of securities and number of issues offered will depend on various factors, including market demand, the availability of sufficient and appropriate pools of credit card receivables to back the securities, overall financial market conditions, the activities of competitors and the cost of alternative financing and related services.

In December 2005, Financial Services sold a portion of its portfolio of personal loans (the "Loans") to a third-party trust (the "Trust"). The Trust's recourse in connection with the Loans is generally limited to CTB's earned and unearned income on the Loans, the seller's interest, the securitization reserve and any contractual recourse it may have against those entities in connection with their obligations as "seller" and "servicer" or "sub-servicer" of accounts in the pool. The Trust's interest in the pool of Loans is \$59 million, the seller's interest is \$19 million and the securitization reserve is \$4 million. The Trust is not owned or controlled by the Company, and as a result the financial statements of the Trust are not consolidated with those of the Company.

In November 2005, the Company completed an agreement for the sale and leaseback of two of its distribution centres, the A.J. Billes distribution centre located in Brampton, Ontario and the Calgary distribution centre located in Calgary, Alberta, to companies controlled by The Trustees of H & R Real Estate Investment Trust for total proceeds of \$229 million. The proceeds from the transaction, which closed in January 2006, have been used to fund strategic initiatives. The Company was able to benefit from favourable real estate market conditions in completing this transaction, and to maintain complete operating control over the two facilities over the long term. Both of the leases, which

commenced on January 31, 2006, are for a period of twenty-one years and are net to the lessor. The Company has the option to extend the term of the A.J. Billes distribution centre lease for successive periods totalling 29 years less a day, and to extend the term of the Calgary distribution centre lease for successive periods totalling 79 years. The Company is responsible for repairs and replacements in relation to the distribution centres, and may assign the leases or sublet either of the lease premises without the lessor's consent. The A.J. Billes and Calgary distribution centres are integral to the operations of the Company and the Canadian Tire Store network.

On December 7, 2006, the Company completed the sale of approximately 40 acres of surplus land in Toronto, Ontario for total consideration of \$149.7 million, of which \$134.7 million took the form of an interest-free vendor take-back mortgage in favour of the Company. A gain of \$119.6 million was recorded on the transaction, with \$49.2 million recognized on closing. The balance will be reflected as imputed interest income on the interest-free mortgage, the principal amount of which is payable over 10 years, or earlier, at the option of the purchaser. The Company has a number of additional real estate financing alternatives, including the sale and lease back of selected retail properties.

The Company intends to continue to fund its growth through a combination of internal cash generation and accessing the public and private financial markets, as appropriate. In addition, CTB intends to sell additional loans receivable to GCCT or other entities.

### **3. Description of the Business**

#### **3.1 Canadian Tire Retail**

Canadian Tire Retail ("CTR"), a division of the Company, offers consumers approximately 103,000 stock-keeping units of auto parts and accessories, sports and leisure products and home products through Canadian Tire Stores located throughout Canada. CTR supports Dealers with marketing, supply chain management, purchasing and administrative, financial and information services. Real estate and construction services required by the Company are primarily provided by CTREL. Dealers are retailers who own the fixtures, equipment and inventory of the Canadian Tire Stores they operate. There are 473 Canadian Tire Stores operated by 465 Dealers.

A description of the various business functions of CTR, which include Marketing, Supply Chain, Store Design & Support, Dealer Relations, Dealer Finance, Real Estate and Construction, and PartSource are set out below. Further information as to recent and proposed activities of CTR is included in the MD&A on pages 13 to 21 of the 2007 Financial Report section of the Company's 2007 Annual Report.

### 3.1.1 *Marketing*

The marketing functions of CTR encompass the selection and purchase of products and the planning and co-ordination of the presentation and offering of these products to the consuming public. The marketing department of CTR is engaged in a broad range of activities that includes the purchasing of products from domestic and international suppliers, inventory management, advertising and promotional programs, customer loyalty programs, market research and various ancillary marketing support services.

The products sold at Canadian Tire Stores are primarily those of nationally known manufacturers or suppliers with which CTR generally has excellent relationships. Approximately 30 percent of retail sales at Canadian Tire Stores are comprised of products marketed under brand names controlled by Canadian Tire, which brand names are either owned or licensed by the Company. CTR proposes to launch additional products under such brand names in selected product categories during 2008. CTR's purchasing activities are centralized at its home office in Toronto except for representative offices maintained and operated by the Company which assist CTR in the acquisition of products in markets outside Canada.

To achieve a high level of consumer acceptance of Canadian Tire products, CTR controls the products sold by Dealers and their related warranties and after-sale service policies and sets the maximum prices to be paid by consumers for such products. Consumer acceptance is also enhanced by the Dealers' adoption of Canadian Tire concepts in merchandising, store fixturing and other operational procedures. In addition, the involvement of the Company in site selection, construction and maintenance and store planning has contributed significantly to the consistency of the presentation of the Canadian Tire image to consumers.

During 2007, to promote the sale of its products, CTR published and distributed a merchandise catalogue printed in both English and French that offered customers a choice of shopping in-store or on-line. In 2007, approximately six million copies of this merchandise catalogue were published and distributed in the spring and approximately another six million copies in the fall. Also during 2007, CTR published approximately seven million copies of its 'Inspiration' guides for distribution in the spring, and approximately seven million copies of its 'Christmas Book of Inspiration' during the Christmas holiday season. CTR, in conjunction with the Dealers, also builds customer awareness and traffic in Canadian Tire Stores by distributing weekly promotional flyers, electronic "flyers" available over the internet, radio, television, newspaper, magazine and internet advertising and event sponsorship. Although CTR engages advertising agencies to develop, execute, plan and buy media for television, print, radio and outdoor media advertising as well as sponsorships, events and promotions, all advertising initiatives and some advertising material originate within Canadian Tire.

As of March 2008, approximately 26,000 product descriptions were posted on the Company's electronic commerce web-site, [www.canadiantire.ca](http://www.canadiantire.ca), 65 percent of which were products available for purchase on-line and the remaining 35 percent for in-store purchase only.

A unique feature of Canadian Tire's marketing program is the issuance of its well known Canadian Tire 'Money' coupons, which are given to customers paying by cash, cheque, debit card, traveller's cheque, Canadian Tire gift card or gift certificate, Canadian Tire 'Money' coupon and Canadian Tire 'Money' credit voucher at Petroleum outlets and Canadian Tire Stores. The coupons are issued as a percentage of most cash or cash equivalent purchases and may be used as a cash substitute for future purchases of merchandise and services at Canadian Tire Stores. The Canadian Tire 'Money' on the Card loyalty program provides electronic-based Canadian Tire 'Money' awards to customers who use the Canadian Tire MasterCard and retail credit cards to purchase merchandise and services at Canadian Tire Stores and Petroleum outlets. For customers who use the Canadian Tire MasterCard, Canadian Tire 'Money' on the Card is also earned on world-wide purchases of goods and services at other places where MasterCard is accepted. Canadian Tire 'Money' on the Card entitles the holders to redeem the 'Money' awards on future purchases of merchandise and services at Canadian Tire Stores.

### 3.1.2 *Distribution and Supply Chain*

CTR's supply chain ("Supply Chain") is responsible for managing the flow of goods and information among approximately 2,320 sources of supply and 473 Canadian Tire Stores and 71 PartSource branded stores across Canada. Supply Chain uses a number of distribution channels, facilities and modes of transportation. Supply Chain involves most aspects of product replenishment and product information flow at Canadian Tire.

Approximately 1,550 full-time equivalent employees are engaged in the physical distribution element of CTR's operations. During 2007, approximately 168 million cubic feet of merchandise were shipped to Canadian Tire Stores by CTR.

Most of CTR's products are distributed to Dealers from the A.J. Billes Distribution Centre, the Brampton Distribution Centre or the Calgary Distribution Centre. CTR also engages third-party logistics companies to provide distribution capability in Montreal, Toronto, Calgary, Halifax and Vancouver. In addition, CTR from time to time utilizes additional distribution centre space that it owns or leases. To support growth in automotive hard parts sales and service, CTR opened two auto parts distribution centres during 2002 (in Calgary and Montreal) and an additional auto parts distribution centre in Vaughan, Ontario in 2003. These three distribution centres, known as Express Auto Parts distribution centres, provide overnight order processing six nights per week for nearly all Canadian Tire and PartSource stores, and provide order delivery to most store locations between 24 and 48 hours from receipt of an order. During 2007, CTR signed a three and a half year agreement with Uni-Select Inc. which took effect in January 2008 to supply Canadian Tire Stores and PartSource stores with emergency auto parts not stocked within CTR's overall product assortment.

The A.J. Billes Distribution Centre, which became operational in 1991, is located in Brampton, Ontario and is a 1.2 million square foot facility. The facility includes a computer controlled pick-to-conveyor sortation system using bar code identification, a computer-driven, facility-wide in-floor towline system with radio frequency identification and tracking of carts, and an automated storage and retrieval system.

The Brampton Distribution Centre, which is located in Brampton, Ontario, comprises 1.4 million square feet, making it one of the largest facilities of its kind in Canada. The centre has interrelated processing areas for efficient flow of pallet loads and bulk product through receiving, picking and shipping functions.

In January 2002, CTR opened the Calgary Distribution Centre, a 500,000 square foot distribution facility in southeast Calgary, Alberta, which was expanded during 2005 to 950,000 square feet. Depending upon the number and type of products deployed, the expanded site has the capability to ship 24 to 29 million cubic feet of product annually to over 150 Canadian Tire Stores in Western Canada, and receives product directly from manufacturers and distributors from across Canada, the United States and Asia.

In July, 2006, CTR began the construction of a 1.5 million square foot distribution centre in Coteau du Lac, Quebec. Depending upon the number and type of products deployed, the facility will be capable of processing approximately 55 million cubic feet of product annually. The facility is expected to be commissioned for production in the first quarter of 2009, to provide the capacity needed to support retail growth in 2009 onward. CTR has spent \$171.5 million on the design, land acquisition, construction, material handling equipment and technology for this facility.

To facilitate the prompt distribution of its products, Canadian Tire owns or leases approximately 2,640 trailers, 3,115 chassis and 4,695 intermodal containers. The Company expects to take delivery of approximately 850 additional chassis and 890 intermodal containers in 2008. CTR uses various modes of transportation including common carriers and railway transit to facilitate inbound and outbound deliveries on a timely basis throughout its network.

### *3.1.3 Dealer Relations, Dealer Finance and Store Design & Support*

Dealer Finance, a group within the Company's Dealer Relations department, is responsible for monitoring both the operational and financial performance of Dealers. In addition, Dealer Finance manages Dealer changeovers, the Dealer mobility system and the Dealer performance audit process. Dealer Selection and Development is a department within Dealer Relations, and is responsible for sourcing, selecting, developing and training new Dealers. CTR's Store Design & Support group functions as a bi-lateral communications hub between CTR and Canadian Tire Stores. Store Design & Support is responsible for the development of CTR's retail concept design, and the delivery and execution of new store formats. Store Design & Support has developed "best practices" for general merchandising, automotive and garden programs for Canadian Tire Stores, and works closely with Dealers to improve store performance.

Further information concerning Dealers is set out under the heading "Canadian Tire Stores and Canadian Tire Dealers" on page 15.

#### 3.1.4 *PartSource*

PartSource stores are a mix of franchised and corporate stores that offer brand-name auto parts targeted to medium to heavy do-it-yourselfers, automotive enthusiasts and commercial installers who do not typically purchase their automotive parts needs at a Canadian Tire Store. PartSource stores are typically 7,200 square feet and offer a selection of approximately 16,000 brand name auto parts and accessories with access to tens of thousands of additional products generally available on a same-day basis. PartSource stores are conveniently located, feature competitive pricing and are staffed by expert auto parts professionals and licensed automotive technicians. Convenient shopping hours are offered to meet customer needs. Product assortment at PartSource stores is tailored to regional variations in ages and types of vehicles. PartSource stores also feature many value-added services such as loan-a-tool programs, brake drum and rotor turning and "look-up" systems to locate make/model-specific repair instructions. There are 71 PartSource branded stores in operation which are comprised of 38 franchise stores and 33 corporate stores.

