



CANADIAN TIRE CORPORATION, LIMITED

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**ANNUAL  
INFORMATION  
FORM**

**March 12, 2009**

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**ANNUAL INFORMATION FORM**  
**CANADIAN TIRE CORPORATION, LIMITED**  
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Copies of the Company's Annual Information Form for the 2008 financial year, as well the Company's 2008 Financial Report and Management Information Circular for the 2007 financial year, may be obtained on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

## CAUTION REGARDING FORWARD-LOOKING INFORMATION

This Annual Information Form contains forward-looking information that reflects management's expectations related to expected future events, financial performance and operating results of the Company. All statements other than statements of historical facts included in this Annual Information Form, including statements regarding the prospects of the industries in which the Company operates, future plans, expected financial position and business strategy of the Company may constitute forward-looking information. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future results set out herein, our strategic goals and our priorities, and the economic and business outlook for us, for each of our business segments and for the Canadian economy. Often but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. The forward-looking information contained in this Annual Information Form is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operation as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives, and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, projections, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact, but only reflections of management's estimates and expectations. Although the Company believes that this forward-looking information is based on information and assumptions which are current, reasonable and complete, this information is necessarily subject to a number of factors that could cause actual results to differ materially from management's predictions, forecasts, projections, expectations or conclusions as set forth in such forward-looking information for a variety of reasons. These factors include (a) credit, market, operational, liquidity and funding risks, including changes in interest rates or tax rates; (b) the ability of Canadian Tire to attract and retain quality employees, Dealers, Canadian Tire Petroleum™ (Petroleum) agents and PartSource® and Mark's Work Wearhouse® (Mark's) store operators and franchisees; (c) the willingness of customers to shop at our stores or acquire our financial products and services; (d) risks and uncertainties relating to information management, technology, product safety, competition, seasonality, commodity price and business disruption, consumer credit, securitization funding, and foreign currency; and (e) the risks and uncertainties that could cause actual results or the material factors and assumptions applied in preparing forward-looking information to differ materially from predictions, forecasts, projections, expectations or conclusions, which risks and uncertainties are discussed in the "Risk Factors" section of this Annual Information Form (Section 3.17) and also in the following sections of the Company's Management's Discussion and Analysis ("MD&A") for the year ended January 3, 2009: section 5.3.1.6 (Business Risks – CTR), section 5.3.2.5 (Business Risks – Mark's), section 5.3.3.5 (Business Risks – Petroleum), section 5.3.4.8 (Business Risks – Financial Services) and section 14.0 (Enterprise Risk Management) (including section 14.1 (Board accountability), section 14.2 (Principal Risks), section 14.3 (Financial instruments) and section 14.4 (Other risks)).

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please also refer to the Company's public filings available at [www.sedar.com](http://www.sedar.com) and at [www.canadiantire.ca](http://www.canadiantire.ca).

We caution that the foregoing list of important factors is not exhaustive and other factors could also adversely affect our results. Investors and other readers are urged to consider the foregoing risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Statements that include forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after such statements are made. The forward-looking information in this Annual Information Form reflects the Company's expectations as of March 12, 2009, and is subject to change after this date. The Company does not undertake to update any forward-looking information, whether written or oral, that may be made from time to time by it or on its behalf, to reflect new information, future events or otherwise, unless required by applicable securities laws.

Information contained in or otherwise accessible through the websites referenced above does not form part of this Annual Information Form. All references in this Annual Information Form to websites are inactive textual references and are for your information only.

## ANNUAL INFORMATION FORM

### CANADIAN TIRE CORPORATION, LIMITED

Unless otherwise specified herein, the information in this Annual Information Form is presented as at January 3, 2009 (the last day of the Company's most recently completed financial year), and all dollar amounts set forth herein are expressed in Canadian dollars.

#### 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 structure 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. The Company's website address is [www.canadiantire.ca](http://www.canadiantire.ca).

##### 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% of the consolidated assets of the Company, or whose total sales and operating revenues constitute more than 10% of the consolidated sales and operating revenues of the Company, are each of:

- (a) 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; and
- (b) Canadian Tire Real Estate Limited ("CTREL"), which was incorporated under the laws of Ontario.

The business of each subsidiary 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"); and 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 sections 4.0 (Our Strategic Plan) and 5.0 (Our performance in 2008) of the MD&A in the Company's 2008 Financial Report for a discussion of the Company's strategic plan. The Company's 2008 Financial Report is available on SEDAR at [www.sedar.com](http://www.sedar.com).

2.1.2 *Canadian Tire Retail - Store Improvement Program*

The purpose of CTR's store improvement program is to renew the CTR store network through building, replacing, retrofitting or expanding Canadian Tire stores ("Canadian Tire Stores"). The following table shows the number of Canadian Tire Stores that the Company built, replaced, retrofitted or expanded in 2006, 2007 and 2008, respectively:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
New Builds	7	8	4
Replacements	12	10	15
Retrofits/Expansions	54	49	23

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% in the first year following a conversion to the format. The first four Concept 20/20 stores opened on a test basis in 2003. The Company completed 36 Concept 20