#### 3.1.5 *Real Estate and Construction*

Commencing in the late 1950s, as the cost of suitable premises became too great for most new Dealers to finance on their own, the Company became increasingly involved in the ownership and leasing of premises which in turn generally are licensed to Dealers. The premises occupied by 467 of the 473 Canadian Tire Stores, including all of the newer and larger stores, are licensed by the Company to Dealers. One of the remaining stores is owned by a Dealer and five are leased by Dealers from third-party lessors. The Company has the right to assume the tenancy under these leases if there is a default by the Dealer and, in addition, the Company has the right to assign the lease to another Dealer without providing any continuing guarantee or covenant to the lessor. Of the premises licensed to Dealers by the Company, the Company owns 360 and leases 107 from third parties.

The Company is involved in many aspects of the establishment of premises used for Canadian Tire Stores, PartSource stores, Petroleum outlets and Mark's stores. These functions include the identification and leasing or acquisition of real estate suitable for new, replacement or expanded stores, the design and development of stores, property management and maintenance of completed stores and various accounting and administrative matters related to the ownership and leasing of the premises. The Company owns or leases most property upon which Canadian Tire Stores, PartSource stores, Petroleum outlets and Mark's stores are built. The Company also undertakes the sale, lease, redevelopment or redevelopment and sale of property that it owns when such property is identified as surplus to the Company's needs.

Information concerning the sale and leaseback of two of the Company's distribution centres in January 2006, and the sale of surplus land in December 2006 is set out under the heading "Financing" on page 6.

### 3.2 Mark's Work Wearhouse Ltd.

The Company's wholly-owned subsidiary, Mark's, is one of the largest specialty apparel retailers in Canada, offering primarily men's and ladies' clothing, footwear and accessories for casual, business casual and industrial work environments, as well as for recreational use or relaxation. Mark's is a market leader in the retailing of men's industrial apparel and industrial footwear, and is a significant presence in the retailing of men's casual apparel and footwear. In recent years, Mark's has also built a market position in women's casual apparel and footwear. In addition, Mark's offers assortments of health care industry and business-to-business apparel. Mark's has established private labels including WindRiver, Denver Hayes and Dakota that have achieved market share in excess of many national brands. Mark's operates 354 stores under the Mark's ("L'Equipeur" in Quebec) banner and four stores under the Work World banner.

During 2004, in six small market locations in western Canada and Ontario, Mark's and CTR tested combination stores with a Mark's store and a Canadian Tire Store under one roof. In these test stores, a Dealer operates the Canadian Tire Store and Mark's operates its outlet as a corporate store to create a one-stop shopping experience for hard goods, apparel and footwear. The objective of these combination stores is to bring the high customer traffic of a Canadian Tire Store directly to a Mark's store and to lower on-site construction costs when both stores conduct business in the same location. During 2005, five more combination stores were built, three in Western Canada, one in Ontario and one in Atlantic Canada. During 2006, 12 more combination stores were built, four in Atlantic Canada, three in Western Canada, three in Quebec and two in Ontario. During 2007, nine additional combination stores including two "Mark's-inside-CTR" stores were built, two in Atlantic Canada, three in Ontario and four in Western Canada bringing to 32 the number of these combination stores open for business.

Mark's engages a third-party logistics company to transport its product shipments from domestic suppliers and two distribution centres to its stores. The third-party logistics company operates Mark's 125,500 square foot facility in Calgary, Alberta and Mark's 182,300 square foot facility in Brampton, Ontario pursuant to an outsourcing arrangement with Mark's. Both facilities are leased to Mark's by third-party lessors. The movement of goods from off-shore suppliers to these two distribution centres is managed by Mark's supply chain through the third-party logistics company that manages CTR's off-shore movement of goods.

### 3.3 Petroleum

Petroleum is responsible for the operation of 266 retail gas bars located in nine provinces, 137 of which are in Ontario and 59 of which are in Quebec. Of these locations, 13 include separate facilities for lubrication services, 74 include car washes and 89 supply propane directly to customers. Petroleum outlets also sell convenience products to the public.

All of Petroleum's gas bars, except those associated with 'Q' stores, are operated by independent agents pursuant to agreements governing the sale of petroleum products using the Canadian Tire name and logo. Information concerning Petroleum's 'Q' store format is set out under the heading "Petroleum" on page 5.



Petroleum is in the process of upgrading, replacing and expanding its network of outlets over the longer term. Petroleum opened seven new gas bars during 2007, and plans to expand the network in 2008 by opening five to 10 new gas bars. Petroleum also closed two gas bars in 2007. Petroleum plans to refurbish and upgrade approximately 25 sites in 2008.

Petroleum opened one new car wash and closed another in 2007, bringing the total number of car washes to 74.

“Re-branding” is the conversion of a competitor’s gas bar and kiosk to the Canadian Tire brand. During 2007, Petroleum re-branded one competitor gas bar, and plans to re-brand approximately three additional sites in 2008. This initiative will build upon Canadian Tire’s customer value proposition and Petroleum’s industry-leading customer traffic count to help drive higher gasoline volumes at these sites and contribute to the earnings of this business.

In 2007, Petroleum added eight new convenience stores and closed one convenience store. There are a total of 258 convenience stores at the 266 gas bars operating under the Canadian Tire banner. In 2008, Petroleum plans to open a convenience store at each new gas bar location, except at owner-operated sites.

The 2007 results of these growth initiatives included a 14.9 percent increase in car wash sales, a 15 percent increase in convenience store sales and an increase in gasoline sales volume of 36.2 million litres (2.1 percent) over 2006.

Further information concerning Petroleum’s strategy is included in the MD&A on pages 27 to 31 of the 2007 Financial Report section of the Company’s 2007 Annual Report.

#### 3.4 Canadian Tire Financial Services Limited, Canadian Tire Bank and CTFS Bermuda Ltd.

Financial Services markets a variety of products to Canadian Tire customers, including the Canadian Tire MasterCard, retail card and personal loan, and the Canadian Tire-branded line of credit, accident, creditor and life insurance and extended warranties. In addition, the Canadian Tire Commercial Link MasterCard is offered to Canadian Tire customers under an agreement pursuant to which a Schedule I Canadian chartered bank provides commercial credit card services under licence from Canadian Tire. Financial Services also offers an emergency roadside assistance program to Canadian Tire customers under the name “Canadian Tire Roadside Assistance” and for third-party clients under the name “Professional Dispatch Group”. Financial Services’ products that are offered to Canadian Tire customers are offered through its in-store acquisition program and customer call centre and by direct mail, as well as through Canadian Tire’s web site.

CTB operates as a wholly-owned subsidiary of Financial Services and manages the Canadian Tire MasterCard and retail credit card businesses. The Canadian Tire MasterCard portfolio includes over 1.8 million active accounts, and receivables on those cards exceed \$3.7 billion.

CTB also manages the Canadian Tire personal loan business and has over 34,000 personal loans outstanding. In October 2006, CTB commenced a pilot project offering high interest savings accounts, guaranteed investment certificates and residential mortgages in two test regions, Calgary, Alberta and Kitchener-Waterloo, Ontario. A third test market, London, Ontario, was added in June 2007. In September 2007, the Canadian Tire One and Only Account was launched as part of the pilot project. The Canadian Tire One and Only Account is a product that combines a customer's mortgage, chequing and savings accounts, and loans and credit card balances in one account. In January 2008, CTB acquired a \$29.4 million line of credit portfolio of unsecured receivables previously owned and managed by a Canadian chartered bank under the Canadian Tire name.

As noted above, Financial Services markets various insurance products to Canadian Tire customers. CTFS Bermuda, a wholly-owned reinsurance subsidiary of Financial Services, reinsures the risk associated with creditor insurance and warranty coverages purchased by Canadian Tire MasterCard and retail card customers. Further information concerning CTFS Bermuda is set out under the heading "Canadian Tire Financial Services Limited and CTFS Bermuda Ltd." on page 23.

Information concerning Canadian Tire 'Money' on the Card is set out under the heading "Marketing" on page 9.

### 3.5 Canadian Tire Stores and Canadian Tire Dealers

Fundamental to the success of the Company are Canadian Tire Stores, which are well-known retail outlets and automotive service centres. Canadian Tire Stores are easily identified by the Canadian Tire name and trade-mark and have established a strong reputation and high recognition throughout the communities served. Substantially all Canadian Tire Stores contain service bays for automobiles which provide a significant revenue source for Dealers as well as an outlet for auto part sales. The Company has attempted to create a distinctive image for Canadian Tire Stores, that of retailers offering a balanced and interesting assortment of many staple and seasonal automotive, sports and leisure and home products.

A contractual arrangement between the Company and individual Dealers permits Dealers to own and operate the retail business of Canadian Tire Stores under the Canadian Tire name. In order to provide controls on the quality, range and price of products and services offered at Canadian Tire Stores, each Dealer agrees to purchase merchandise primarily from the Company and to offer merchandise for sale at prices not exceeding those set by the Company. Each Dealer agrees to exert his or her best efforts personally to ensure the operation of his or her Canadian Tire Store at its maximum capacity and efficiency and that he or she will comply with the policies, marketing plans and operating standards prescribed by CTR. These obligations are specified under individual Dealer contracts, all of which expire on June 30, 2014.

During 2004, the Company reached an agreement with representatives of its Dealers on the form of contract to be signed by individual Dealers. The financial terms of the contract became effective at the beginning of the third quarter of 2004. The term of the contract extends for 10 years. The contract provides important strategic, financial and operational changes intended to benefit CTR's earnings and to enable the Dealers to grow their businesses. The contract provides enhanced clarity and specificity to the rights and

obligations of the Company and the Dealers. In particular, the contract clarifies the rights of a Dealer when the Company closes or relocates a store and the extent to which the Company can compete with a Dealer through the introduction of new Canadian Tire Stores, PartSource stores or other businesses that have a significant overlap with the Dealer's business. The contract also specifies how disputes between Dealers and the Company are to be resolved. The contract gives a Dealer the right to remain a Dealer until retirement, subject to compliance with the contract and the policies of the Company.

During 2007, the Company reached an agreement with representatives of its Dealers on certain amendments to the form of contract signed by individual Dealers. Such amendments include financial adjustments dealing with cost-sharing on marketing expenses, shared savings from store-based energy initiatives, participation in the growth of Dealer profits and certain other important financial and operational adjustments. In addition, the Company and the Dealers have agreed to support a new major infrastructure project to reinforce the Company's leadership position in its cornerstone automotive business. This project will be implemented beginning in 2008 and will be in effect through mid-2014, and will enable CTR and PartSource stores to grow their automotive hard parts business by expanding category assortments, improving local market access for same-day automotive hard parts supply and enhancing in-store customer service.

A policy of the Company is to offer new Dealers smaller Canadian Tire Stores and, based upon successful operation of their Canadian Tire Stores, to offer them larger locations from time to time pursuant to the Dealer mobility system. This policy provides an advancement opportunity for Dealers and therefore tends to encourage them to strive for superior performance. The Canadian Tire Store concept combines the flexibility of an independent business with the advantages of a central marketing and purchasing organization.

The combined experience of Dealers provides individual Dealers, directly or through the Company, with a valuable source of assistance and guidance in all phases of store operations. Also, by combining their efforts, a number of Dealers with the same objectives or issues are often able to conduct programs, study issues and undertake expenditures not practicable on an individual basis.

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 the Company. This financing program is described in the MD&A in the 2007 Financial Report section of the Company's 2007 Annual Report on pages 46 to 48 under the heading "Trust Financing for Dealers".

The distribution of the 473 of Canadian Tire Stores by Province and Territory is indicated below:

<u>Province or Territory</u>	<u>Number of Canadian Tire Stores</u>
British Columbia	52
Alberta	46
Saskatchewan	13
Manitoba	14
Ontario	201
Quebec	94
New Brunswick	17
Nova Scotia	20
Prince Edward Island	2
Newfoundland and Labrador	12
Yukon	1
Northwest Territories	1
Nunavut	0

The retail selling space of Canadian Tire Stores ranges from approximately 3,300 square feet to approximately 88,500 square feet. At the end of 2007, the total area of retail space for all Canadian Tire Stores was approximately 17.7 million square feet.

### 3.6 Information Technology

The Company's Information Technology department provides systems development and support to the major functional areas of the Company, Dealers, and distribution centres.

For many years, the Dealers have utilized point-of-sale scanners and terminals linked to in-store computers. These systems provide on-line access to store inventories and prices and several years of history about each stock-keeping unit. The point-of-sale system is used to process credit card and debit card transactions and supports the Canadian Tire 'Money' on the Card loyalty program. The in-store system provides information which enables Dealers to maximize sales and margins and monitor service levels and costs. Automatic orders are calculated and transmitted to Canadian Tire over a communications network which also sends new product and price data from Canadian Tire to Dealers. During 2005, the existing point-of-sale system was replaced with new point-of-sale hardware technology to better serve customers of Canadian Tire Stores.

CTR's information systems are a complex set of integrated systems which process orders, monitor inventories and handle the distribution and transportation of goods across the supply chain. The Company continues to make progress in the design and implementation of powerful analytical capabilities to assist the buying and logistics functions. Business processes have been examined and redefined to make more efficient use of the information provided from Canadian Tire Stores. Significant changes to the Company's technology and software continue to be implemented so as to achieve the desired functions and processes, which are key to future cost improvements.

Financial Services and Mark's have independent technology departments that support their respective businesses. Although customer-facing technology is an internal responsibility, a majority of the information technology functions for Financial Services is outsourced. At Mark's, day-to-day systems and help desk operations are outsourced, while applications services and administration are handled internally.

Financial Services uses Acxiom Corporation for data warehousing services in connection with analyzing customer data for the purposes of credit risk and marketing decisions, and Total System Services, Inc. to provide transaction processing services for its credit card business.

### 3.7 Employees

The approximate numbers of full-time and part-time employees (excluding seasonal temporary help) of CTR (which number includes employees who support the consolidated business), Financial Services, Petroleum and Mark's are as follows:

	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
CTR	4,369	322
Financial Services	1,297	289
Petroleum	96	41
Mark's	1,556	4,494

In addition, Dealers, Petroleum agents, PartSource franchisees, Mark's franchisees and their respective employees number in excess of 44,000.

### 3.8 Business Development Initiatives

For information about business development initiatives reference is made to page 38 of the MD&A in the 2007 Financial Report section of the Company's 2007 Annual Report.

### 3.9 Competitive Conditions

#### 3.9.1 *Canadian Tire Retail*

Dealers compete against both national and regional retailers in all major markets across Canada. There is no one organization or type of business that competes directly with all business segments of Canadian Tire Stores, although several competitors are in one or more of the business segments in which the stores operate. These competitors, a number of which are high volume internationally-based retailers, include department stores, discount stores and specialty marketers of automotive products and services, hardware, housewares, sporting goods, building supplies and seasonal products.

Canadian Tire Stores hold strong market share positions in many of the product categories in which they do business, with particular strength in automotive and hardware lines and certain seasonal and sporting goods categories. On a geographic basis, the market share of the stores is strongest in Central and Eastern Canada with greater market share growth opportunity in the Western Provinces and Quebec.

Competitors of PartSource include several national, regional and local auto parts retailers and distributors. PartSource is competing on the basis that it has a unique price, product and service offering to its particular target markets.

A number of initiatives designed to maintain and enhance the competitive position of CTR and Dealers are described in the MD&A on pages 13 to 21 of the 2007 Financial Report section of the Company's 2007 Annual Report under the heading "Canadian Tire Retail".

### 3.9.2 *Mark's Work Wearhouse Ltd.*

Mark's is one of the largest retailers in Canada for work, safety and industrial apparel and footwear, and competes against many retailers of casual and business casual apparel and footwear. These retailers include department stores, discount stores, sporting goods outlets and other specialty apparel stores, many of which are large U.S. or internationally based retailers. Mark's has addressed the challenges of this competition by continually developing and introducing new products to enhance product selection for its customers, by offering products across most price points and by offering its customers different shopping locations in power centres and strip malls.

A number of initiatives designed to maintain and enhance Mark's competitive position are described in the MD&A on pages 22 to 27 of the 2007 Financial Report section of the Company's 2007 Annual Report under the heading "Mark's Work Wearhouse".

### 3.9.3 *Petroleum*

Petroleum competes with other gas bars, convenience stores and car washes. Changes in the pre-tax earnings of Petroleum result primarily from variations in gasoline sales volume, costs and margins. Petroleum sells approximately twice as much gasoline per site as the Canadian industry average, primarily because of the attractiveness of the Canadian Tire 'Money' and Canadian Tire 'Money' on the Card loyalty programs. Customer traffic is also positively impacted by the success of Petroleum's cross-merchandising programs with Canadian Tire Stores, its partnership with Financial Services' in connection with the Gas Advantage MasterCard, and the quality of Petroleum's customer service. Petroleum's core strategy is to drive traffic and sales at Canadian Tire Stores and receivables growth at Financial Services.

Petroleum's contribution to the Company's profitability is very dependent upon its gasoline margins. While the continual price and cost volatility of gasoline makes both revenue and earnings hard to predict, Petroleum has adopted strategies to increase volume and tighten cost controls in order to improve earnings over the long term. Petroleum's low-cost model for gas bar operations (consisting of industry-standard agent-operated gas bar sites and Canadian Tire's extensive infrastructure in advertising and real estate) is a key element of Petroleum's initiatives to increase its network of high-volume, efficient gas bars. In addition, current fuel supply agreements ensure access to industry-standard fuel at a favourable acquisition cost.

A number of initiatives designed to maintain and enhance the competitive position of Petroleum are described in the MD&A under the heading "Canadian Tire Petroleum" on pages 27 to 31 of the 2007 Financial Report section of the Company's 2007 Annual Report.

#### *3.9.4 Canadian Tire Financial Services Limited and Canadian Tire Bank*

The Canadian Tire MasterCard issued by CTB competes with other general purpose credit cards issued by banks and other financial institutions in the highly regulated and competitive Canadian bankcard market. The Canadian bankcard market is defined as all MasterCard and Visa branded credit cards that are reported by the Canadian Bankers Association. CTB expects that competition may increase as a result of recent acquisitions of the financial services divisions of two large retailers by other credit card issuers.

As of the end of September 2007, the Canadian bankcard market size was over \$74 billion in outstanding receivables and has grown at an average rate of 9.4 percent annually for the last three years. The Canadian Tire MasterCard currently has approximately a five percent share of this growing market. Growth in average balances of the Canadian Tire MasterCard portfolio as well as the development of additional MasterCard product offerings could potentially increase CTB's share of the Canadian bankcard market.

The Canadian Tire personal loan competes with other personal loan products offered by banks and other financial institutions, and is issued on terms and conditions that are competitive with such personal loan products. In its initial phase the personal loan product is targeted primarily at current Canadian Tire MasterCard customers.

Financial Services' pilot project offers high interest savings accounts, guaranteed investment certificates and residential mortgages. These products compete with similar products offered by banks and other financial institutions, and are issued on terms and conditions that are competitive with similar products.

Financial Services offers a number of insurance and warranty products to Canadian Tire customers. As a result of its strong customer service and in-store customer acquisition channels, Financial Services has achieved a leading position in terms of percentage of credit card customers enrolled in insurance and warranty products. Strong enrollment and retention programs are the key factors contributing to this performance. These traditional relationships serve to strengthen overall customer loyalty to Canadian Tire and continue to contribute meaningfully to profitability.

A number of initiatives designed to maintain and enhance Financial Services' competitive position are described under the heading "Canadian Tire Financial Services" on pages 31 to 38 in the MD&A in the 2007 Financial Report section of the Company's 2007 Annual Report.

### 3.10 Business Seasonality of Canadian Tire Retail and Mark's Work Wearhouse Ltd.

The Company experiences quarterly fluctuations in revenues with the strongest results in the second and fourth quarters (subject to unusual fluctuations as a result of abnormal weather), primarily due to the timing of CTR's and Mark's strongest seasonal merchandise offerings. In addition, the fourth quarter is becoming increasingly important to the Company's consolidated results due to the concentration of Mark's sales and earnings in that quarter and special fourth quarter sales promotions for CTR and Mark's.

The following tables show the quarterly financial performance of CTR and Mark's over the last two years.

<b>CTR's quarterly results</b>										
(\$ in millions)	<b>Q4 2007</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>	<b>2007</b>	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q2 2006</b>	<b>Q1 2006</b>	<b>2006</b>
Gross operating revenue	\$ 1,585.8	\$ 1,307.1	\$ 1,517.5	\$ 1,074.7	\$ 5,485.1	\$ 1,576.8	\$ 1,290.6	\$ 1,518.8	\$ 969.2	\$ 5,355.4
Earnings before income taxes and minority interest	81.7	94.4	88.7	40.0	304.7	71.5	98.2	97.9	38.5	306.1
Percentage of full year gross operating revenue	28.9%	23.8%	27.7%	19.6%	100.0%	29.4%	24.1%	28.4%	18.1%	100.0%
Percentage of full year earnings before income taxes and minority interest	26.8%	31.0%	29.1%	13.1%	100.0%	23.4%	32.1%	32.0%	12.5%	100.0%

<b>Mark's quarterly results</b>										
(\$ in millions)	<b>Q4 2007</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>	<b>2007</b>	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q2 2006</b>	<b>Q1 2006</b>	<b>2006</b>
Gross operating revenue	\$ 326.2	\$ 159.8	\$ 187.2	\$ 152.1	\$ 825.3	\$ 309.5	\$ 154.0	\$ 170.1	\$ 128.7	\$ 762.3
Earnings before income taxes	56.6	12.2	24.5	11.3	104.6	50.0	11.4	20.3	8.4	90.1
Percentage of full year gross operating revenue	39.5%	19.4%	22.7%	18.4%	100.0%	40.6%	20.2%	22.3%	16.9%	100.0%
Percentage of full year earnings before income taxes	54.1%	11.7%	23.4%	10.8%	100.0%	55.5%	12.6%	22.5%	9.4%	100.0%



### 3.11 Environmental Protection

Canadian Tire has established procedures for environmental management and compliance. Environmental protection requirements related to the business of Canadian Tire do not have and are not expected to have a significant financial or operational effect on the capital expenditures, earnings or competitive position of Canadian Tire during the current year or in future years.

### 3.12 Intangible Properties

Canadian Tire has established procedures necessary to protect the trade marks which are material to the business carried on by it, including the name Canadian Tire, the design presentation associated with that trade mark and a number of trade marks identified with Canadian Tire's retail brand products. Protection of the Canadian Tire trade mark and associated design presentations is highly important to Canadian Tire. Other trade marks and intellectual property rights associated with Canadian Tire's retail brand products, Petroleum, PartSource and Mark's are considered to be important assets of Canadian Tire and are defended vigorously where appropriate.

Canadian Tire owns a number of domain names, which generally reflect its trade marks and related slogans. The domain names are used in connection with Canadian Tire's electronic commerce business.

The registrations for Canadian Tire's trade marks and domain names are renewable. Procedures are in place to ensure timely renewals so these registrations are in effect for indefinite duration.

CTB has a license agreement with MasterCard International that permits CTB to use the MasterCard trade mark in connection with its Canadian Tire MasterCard credit card business.

### 3.13 Foreign Operations

For Mark's and CTR, foreign-sourced products are increasingly important for business results. Ease of access to suppliers outside North America and an appropriate infrastructure for moving goods and information are required to successfully execute foreign sourcing strategies. In particular, Asia has become a critical source of competitively priced products and product innovation. The Company operates offices in Hong Kong, Shanghai and Taipei that provide import sourcing expertise and access to foreign manufacturers, and are important contributors to driving overall business growth. These offices deploy capabilities across many aspects of the sourcing process including managing product flow, product quality and vendor selection and management.

### 3.13.1 *Canadian Tire Retail*

In 2007, approximately 39 percent of the value of products sourced by Canadian Tire Retail was sourced directly from vendors outside North America. CTR uses internal resources and third-party logistics providers to manage supply chain technology and the movement of foreign-sourced goods from suppliers to the Company's Canadian distribution centres and to Canadian Tire Stores. Like other retailers who source products internationally, CTR is exposed to risks associated with foreign supply which can include, but are not limited to, currency fluctuations, the stability of manufacturing operations in other countries and transportation and port disruptions. The Company believes that its business practices are appropriate to mitigate these risks.

CTR has certain funding dependencies on wholly-owned subsidiaries of the Company operating in the United States. These dependencies are not a material risk to the Company.

### 3.13.2 *Mark's Work Wearhouse Ltd.*

Approximately 30 percent of the value of merchandise sourced by Mark's is sourced directly from vendors outside North America, and mostly from Asia. Mark's also acquires merchandise from outside North America through domestic vendors. Mark's engages the same third-party logistics providers as CTR to manage supply chain technology and movement of goods for most of the product sourced by Mark's in Asia. As with CTR, the Company believes that Mark's business practices are appropriate to mitigate risks associated with supply from Asia. In addition, Mark's has the capacity to source comparable merchandise from alternate areas including Mexico and Western Europe as well as from domestic and U.S. manufacturers if necessary.

### 3.13.3 *Canadian Tire Financial Services Limited and CTFS Bermuda Ltd.*

Financial Services engages Acxiom Corporation for data warehousing and Total System Services, Inc. for data processing functions. Both of these companies are based in the United States. Total System Services, Inc. is required by contract to have in place disaster recovery services in the event of a systems failure.

Financial Services owns CTFS Bermuda, a resident reinsurance company which is regulated by the Bermuda Monetary Authority. CTFS Bermuda has entered into reinsurance agreements with two insurers with significant Canadian operations that offer insurance products to Canadian Tire customers. These reinsurance arrangements permit Financial Services to participate in the premium income earned on certain Canadian Tire-branded insurance products. Management of CTFS Bermuda has retained established, reputable actuarial and administrative service organizations to assist in the evaluation of the portfolio's risk and management of CTFS Bermuda's operations, and the Company is of the view that this risk is appropriately managed.

### 3.14 Economic Dependence

The Company has a standard form contract with all of the 465 Dealers who operate the 473 Canadian Tire Stores. The Company is not dependent on any one of these contracts with any Dealer.

### 3.15 Lending

The Company arranges for short-term and medium-term loans to, from and between its subsidiaries at market rates.

The Company's short-term investments are restricted to Canadian and U.S. government-guaranteed securities and high quality commercial paper, money market funds and preferred shares.

CTB's lending activities in connection with the Canadian Tire MasterCard credit cards, personal loans and mortgages are governed by risk management policies and systems that use customer credit behaviour information and assess underlying security to approve customer applications, assign credit limits and manage the credit relationship. The customer base is well diversified and limits for exposure to geographic areas have been established.

CTB has established policies which limit investment to high rated money market and debt instruments with maturities of five years or less. CTB has made investments in asset-backed commercial paper ("ABCP") and holds \$8.9 million of ABCP that was not repaid on its due date but is being restructured under an agreement known as the Montreal Accord. Reference is made to page 42 of the MD&A in the 2007 Financial Report section of the Company's 2007 Annual Report for further information about the ABCP held by the Company.

### 3.16 Social and Environmental Policies

Canadian Tire believes that good corporate citizenship through community support is core to the Company's culture. Enhancing the communities within which the Company's employees work and live is in keeping with long-term corporate objectives. Annually, the Company allocates funds for social investments. A corporate donations policy is in place to guide the allocation process. The Company gives to a variety of social causes but the largest single beneficiary is the Canadian Tire Foundation for Families (the "Foundation"). The Foundation was established in 1992 as an independent charitable organization. Its mandate was substantially changed in 1999. It now raises funds from the Company, Dealers and the public with the assistance of Canadian Tire's inter-related network of businesses and disburses funds under a mandate of helping families when they need it most by providing the basic necessities of life: food, shelter, clothing and essential goods. In 2004, the Foundation extended its mandate through the introduction of the Canadian Tire JumpStart™ program which helps disadvantaged children participate in sport and recreational activities.

The implementation of the corporate donations policy is the responsibility of the President and Chief Executive Officer and is governed by the Social Responsibility Committee of the Board of Directors.

The Company's Supplier Code of Business Conduct sets out the principles and practices of ethical business practice that the Company expects of its suppliers of goods and services. The Code sets out specific expectations regarding supplier workplace standards and business practices including working hours, human rights, discrimination and forced labour, safe and healthy work environments, environmental protection and other concerns such as unlawful payments. The officers who lead the Company's business units and corporate support groups are responsible for ensuring that they obtain certification of adherence to Code requirements from suppliers with whom they do business. Compliance with the Code is monitored through periodic assessments of suppliers, including third-party audits where appropriate. Oversight responsibility for the Supplier Code of Business Conduct has been delegated by the Board of Directors to the Audit Committee. The Company's Risk Management and Compliance Services Department monitors Code compliance. In 2007, the Company revised its internal Code of Business Conduct. Copies of each of the above mentioned Codes may be obtained without charge by contacting Cameron D. Stewart at Canadian Tire Corporation, Limited, 2180 Yonge Street, P.O. Box 770, Station K. Toronto, Ontario, M4P 2V8. The Codes are also available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *3.16.1 Corporate Social Responsibility*

During 2007, the Company began developing a corporate responsibility statement and policy as part of a comprehensive plan to advance its overall economic, social and environmental performance, and to ensure its efforts are channelled in the areas of greatest potential impact. In particular, the Company conducted a strategic analysis of the impact on the environment of its operations including its use of energy, and packaging and the products it markets. This analysis has led to several key priorities for 2008.

The first priority focuses on reducing energy consumption at retail stores across Canada, and will be focused primarily on Canadian Tire Stores and Mark's stores. The second priority will focus on the completion of the long-term corporate environmental strategy. The third priority involves the allocation of increased resources to support the Company's environmental initiatives. In addition, the Company is also in the process of building its first gold and silver LEED (Leadership in Energy and Environmental Design) certified stores in British Columbia. Buildings designed in accordance with LEED standards typically use 50 percent less energy compared to a conventionally designed building.

#### *3.16.2 Environmental Compliance*

Maintaining a high standard of performance with respect to environmental compliance and occupational health and safety legislative requirements is fundamental to the Company. The Company has established environmental and occupational health and safety policies as well as an associated environment, health and safety ("EHS") program to ensure ongoing compliance with laws and regulations and a consistent application of programs and policies across the organization. The Company requires its Dealers, Mark's and PartSource franchisees and Petroleum agents to comply with all EHS laws and regulations applicable to their business operations and expects them to implement appropriate EHS programs.

During 2007, the Company was actively involved with industry funded associations including the Retail Council of Canada and its Quebec affiliate, the Conseil Québécois du Commerce en Detail Environmental Committees, in order to stay abreast of environmental developments at industry and legislative levels.

#### 3.16.2.1 Canadian Tire Retail

In 2007, CTR diverted 59 percent of its waste from landfill including metal, wood, cardboard, plastic, stretch film and paper. Over 3,340 metric tons of this waste was recycled.

The Ontario Workers' Safety Insurance Board ("WSIB") recognized the Company's above-average workplace health and safety performance in 2007 relating to lost-time injury frequency. The WSIB granted a \$991,726 New Experimental Experience Rating ("NEER") program rebate to the Company in support of its efforts to improve workplace health and safety and return to work programs. NEER is a key component of the WSIB's workplace health and safety strategy.

In 2007, the Company also continued to make product safety information for the chemical products it sells accessible to the public through web-based access to Material Safety Data Sheets ("MSDS"). Since inception of this initiative, over 86,000 MSDS have been accessed on-line.

#### 3.16.2.2 Mark's Work Wearhouse Ltd.

In 2007, Mark's developed a new health and safety program aimed at enhancing corporate store compliance with applicable health and safety legislative requirements. This program, which will be implemented at all Mark's corporate stores in early 2008, will ensure that health and safety representatives (or committees where applicable) are identified, that monthly health and safety meetings take place, and that health and safety representatives are aware of and acknowledge their accountability to conduct and report on monthly audit findings.

#### 3.16.2.3 Petroleum

During 2007, Petroleum continued its comprehensive program to control gasoline inventory losses. The program includes annual site inspection of each Petroleum gas bar including leak detection equipment testing, meter calibration and equipment condition checks, monthly reviews of gasoline inventory records for each Petroleum site to identify and address all abnormal gasoline inventory losses, and automated monitoring of gasoline inventory at each Petroleum gas bar using statistical inventory reconciliation. As a result of this program, Petroleum's gasoline inventory losses are significantly below the government tolerance limit. Petroleum also continued its program of replacing all underground steel gasoline storage tanks at Petroleum sites with fiberglass tanks by 2010 (which will reduce the risk of gasoline leaks).

In 2007, Petroleum launched a program to validate occupational health and safety compliance at the retail level within its gas bar agent network. Under this program, annual site visits are conducted to ensure health and safety compliance relating to items such as first aid and gasoline handling.

#### 3.16.2.4 Canadian Tire Financial Services Limited

Financial Services has established a EHS committee that provides EHS education and monitors compliance with applicable laws and regulations. During 2007, Financial Services provided several EHS programs including disability management and accommodation training to supervisors and managers and health and safety training to employees attending new employee orientation sessions. In addition, employees received health and safety updates through Financial Services' electronic employee bulletin board and quarterly employee newsletters.

#### 3.16.2.5 PartSource

During 2007, PartSource implemented a web-based standardized occupational health and safety compliance program at all PartSource corporate stores as part of its corporate store strategy. This program provides employees with information on legislative requirements specific to the province in which their store operates as well as on-line training modules on topics such as the transportation of dangerous goods and Workplace Hazardous Materials Information System responsibilities. In addition, first aid training was provided to store managers and team members at all PartSource corporate stores.

#### 3.16.2.6 Canadian Tire Real Estate Limited

CTREL has developed and implemented an environmental audit program for Canadian Tire Stores. During 2007, CTREL performed environmental audits at 63 Canadian Tire Stores, generally in connection with the Dealer changeover process, and delivered information sessions to over 70 Canadian Tire Dealers and their staff on ways to improve operational housekeeping methods to safeguard the environment. CTREL's methodologies and protocols to manage environmental issues and implement regulatory requirements for properties owned or leased by the Company meet or exceed industry standards.

### 3.17 Risk Factors

For information about the risk factors related to the Company and its business reference is made to pages 49 to 53 of the MD&A in the 2007 Financial Report section of the Company's 2007 Annual Report.

### 3.18 Production and Services

Information concerning Financial Services' method of providing services is set out under the heading "Canadian Tire Financial Services Limited, Canadian Tire Bank and CTFS Bermuda Ltd." on page 14.

### 3.19 Specialized Skill and Knowledge

#### 3.19.1 *Canadian Tire Retail*

CTR employs highly qualified individuals specializing in marketing, category management, supply chain, store operations and finance. Expertise is gained through internal training programs, industry involvement and academic achievements which are enhanced by internal leadership forums. Ongoing professional development is made available to CTR employees through internal and external courses.

#### 3.19.2 *Mark's Work Wearhouse Ltd.*

Mark's employs highly qualified individuals specializing in in-store operations, merchandise buying, marketing, store design, logistics and distribution, information technology systems and finance. Expertise is gained through industry involvement, academic achievement and internal courses offered by Mark's. Ongoing professional development is also made available to Mark's employees through external courses.

#### 3.19.3 *Petroleum*

Petroleum employs highly qualified individuals specializing in marketing, customer service, petroleum site operations, quick service restaurant operations and finance. Expertise is gained through industry involvement and academic achievements which are enhanced by internal leadership forums. Ongoing professional development is made available to Petroleum employees through the Company's internal training programs and external courses.

#### 3.19.4 *Canadian Tire Financial Services Limited and Canadian Tire Bank*

Financial Services employs highly qualified individuals specializing in marketing, customer service, risk management and finance. Expertise is gained through industry involvement and academic achievements which are enhanced by internal leadership forums. Ongoing professional development is made available to Financial Services employees through internal and external courses.

### 3.20 New Products

Commencing in 2005, CTB piloted a new Gas Advantage MasterCard in Kitchener-Waterloo, Ontario, which provides savings of up to 10 cents per litre of gasoline purchased at Petroleum sites using the Gas Advantage MasterCard. The test market for the Gas Advantage MasterCard was expanded throughout Ontario in 2006 and piloted in Quebec in 2007.

Commencing in 2006, CTB piloted a Cash Advantage MasterCard in Nova Scotia, which allowed customers to earn up to one percent cash back on all purchases. The test market was expanded in 2007 to include British Columbia, Newfoundland and the Greater Toronto Area.

In 2006, Financial Services commenced a pilot project through which high interest saving accounts, guaranteed investment certificates and residential mortgages are offered by CTB in two test markets, Calgary, Alberta and Kitchener-Waterloo, Ontario. A third test market, London, Ontario, was added in June 2007. In September 2007, the Canadian Tire One and Only Account was launched as part of the pilot project. The Canadian Tire One and Only Account is a product that combines a customer's mortgage, chequing and savings accounts and loans and credit card balances in one account.

During 2007, CTB piloted a new Vacation Advantage MasterCard in Ontario, British Columbia, Nova Scotia and Newfoundland, which allows customers to accumulate points that can be applied to vacation purchases on their Vacation Advantage MasterCard.

#### **4. Dividends**

Dividends are declared at the discretion of the Board of Directors of the Company after consideration of earnings available for dividends, financial requirements and other conditions prevailing from time to time.

The Company's current dividend policy is to make 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 are considered by the Company to exclude gains and losses on the sales of loans receivable and other non-recurring items, but to include gains and losses on the ordinary course sale of property and equipment.

Based on the dividend policy, the Company has declared the following dividends indicated in the table below:

<u>Year</u>	<u>Annual Dividend Per Share</u>
2005	\$0.58
2006	\$0.66
2007	\$0.74

On February 7, 2008 the Company announced a 13.5 percent increase in the annual dividend payment rate from \$0.74 per share to \$0.84 per share. On March 6, 2008 the Company declared quarterly dividends of \$0.21 per share that are payable June 2, 2008 for holders of record as of April 30, 2008.

Trust indentures dated May 10, 1990 and June 4, 1993 pursuant to which the Company issued debentures due in 2010 and medium term notes due at various dates to 2034, respectively, contain restrictions on the ability of the Company to declare and pay dividends. The financial position of the Company is such that these restrictions do not practically limit the payment of dividends by the Company at this time. The Company also issued medium term notes pursuant to a trust indenture dated March 14, 2005 which are due in 2010, 2015 and 2035 without any restrictions concerning dividend declaration and payment.



## **5. Description of Capital Structure**

### **5.1 General Description of Capital Structure**

Reference is made to pages 38 to 39 of the MD&A in the 2007 Financial Report section of the Company's 2007 Annual Report for a discussion of the Company's capital structure.

#### *5.1.1 Material Characteristics of Common Shares*

The holders of Common Shares of the Company are entitled to vote on the election of thirteen of the sixteen directors to be elected at the meeting and on the appointment of Auditors. Each Common Share carries one vote. In addition, each holder of a Common Share is entitled to have all or any number of the Common Shares held by them converted into Class A Non-Voting Shares on the basis of one Class A Non-Voting Share for each Common Share.

The foregoing is a summary of certain of the conditions attached to the Common Shares of the Company. Reference should be made to the Company's articles for a full statement of such conditions.

#### *5.1.2 Material Characteristics of Class A Non-Voting Shares*

The holders of Class A Non-Voting Shares of the Company are entitled to vote on the election of three of the sixteen directors. Each Class A Non-Voting Share carries one vote. With the exception of the entitlement to vote for the election of three directors, in the circumstances referred to under the heading "Change in Class A Non-Voting Shares and Common Shares" on page 31 and as provided under applicable law, the holders of Class A Non-Voting Shares are not entitled as such to vote at any meeting of shareholders of the Company. However, the articles of the Company provide that in the event an offer to purchase Common Shares is 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 per share and on the same terms and conditions) and a majority of the Common Shares then issued and outstanding are 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 shareholders and thereafter the Class A Non-Voting Shares will be designated as Class A Shares.

The Common Shares and Class A Non-Voting Shares are each generally voted separately as a class. Accordingly, aggregating the voting rights attached to the Common Shares and Class A Non-Voting Shares is not relevant to any corporate action currently contemplated. If an occasion should arise in which the holders of the Common Shares and the holders of the Class A Non-Voting Shares are entitled to vote together (rather than separately as a class), then based on the numbers of Common Shares and Class A Non-Voting Shares outstanding at March 6, 2008, the Class A Non-Voting Shares would represent approximately 95.8 percent of the aggregate voting rights attached to the Common Shares and the Class A Non-Voting Shares. See the Company's articles of amendment for more information on the voting rights of the holders of Class A Non-Voting Shares.

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

### 5.1.3 *Additional Dividend Rights*

When fixed cumulative preferential dividends aggregating one cent per share per annum have been paid or declared and set apart for payment on all of the outstanding Class A Non-Voting Shares in respect of the current year and each preceding year and a non-cumulative dividend aggregating one cent per share per annum has been paid on all outstanding Common Shares in the current year, any and all additional dividends, including stock dividends or other distributions to shareholders, will be paid or declared and set apart for payment or otherwise distributed in equal amounts per share on all Class A Non-Voting Shares and all Common Shares at the time outstanding without preference or distinction or priority of one share over another. Information concerning the Company's dividend policy is set out under the heading "Dividends" on page 29.

### 5.1.4 *Rights Upon Liquidation, Dissolution or Winding-Up*

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs, all of the property of the Company available for distribution to the holders of the Class A Non-Voting Shares and the Common Shares shall be paid or distributed equally share for share, to the holders of the Class A Non-Voting Shares and to the holders of the Common Shares without preference or distinction or priority of one share over another.

### 5.1.5 *Change in Class A Non-Voting Shares and Common Shares*

Except as provided above, neither the Class A Non-Voting Shares nor the Common Shares shall be changed in any manner whatsoever whether by way of subdivision, consolidation, reclassification, exchange or otherwise unless contemporaneously therewith the other class of shares is changed in the same manner and in the same proportion. Also, the authorized number of Common Shares cannot be increased without the prior approval of the holders of at least two-thirds of the Class A Non-Voting Shares represented and voted at a meeting of shareholders called for the purpose of considering such an increase.

## 5.2 Ratings

The Company's securities have been rated by DBRS Limited ("DBRS") and Standard & Poor's, a division of The McGraw-Hill Companies (Canada) Corp. ("S&P") as follows:

<b><u>Security</u></b>	<b><u>Rating</u></b>
Commercial Paper	DBRS R-1 (low)
Unsecured & Medium Term Notes	DBRS A (low)
Commercial Paper	S&P A-1 (Low) (CDN)
Senior Unsecured Debt	S&P BBB+

The following information relating to credit ratings is based on information made available to the public by the rating agencies. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. Each of the above rating agencies rates long-term debt instruments by rating categories ranging from a high of AAA to a low of D. Medium term notes are assigned long-term ratings. DBRS rates commercial paper and short-term debt ranging from a high of R-1 to a low of D. S&P rates commercial paper and short-term debt ranging from a high of A-1 to a low of D. Short-term debt rated R-1 (low) by DBRS is of satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios are not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. Long-term debt rated in the A category by DBRS is considered to be of a satisfactory credit quality, with substantial protection of interest and principal. However, companies whose securities are rated in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated companies. A short-term obligation rated A-1 (Low)(CDN) by S&P is slightly more susceptible to the adverse effects of changes in circumstances and economic conditions. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory. A long-term obligation rated in the BBB category by S&P exhibits adequate protection parameters; however, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A long-term DBRS rating from AA to C may be modified by the addition of "(high)" or "(low)" to indicate the relative standing within the major rating categories. A long-term S&P rating from AA to CCC may be modified by the addition of a plus "+" or minus "-" sign to indicate the relative standing within the major rating categories.

The credit ratings assigned to the securities are not recommendations to purchase, sell or hold the securities and do not address market price or suitability for a particular investor. The credit ratings assigned to the securities may not reflect the potential impact of all risks on the value of the securities. There can be no assurance that the credit ratings will remain in effect for any given period of time or that the credit ratings will not be revised or withdrawn entirely by either or both of S&P and DBRS in the future if in their judgment circumstances so warrant, and if such rating is so revised or withdrawn, the Company will disclose such revised or withdrawn rating in the pricing supplement(s) relating to subsequent sales of securities.

## **6. Market for Securities**

The outstanding Common Shares and Class A Non-Voting Shares of Canadian Tire are listed on the Toronto Stock Exchange ("TSX") and are traded under the symbols CTC and CTC.a respectively. Prior to May 8, 2006, the outstanding Common Shares and Class A Non-Voting Shares of Canadian Tire traded under the symbols CTR and CTR.NV respectively.

## 6.1 Trading Price and Volume

The price ranges and volumes of Common Shares of the Company traded on the TSX on a monthly basis from January 2, 2007 to and including December 28, 2007 were as follows:

<b><u>Common Shares (CTC)</u></b>			
<b><u>2007</u></b>	<b><u>High</u></b> <b><u>(\$)</u></b>	<b><u>Low</u></b> <b><u>(\$)</u></b>	<b><u>Volume Traded</u></b>
January	101.00	91.05	16,593
February	96.45	88.25	12,092
March	92.50	83.00	8,753
April	92.90	84.75	8,516
May	102.45	90.00	12,949
June	97.95	93.00	7,292
July	97.89	88.00	11,145
August	93.40	83.00	8,175
September	88.00	84.05	6,133
October	96.00	86.50	12,752
November	95.00	83.05	17,558
December	85.99	80.00	7,461

The price ranges and volumes of Class A Non-Voting Shares of the Company traded on the TSX on a monthly basis from January 2, 2007 to and including December 28, 2007 were as follows:

<b><u>Class A Non-Voting Shares (CTC.a)</u></b>			
<b><u>2007</u></b>	<b><u>High</u></b> <b><u>(\$)</u></b>	<b><u>Low</u></b> <b><u>(\$)</u></b>	<b><u>Volume Traded</u></b>
January	71.95	68.05	5,551,219
February	74.66	68.22	5,082,805
March	75.00	69.53	5,017,581
April	79.83	73.70	3,447,558
May	82.71	75.21	4,925,543
June	84.50	77.65	4,504,901
July	87.75	82.36	3,687,256
August	83.78	73.08	4,601,556
September	80.65	76.16	3,044,732
October	87.00	78.10	4,029,537
November	86.80	69.00	7,190,199
December	75.36	67.40	4,211,256

## 7. Directors and Officers

The names, province or state of residence, years of election as director and present principal occupations of the directors of the Company as at March 19, 2008 are as follows:

<b>Name and Province or State of Residence</b>	<b>Year First Elected as a Director<sup>1</sup></b>	<b>Present Principal Occupation<sup>2</sup></b>
Maureen J. Sabia Ontario, Canada	1985	Chairman of the Board of the Company, President, Maureen Sabia International, a consulting firm, and Corporate Director
Martha G. Billes Alberta, Canada	1980	President, Albikin Management Inc., an investment holding company
Owen G. Billes Ontario, Canada	2004	Canadian Tire Dealer-in-Training
Austin E. Curtin Alberta, Canada	1998	President, Austin Curtin Sales Ltd., which operates a Canadian Tire Store
H. Garfield Emerson Ontario, Canada	2007	Principal, Emerson Advisory, an independent business and financial advisory firm, and a corporate director
Daniel E. Fournier Quebec, Canada	2006	President, ACNG Capital Inc., a real estate value creation and strategic planning firm
Robert M. Franklin Ontario, Canada	2007	President, Signalta Capital Corporation, an investment holding company, and corporate director and trustee
Thomas K. Gauld Ontario, Canada	2006	President and Chief Executive Officer of the Company
Keith E. Gostlin British Columbia, Canada	2006	President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire Store
James R. Neale Alberta, Canada	2006	President of Neale Management Consultants Ltd., a consulting firm specializing in accounting, finance and tax services
Suzanne R. Perles California, U.S.A.	2005	Managing Director, The Corporate Development Company, a corporate advisory firm
Frank Potter Ontario, Canada	1998	Chairman, Emerging Market Advisors Inc., a consulting firm dealing with international direct investment
Timothy R. Price Ontario, Canada	2007	Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company

<b><u>Name and Province or State of Residence</u></b>	<b><u>Year First Elected as a Director<sup>1</sup></u></b>	<b><u>Present Principal Occupation<sup>2</sup></u></b>
James A. Riley Toronto, Ontario	2006	Partner, Goodmans LLP, a law firm
Graham W. Savage Ontario, Canada	1998	Chairman, Callisto Capital LP, a merchant banking partnership, and Corporate Director
Stephen G. Wetmore Ontario, Canada	2003	President & CEO, Bell Aliant Regional Communications Income Fund, a communications service provider

The names, province or state of residence and present principal occupations of the executive officers of the Company as at March 19, 2008 are as follows:

<b><u>Name and Province or State of Residence</u></b>	<b><u>Present Principal Occupation</u></b>
Maureen J. Sabia Ontario, Canada	Chairman of the Board of the Company, President, Maureen Sabia International, a consulting firm, and Corporate Director
Thomas K. Gauld Ontario, Canada	President and Chief Executive Officer
J. Huw Thomas Ontario, Canada	Executive Vice-President, Finance and Administration and Chief Financial Officer
G. Michael Arnett Ontario, Canada	President, Canadian Tire Retail
Marco Marrone Ontario, Canada	President, Canadian Tire Financial Services Limited
Michael B. Medline Ontario, Canada	President, Dealer Relations and Diversified Businesses
Paul D. Wilson Alberta, Canada	President, Mark's Work Wearhouse Ltd.
Timothy J. Condon Ontario, Canada	Senior Vice-President, Chief Strategy Officer
Laura J. Dunne Ontario, Canada	Senior Vice-President, Human Resources
Stanley W. Pasternak Ontario, Canada	Senior Vice-President and Treasurer
Michel Petrucci Ontario, Canada	Senior Vice-President and Chief Information Officer
Kenneth Silver Ontario, Canada	Senior Vice-President, Real Estate and Construction

<u>Name and Province or State of Residence</u>	<u>Present Principal Occupation</u>
Patrick R. Sinnott Ontario, Canada	Senior Vice-President, Supply Chain, Canadian Tire Retail
Cameron D. Stewart Ontario, Canada	Senior Vice-President, Secretary and General Counsel, Chief Privacy Officer and Chief Risk and Compliance Officer
Andrew T. Wnek Ontario, Canada	Senior Vice-President, Finance and Administration, Canadian Tire Retail
Robyn A. Collver Ontario, Canada	Vice-President, Regulatory Affairs and General Counsel, Canadian Tire Financial Services Limited and Assistant Secretary of the Company
Candace A. MacLean Ontario, Canada	Vice-President and Assistant Treasurer

**NOTES:**

- Each director of the Company will hold office until the next annual meeting of shareholders of the Company or until his or her successor is elected or appointed unless his or her office is earlier vacated in accordance with the by-laws of the Company.
- Each of the directors of the Company has had the principal occupation indicated opposite his or her name during the past five years except:
  - O.G. Billes, who prior to August 2007 was Special Projects Manger, Petroleum, who from 2004 to 2005 was Manager, New Business Development, who in 2004 was Manager, Divisional Initiatives, Customer Service Strategic Development, Canadian Tire Financial Services Limited, who from 2003 to 2004 was Manager, In-store Receiving and Logistics in connection with Canadian Tire Store #237, and who from 2002 to 2003 was Manager, Special Projects, New Business Development. O.G. Billes was an employee of the Company in connection with each of the foregoing employment positions, except for his position with Canadian Tire Financial Services Limited, a wholly-owned subsidiary of the Company;
  - H.G. Emerson, who prior to September 2006 was past National Chair of Fasken Martineau DuMoulin LLP, a law firm;
  - R.M. Franklin, who prior to March 2007 was Chairman of Photowatt Technologies, a subsidiary of ATS Automation Tooling Systems Inc.;
  - J. A. Riley, who prior to September 2006 was Senior Partner and Chair Toronto Office, Ogilvy Renault LLP, a law firm;
  - S.G. Wetmore, who prior to July 2006 had been Executive Vice-President, BCE Inc. since 2002 and Group President, Corporate Performance and National Markets, Bell Canada since 2005, who from 2003 to 2005 was Group President National Markets, Bell Canada, who in 2003 was Chief Corporate Officer, Bell Canada and from 2002 to 2003 was Vice-Chair, Corporate Markets, Bell Canada.
- With the exception of the holding of other offices at the Company, Canadian Tire Financial Services Limited and Mark's Work Wearhouse Ltd., each of the officers who is not a director has had the principal occupation referred to opposite his or her name during the past five years.

4. On March 6, 2008, all directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over 2,101,150 Common Shares of the Company (approximately 61.4%) and 849,660 Class A Non-Voting Shares of the Company (approximately 1.1%). In addition, two executive officers of the Company act as trustees of the Company's deferred profit sharing plan that controls or directs 419,280 of the Common Shares of the Company (approximately 12.2%) and 1,131,586 of the Class A Non-Voting Shares of the Company (approximately 1.4%).
5. The present members of the Company's Audit Committee are G.W. Savage (Chairman), D.E. Fournier, R.M. Franklin, J.R. Neale and S.G. Wetmore. The present members of the Company's Governance Committee are J.A. Riley (Chairman), M.G. Billes, H.G. Emerson, S.R. Perles and G.W. Savage. The present members of the Company's Management Resources and Compensation Committee are F. Potter (Chairman), H.G. Emerson, D.E. Fournier, J.R. Neale, J.A. Riley and S.G. Wetmore. The present members of the Company's Social Responsibility Committee are S.R. Perles (Chairman), M.G. Billes, O.G. Billes, A.E. Curtin, R.M. Franklin and K.E. Gostlin.
6. H.G. Emerson was a director of Livent Inc. when, at the request of the board of directors and management, the Ontario Securities Commission issued a cease trade order in respect of the company's securities on August 7, 1998. The cease trade order was revoked effective November 20, 1998. H.G. Emerson resigned as a director of Livent Inc. in November 1998 and the company voluntarily filed for creditor protection in Canada and the United States within a year of such resignation. G.W. Savage was a director of Microcell Inc. when the company filed for protection under the *Companies' Creditors Arrangement Act*.
7. M. Marrone was a director of One Signature Financial Corporation until December 2005. Subsequent to his resignation as a director, a management cease trade order was issued by the Ontario Securities Commission for One Signature Financial Corporation in May 2006 due to its failure to file financial statements and management's discussion and analysis for the financial year ending December 31, 2005, which expired in August 2006.

## **8. Legal Proceedings**

The Company and certain of its subsidiaries are party to a number of legal proceedings. As at December 29, 2007 there were a number of claims. The Company believes that all proceedings constitute routine litigation incidental to business conducted by the Company. The Company cannot determine the ultimate outcome of these claims but would expect final settlements of the proceedings will not have a material adverse effect on its earnings, cash flow or financial position.

## **9. Transfer Agents and Registrars**

Computershare Trust Company of Canada ("Computershare") is the registrar and transfer agent for the Common Shares and Class A Non-Voting Shares of the Company. Computershare keeps the Register of Holders and the Register of Transfers for both the Common Shares and Class A Non-Voting Shares at its principal stock transfer office in the City of Toronto and Branch Registers of Transfers at stock transfer offices in the cities of Halifax, Montreal, Winnipeg, Calgary and Vancouver.



CIBC Mellon Trust Company (“CIBC Mellon”) is the registrar and transfer agent for the Company’s medium term notes and certain of its debentures. CIBC Mellon keeps the Register of Holders and the Register of Transfers for both the medium term notes and these debentures at its principal office in the City of Toronto, and Branch Registers of Transfers at offices in the cities of Montreal, Calgary and Vancouver, except for medium term notes issued pursuant to a trust indenture dated March 14, 2005, for which the Branch Register of Transfers is in the City of Toronto.

## **10. Material Contracts**

CTB relies upon a license agreement with MasterCard International that permits CTB to use the MasterCard trade name in connection with its Canadian Tire MasterCard credit card business and requires CTB to abide by MasterCard International’s by-laws, policies and rules. The current agreement with MasterCard International commenced on January 1, 2006 and has a 10-year term.

## **11. Interests of Experts**

### **11.1 Names of Experts**

Deloitte & Touche LLP is the auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## **12. Audit Committee Information Required In An Annual Information Form**

### **12.1 Audit Committee Mandate and Charter**

The text of the Audit Committee Mandate and Charter is attached hereto as Annex A.

### **12.2 Composition of the Audit Committee**

The members of the Audit Committee are Graham W. Savage (Chairman), Daniel E. Fournier, Robert M. Franklin, James R. Neale, and Stephen G. Wetmore. Each member of the Audit Committee is independent and financially literate within the meaning of the following definitions. According to Multilateral Instrument 52-110 – *Audit Committees* (“MI 52-110”), an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements. According to MI 52-110, a member of an audit committee is independent if the member does not have, and is not considered by MI 52-110 to have, a direct or indirect material relationship with the Company.

### 12.3 Relevant Education and Experience

The education and experience of each Audit Committee member that are relevant to the performance of his or her responsibilities as an Audit Committee member are described below:

<u>Audit Committee Member</u>	<u>Education and Experience</u>
Graham W. Savage (Chairman)	Mr. Savage has 33 years of experience in the finance and investment industry, including seven years as Chief Financial Officer of a major public company. He has been a member of many board audit committees, many of which he chaired. Mr. Savage holds an undergraduate degree and an M.B.A. from Queen's University.
Daniel E. Fournier	Mr. Fournier serves as a trustee and audit committee member of a Canadian income trust in addition to Canadian Tire. Since 1990 he has served on the audit committee of several public, private and non-profit Canadian corporations and income trusts. Mr. Fournier holds an undergraduate degree from Princeton University and a degree in jurisprudence from Oxford University.
Robert M. Franklin	Mr. Franklin has over 30 years of experience as a corporate director and has served as chairman of four publicly traded companies. Mr. Franklin has been a member of many board audit committees, several of which he chaired. In addition of Canadian Tire, Mr. Franklin serves as a director of four publicly listed companies with market values of \$300 million to \$45 billion. He is currently a member of the audit committee of two of those companies. He also serves as a trustee for an international company with an enterprise value of \$600 million. Mr. Franklin holds a B.A. in Business Administration from Hillsdale College.
James R. Neale	Mr. Neale has 38 years of experience in the public accounting, consulting and income tax areas. He has acted as senior financial advisor for several large U.S. companies with respect to their Canadian subsidiaries. He has been a member of public company audit committees. Mr. Neale is a Certified Management Accountant.
Stephen G. Wetmore	Mr. Wetmore serves as a director of another publicly traded Canadian company in addition to Canadian Tire. Prior to his current position, Mr. Wetmore held the position of Chief Financial Officer in other organizations and was Chief Executive Officer of a publicly traded Canadian company. Mr. Wetmore is a chartered accountant, and spent seven years in public accounting with PricewaterhouseCoopers. He holds a B.B.A. in accounting from Acadia University.

## 12.4 Pre-Approval Policies and Procedures

The Audit Committee has a process for approval of services to be provided by its current Auditors. The process requires that an annual client services plan be provided to and pre-approved by the Audit Committee prior to commencement of services by the Auditors. Any additional audit or non-audit services required by management will be permitted provided that management is satisfied the Auditors are the preferred supplier for such services, the proposed terms of engagement for the services are approved by the Chairman of the Audit Committee (or by the Audit Committee if the fees for such services exceed \$250,000 or the services are of a sensitive or unusual nature), and the Chairman of the Audit Committee advises the Audit Committee of any such pre-approved services at its next meeting. The Auditors are also responsible for ensuring that all services provided comply with professional independence standards, for disclosing to the Audit Committee all relationships between the Auditors and the Corporation and its related entities that may reasonably be thought to bear on the Auditors' independence, and for disclosing the total fees charged by the Auditors for audit and non-audit services during the past year.

## 12.5 External Auditor Service Fees (By Category)

### 12.5.1 *Audit Fees*

The aggregate fees billed by the Company's external Auditors for audit services in the financial years ended December 30, 2006 and December 29, 2007 were \$2,563,100 and \$2,696,900 respectively.

### 12.5.2 *Audit-Related Fees*

The aggregate fees billed by the Company's external Auditors for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements, and were not reported under Section 11.5.1 Audit Fees for the financial years ending December 30, 2006 and December 29, 2007 were \$923,000 and \$1,245,400 respectively. These services related primarily to existing and new accounting guidance issued by the Canadian Institute of Chartered Accountants and to financing transactions.

### 12.5.3 *Tax Fees*

The aggregate fees billed by the Company's external Auditors for professional services related to tax compliance, tax advice and tax planning for the financial years ending December 30, 2006 and December 29, 2007 were \$1,111,300 and \$745,200 respectively. These services related primarily to property tax services, commodity tax support and tax advice in connection with foreign operations and the Canadian tax implications thereof.

### 12.5.4 *All Other Fees*

There were no fees billed by the Company's external Auditors for services other than those reported under sections 12.5.1, 12.5.2 and 12.5.3 above for the financial years ending December 30, 2006 and December 29, 2007.

### **13. Additional Information**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Management Information Circulars prepared in connection with the Annual Meeting of Shareholders of the Company to be held on May 8, 2008 and the Annual and Special Meeting of Shareholders held on May 10, 2007. Additional financial information is provided in the Company's Consolidated Financial Statements for the financial year ended December 29, 2007 which are included in the Company's 2007 Annual Report.

## ANNEX A

### CANADIAN TIRE CORPORATION, LIMITED AUDIT COMMITTEE MANDATE AND CHARTER

#### I THE BOARD OF DIRECTORS' MANDATE FOR THE AUDIT COMMITTEE

1. The Board of Directors ("Board") bears responsibility for the stewardship of Canadian Tire Corporation, Limited (the "Corporation"). To discharge that responsibility, the Board is obligated by law to supervise the management of the business and affairs of the Corporation. The Board's supervisory function involves Board oversight or monitoring of all significant aspects of the management of the Corporation's business and affairs.

The Board has established, and hereby continues the existence of, a committee of the Board known as the Audit Committee (the "Committee") to assist the Board in its monitoring of the Corporation's:

- (a) financial reporting and disclosure;
- (b) risk management; and
- (c) compliance with applicable laws and regulations.

#### **(a) Financial Reporting and Disclosure Duties of the Board**

Financial reporting and disclosure by the Corporation constitute a significant aspect of the management of the Corporation's business and affairs. The objective of the Board's monitoring of the Corporation's financial reporting and disclosure (the "Financial Reporting Objective") is to gain reasonable assurance of the following:

- (i) that the Corporation complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- (ii) that the accounting principles, significant judgements and disclosures which underlie or are incorporated in the Corporation's financial statements are the most appropriate in the prevailing circumstances;
- (iii) that the Corporation's quarterly and annual financial statements are accurate and present fairly the Corporation's financial position and performance in accordance with generally accepted accounting principles and together with management's discussion and analysis, the annual information form and associated officer certifications constitute a fair presentation of the Corporation's financial condition; and
- (iv) that appropriate information concerning the financial position and performance of the Corporation is disseminated to the public in a timely manner.

The Board is of the view that the Financial Reporting Objective cannot be reliably met unless the following activities (the "Financial Fundamental Activities") are conducted effectively:

- (A) the Corporation's accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of the Corporation's financial transactions;
- (B) material information about the Corporation including its consolidated subsidiaries is captured in accordance with a system of disclosure controls and procedures designed to provide reasonable assurance to management that information required to be disclosed by the Corporation in its filings under securities legislation is recorded, processed, summarized and reported in accordance with specified time periods;
- (C) the Corporation's internal financial controls and disclosure controls and procedures are regularly assessed for effectiveness and efficiency;
- (D) the Corporation's quarterly and annual financial statements are properly prepared by management;
- (E) the Corporation's quarterly and annual financial statements are reported on by an external auditor appointed by the shareholders of the Corporation; and
- (F) the financial components of the Corporation's Disclosure Policy are complied with by management and the Board.

**(b) Risk Management Duties of the Board**

Risk management is another significant aspect of the management of the Corporation's business and affairs. The objective of the Board's monitoring of the Corporation's risk management activities (the "Risk Management Reporting Objective") is to gain reasonable assurance that the strategic, operational, reporting and compliance risks of the Corporation's business ("Risks") are identified in a timely manner and are effectively assessed, monitored and managed.

The Board is of the view that the Risk Management Reporting Objective cannot be reliably met unless the following activities (the "Risk Management Fundamental Activities") are conducted effectively:

- (i) a policy which accurately sets out the Risk philosophy of the Corporation and the expectations and accountabilities for identifying, assessing, monitoring and managing Risks (the "ERM Policy") is developed, implemented and sustained by management;
- (ii) a formalized, disciplined and integrated enterprise risk management process (the "ERM Process") is developed by management;

- (iii) the ERM Policy will be reviewed and updated annually to reflect the current Risk philosophy of the Corporation and the expectations and accountabilities for identifying, assessing, monitoring and managing Risks;
- (iv) management identifies in a timely manner the most significant Risks, including those Risks related to or arising from the Corporation's weaknesses, threats to the Corporation's business and the assumptions underlying the Corporation's strategic plan ("Principal Risks"); and
- (v) management directly and effectively assesses, monitors and manages the Corporation's Principal Risks in compliance with the ERM Policy.

**(c) Legislative and Regulatory Compliance Duties of the Board**

Compliance with applicable laws and regulations is also an essential aspect of the management of the Corporation's business and affairs. The objective of the Board's monitoring of the Corporation's compliance with applicable laws and regulations (the "Compliance Reporting Objective") is to gain reasonable assurance that the Corporation's business and affairs are conducted in a manner which limits exposure of:

- (i) the Corporation to issues that may negatively impact its reputation; and
- (ii) the Corporation, its employees and directors to financial penalties and civil and criminal liability.

The Board is of the view that the Compliance Reporting Objective cannot be reliably met unless appropriate policies and processes and supporting corporate compliance programs (the "Compliance Fundamental Activities") exist and are implemented effectively throughout the Corporation, including establishment and maintenance of a written code of business conduct and ethics (the "Code of Business Conduct") applicable to directors, officers and employees of the Corporation, and monitoring of compliance with the Code of Business Conduct;

**(d) Activities of the Committee**

The Committee shall develop and present to the Board for the Board's approval a Charter which, amongst other things, will describe the activities in which the Committee will engage for the purpose of gaining reasonable assurance that each of the Financial Fundamental Activities, the Risk Management Fundamental Activities and the Compliance Fundamental Activities are being conducted effectively and that the Financial Reporting Objective, the Risk Management Objective and the Compliance Reporting Objective are being met.

**2. Composition of Committee**

- (a) The Committee shall be appointed annually and shall consist of at least five (5) members from among the directors of the Corporation, each of whom shall be an independent director as defined under the applicable requirements of the securities regulatory authorities as adopted or amended and in force from time to time and free from any relationship that, in the opinion of the Board, could interfere with the exercise of his or her

independent judgement as a member of the Committee. Officers of the Corporation, including the Chairman of the Board, may not serve as members of the Audit Committee.

- (b) All members of the Committee shall be financially literate as described in paragraph 3 of the Operating Principles.
- (c) The Board shall designate the Chairman of the Committee.

### **3. Reliance on Management and Experts**

In contributing to the Committee's discharging of its duties under this mandate, each member of the Committee shall be entitled to rely in good faith upon:

- (a) financial statements of the Corporation represented to him or her by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with generally accepted accounting principles; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

“Good faith reliance” means that the Committee member has considered the relevant issues, questioned the information provided and assumptions used, and assessed whether the analysis provided by management or the expert is reasonable. Generally, good faith reliance does not require that the member question the honesty, competency and integrity of management or the expert unless there is a reason to doubt their honesty, competency and integrity.

### **4. Limitations on Committee's Duties**

In contributing to the Committee's discharging of its duties under this mandate, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this mandate is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the Financial Fundamental Activities, the Risk Management Fundamental Activities and the Compliance Fundamental Activities are being conducted effectively and that the Financial Reporting Objective, the Risk Management Objective and the Compliance Reporting Objective are being met and to enable the Committee to report thereon to the Board.



## II **AUDIT COMMITTEE CHARTER**

The Audit Committee's Charter outlines how the Committee will satisfy the requirements set forth by the Board in its mandate. This Charter comprises:

- Operating Principles;
- Operating Procedures;
- Specific Responsibilities and Duties.

### A. **Operating Principles**

The Committee shall fulfill its responsibilities within the context of the following principles:

(1) Committee Values

The Committee members will act in accordance with the Corporation's Code of Business Conduct for Employees and Directors. The Committee expects the management of the Corporation to operate in compliance with the Corporation's Code of Business Conduct for Employees and Directors and with corporate policies; with laws and regulations governing the Corporation; and to maintain strong financial reporting and control processes.

(2) Communications

The Chairman and members of the Committee expect to have direct, open and frank communications throughout the year with management, other Committee Chairmen, the external auditors, the Internal Auditor and other key Committee advisors as applicable.

(3) Financial Literacy

All Committee members shall have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

(4) Annual Audit Committee Work Plan

The Committee, in consultation with management and the external auditors, shall develop an annual Audit Committee Work Plan responsive to the Committee's responsibilities as set out in this Charter.

In addition, the Committee, in consultation with management and the external auditors, shall develop and participate in a process for review of important financial topics that have the potential to impact the Corporation's financial disclosure.

(5) Meeting Agenda

Committee meeting agendas shall be the responsibility of the Chairman of the Committee in consultation with Committee members, senior management and the external auditors.

(6) Committee Expectations and Information Needs

The Committee shall communicate its expectations to management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management and the external auditors at least one week in advance of meeting dates.

(7) External Resources

To assist the Committee in discharging its responsibilities, the Committee may, in addition to the external auditors, at the expense of the Corporation, retain one or more persons having special expertise.

(8) In Camera Meetings

At each meeting of the Committee, the members of the Committee shall meet in private session with the external auditors; with management; and with the Committee members only. The Committee shall meet in private session with the Internal Auditor as often as it deems necessary, but in any event, no less than twice per year.

(9) Reporting to the Board

The Committee, through its Chairman, shall report after each Committee meeting to the Board at the Board's next regular meeting.

(10) Committee Self Assessment

(a) The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

(b) The Committee shall approve criteria for evaluating the financial literacy of its members in accordance with the terms of sections 1.6 and 3.1 of Multilateral Instrument 52-110 Audit Committees, as amended or replaced from time to time, and shall conduct an annual assessment of the financial literacy of its members and determine those members to be identified as financially literate in the Corporation's annual continuous disclosure documents in accordance with regulatory requirements.

(11) The External Auditors

The Committee expects that, in discharging their responsibilities to the shareholders, the external auditors shall be accountable to the Board through the Audit Committee. The external auditors shall report all material issues or potentially material issues to the Committee.

(12) Approval of Other Engagements

The Committee shall approve all engagements for accounting and tax advice provided by an audit firm other than the external auditors.

(13) Committee Chairman's Job Description

The Committee shall develop and recommend to the Board a job description for the Chairman of the Committee. The Committee shall review and update the Chairman's job description on a regular basis for approval by the Board.

**B. Operating Procedures**

- (1) The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chairman, upon the request of two members of the Committee or at the request of the external auditors, and a majority of the members of the Committee shall form a quorum.
- (2) The powers of the Committee may be exercised at a meeting at which a quorum of the Committee is present in person or by telephone or other electronic means or by a resolution signed by all members entitled to vote on that resolution at a meeting of the Committee. Each Committee member (including the Chairman) is entitled to one vote in Committee proceedings. For greater certainty the Chairman does not have a second or casting vote.
- (3) Any Director is entitled to attend, and the Committee may invite any officer or employee of the Corporation or any other person to attend, any Committee meetings to participate in the discussion and review of the matters considered by the Committee.
- (4) Unless the Committee otherwise specifies, the Secretary or Assistant Secretary of the Corporation shall act as Secretary of all meetings of the Committee.
- (5) In the absence of the Chairman of the Committee, the members shall appoint an acting Chairman.
- (6) A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee and to each director of the Corporation in a timely fashion.

## **C. Responsibilities and Duties**

To fulfill its responsibilities and duties, the Committee shall:

### Financial Reporting

- (1) review the Corporation's annual and quarterly financial statements with management and the external auditors to gain reasonable assurance that the statements are accurate, complete, represent fairly the Corporation's financial position and performance and are in accordance with GAAP and together with management's discussion and analysis, the annual information form and associated officer certifications constitute a fair presentation of the Corporation's financial condition and report thereon to the Board before such financial statements are approved by the Board;
- (2) review with management and the external auditors the financial statements of the Corporation's significant subsidiaries, of the Corporation's profit sharing plans and of the Canadian Tire Foundation for Families, for the purpose of reporting to the Board in connection with its ongoing suitability as a recipient of financial support of the Corporation and as a trade mark licensee of the Corporation;
- (3) receive from the external auditors reports on their review of the annual and quarterly financial statements;
- (4) receive from management a copy of the representation letter provided to the external auditors and receive from management any additional representations required by the Committee;
- (5) review and, if appropriate, approve news releases and reports to shareholders issued by the Corporation with respect to the Corporation's annual and quarterly financial statements;
- (6) review and if appropriate, approve all public disclosure documents containing material audited or unaudited financial information, except those referred to in paragraph (7) below, including annual information forms, annual and interim management's discussion and analysis, annual and interim CEO/CFO certifications of results, annual and quarterly earnings news releases, dividend declaration news releases, normal course issuer bid news releases, earnings guidance and associated news releases, rights offering circulars and material change reports of a financial nature; in circumstances where events render it impractical for the Board or the Audit Committee to review any such news releases and material change reports with management prior to issuing or filing such news releases and material change reports, authority to review and approve such news releases and material change reports may be exercised by the Chairman of the Audit Committee and the Chairman of the Board, acting together;
- (7) review and, if appropriate, recommend approval to the Board of prospectuses, take-over bid circulars, issuer bid circulars and directors' circulars; and

- (8) satisfy itself that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements in order to satisfy itself that such information is fairly presented and periodically assess the adequacy of these procedures.

#### Accounting Policies

- (1) review with management and the external auditors the appropriateness of the Corporation's accounting policies, disclosures, reserves, key estimates and judgements, including changes or variations thereto and obtain reasonable assurance that they are presented fairly in accordance with GAAP; and report thereon to the Board;
- (2) review major issues regarding accounting principles and financial statement presentation including any significant changes in the selection or application of accounting principles to be observed in the preparation of the accounts of the Corporation and its subsidiaries;
- (3) review with management and the external auditors the degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgements and reserves.

#### Risk and Uncertainty

##### *Enterprise Risk Management*

The Committee shall gain reasonable assurance that Risks of the Corporation are being effectively managed or controlled by:

- (1) recommending to the Board for approval an ERM Policy setting out an ERM framework for the management of business Risks including:
  - (a) the requirement to identify the Principal Risks of the Corporation;
  - (b) the requirement to develop a methodology to establish the overall tolerance of the Corporation for Risk;
  - (c) the requirement to develop and adopt policies which set out the expectations and accountabilities for the management of Risk within an established Risk tolerance;
- (2) approving the Principal Risks of the Corporation identified by management and any proposed changes thereto;
- (3) recommending to the Board for approval policies setting out the framework within which each identified Principal Risks of the Corporation shall be managed;
- (4) approving any changes to policies addressing and managing the Principal Risks of the Corporation;
- (5) approving the ERM Process that enables management to effectively monitor, manage and report on Principal Risks;

- (6) at least semi-annually, obtaining from management a report specifying the management of the Principal Risks of the Corporation including compliance with the ERM Policy and other policies of the Corporation for the management of Principal Risks;
- (7) on a quarterly basis, obtaining from the internal auditor a report regarding management's implementation and maintenance of an effective ERM Process throughout the Corporation in compliance with the ERM Policy and other policies of the Corporation for the management of Principal Risks;

### *Financial Risk Management*

The Committee shall gain reasonable assurance that the financial Risks of the Corporation are being effectively managed or controlled by:

- (8) reviewing with management the Corporation's tolerance for financial Risk;
- (9) reviewing with management its assessment of the significant financial Risks facing the Corporation;
- (10) reviewing with management the Corporation's policies and any proposed changes thereto for managing those significant financial Risks including policies and procedures to manage environmental, occupational health and safety and other Risks to asset value and mitigate damage to or deterioration of asset value; and
- (11) reviewing with management its plans, processes and programs to manage and control such Risks;
- (12) discussing with management, at least annually, the guidelines and policies utilized by management with respect to financial Risk assessment and management, and the major financial Risk exposures and the procedures to monitor and control such exposures in order to assist the Committee to assess the completeness, adequacy and appropriateness of financial Risk disclosure in management's discussion and analysis and in the financial statements;
- (13) reviewing policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
- (14) reviewing foreign currency, interest rate and commodity price Risk mitigation strategies, including the use of derivative financial instruments;
- (15) reviewing the adequacy of insurance coverages maintained by the Corporation;
- (16) reviewing regularly with management, the external auditors and the Corporation's legal counsel, any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements.
- (17) approving counterparties to derivative transactions with long term investment grade ratings pursuant to the Securities and Derivatives Board Policy;

- (18) approving for continuing transaction limits in the event of a downgrade of financial institutions rated “AA” or “A” pursuant to the Securities and Derivatives Board Policy;
- (19) approving equity hedging activity proposed by management in the absence of an Equity Risk Management Policy;

#### Financial Controls and Control Deviations

- (1) regularly assess the Corporation’s system of internal financial controls and the Corporation’s control environment to gain reasonable assurance that such controls are effective and efficient and to assist the Board in assessing whether senior management has created a culture of integrity and an effective control environment throughout the organization.
- (2) review the plans of the internal and external auditors to gain reasonable assurance that the combined evaluation and testing of internal financial controls is comprehensive, coordinated and cost-effective;
- (3) receive regular reports from management, the external auditors and the Corporation's legal advisors on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto.

#### Disclosure Controls and Deviations

- (1) satisfy itself that management has developed and implemented a system to ensure that the Corporation meets its continuous disclosure obligations;
- (2) receive regular reports from management and the Corporation’s legal advisors on the functioning of the disclosure compliance system, including any significant instances of non-compliance with such system, in order to satisfy itself that such system may be reasonably relied upon.

#### Compliance with Laws and Regulations

- (1) review regular reports from management and others (e.g., internal and external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:
  - (a) tax and financial reporting laws and regulations;
  - (b) legal withholding requirements;
  - (c) environmental protection laws and regulations;
  - (d) other laws and regulations which expose directors to liability;
- (2) review the status of the Corporation's tax returns and those of its subsidiaries;

- (3) review regular reports from management and others with respect to the Corporation's compliance with laws and regulations and gain reasonable assurance that the Corporation's policies, procedures and programs in relation thereto are operating effectively and that the Corporation's provisions with respect to such matters are sufficient and appropriate;
- (4)
  - (a) approve a Code of Business Conduct that is comprised of standards reasonably designed to promote integrity and to deter wrongdoing and that addresses the following issues:
    - (i) conflicts of interest, including transactions and agreements in respect of which a director or member of management has a material interest;
    - (ii) protection and proper use and exploitation of the Corporation's assets and opportunities;
    - (iii) confidentiality of private information relating to the business and affairs of the Corporation;
    - (iv) fair and ethical dealing with the Corporation's security holders, customers, suppliers, competitors and employees;
    - (v) compliance with applicable laws, rules and regulations; and
    - (vi) reporting of any illegal or unethical behavior or other breaches of the Code of Business Conduct;
  - (b) gain reasonable assurance that waivers of compliance with the Code of Business Conduct granted for the benefit of any director or member of management are being granted only by the Board or an appropriately empowered Board committee;
  - (c) review annually the process for monitoring compliance with and communication of the Code of Business Conduct to the Corporation's employees and directors and gain reasonable assurance that such process is operating effectively;
- (5) discuss with the General Counsel any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the business and affairs of the Corporation, or on the compliance policies of the Corporation.

#### Relationship with External Auditors

- (1) recommend to the Board the nomination of the external auditors;
- (2) approve the remuneration and the terms of engagement of the external auditors;
- (3) if necessary, recommend the removal by the shareholders of the current external auditors and replacement with new external auditors;
- (4) review the performance of the external auditors annually or more frequently as required;



- (5) receive annually from the external auditors an acknowledgement in writing that the shareholders, as represented by the Board and the Committee, are their primary client;
- (6) receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services by the Corporation;
- (7) establish a policy under which management shall bring to the attention of the Chairman of the Committee all requests for non-audit services to be performed by the external auditors for the Corporation and its subsidiaries before such work is commenced. The Chairman is authorized to approve all such requests, but if any such service exceeds \$250,000 in fees, or the service is of a sensitive or unusual nature, the Chairman shall consult with the Committee before approving the service. The Chairman has the responsibility to inform the Committee of all pre-approved services at its next meeting;
- (8) discuss with management and the external auditors the timing and the process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner;
- (9) review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, the extent to which the external audit can be coordinated with internal audit activities and the materiality levels which the external auditors propose to employ;
- (10) meet regularly with the external auditors in the absence of management to determine, *inter alia*, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the Committee;
- (11) establish effective communication processes with management and the Corporation's internal and external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee;
- (12) oversee the work of the external auditors and the resolution of disagreements between management and the external auditors with respect to financial reporting; and
- (13) request that the external auditors provide to the Committee, at least annually, an oral and/or written report describing the external auditors' internal quality assurance policies and procedures as well as any material issues raised in the most recent internal quality assurance reviews, quality reviews conducted by the Canadian Public Accountability Board, or any inquiry or investigation conducted by government or regulatory authorities.

#### Internal Auditor

- (1) review the Internal Auditor's terms of reference;
- (2) review the annual plan of the Internal Auditor;

- (3) review the reports of the Corporation's Internal Auditor with respect to control and financial Risk, and any other matters appropriate to the Committee's duties. The Committee shall review the adequacy and appropriateness of management's response, including the implementation thereof;
- (4) review and approve the reporting relationship of the Internal Auditor to ensure that an appropriate segregation of duties is maintained and that the Internal Auditor has an obligation to report directly to the Committee on matters affecting the Committee's duties, irrespective of his or her other reporting relationships;
- (5) approve the appointment, replacement, reassignment or dismissal of the Internal Auditor;
- (6) in consultation with management, review and approve the annual compensation payable to the Internal Auditor.

#### Other Responsibilities

- (1) periodically review the form, content and level of detail of financial reports to the Board;
- (2) review annually the expenses of the Chairman of the Board and the Chief Executive Officer for the purpose of gaining reasonable assurance as to the reasonableness of such expenses;
- (3) after consultation with the Chief Financial Officer and the external auditors, gain reasonable assurance, at least annually, of the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;
- (4) review in advance the appointment of the Corporation's senior financial executives;
- (5) investigate any matters that, in the Committee's discretion, fall within the Committee's duties;
- (6) review reports from the Internal Auditor, the external auditors, and/or other Committee Chairmen on their review of compliance with the Corporation's Code of Business Conduct, and the Corporation's policies on political donations and commissions paid to suppliers or others;
- (7) review and approve the Corporation's policies with respect to the hiring of partners, employees and former partners and employees of the current and former external auditors;
- (8) (a) establish procedures for:
  - (i) the confidential receipt, retention and treatment of complaints received by the Corporation regarding the Corporation's accounting, internal accounting controls or auditing matters; and
  - (ii) the confidential anonymous submission, retention and treatment of concerns by employees regarding questionable accounting or auditing matters; and

- (b) require that all such matters be reported to the Committee together with a description of the resolution of the complaints or concerns;
- (9) review management's reports on compliance with, and proposed changes to, all Board level policies that have been approved by the Board from time to time.

Accountability

- (1) review and update this Charter on a regular basis for approval by the Board;
- (2) from time to time, as requested by the Board, disclose its Mandate and this Charter in the Corporation's statement of corporate governance practices and in its annual information form.
- (3) review the description of the Committee's activities as set forth in the Corporation's statement of corporate governance practices.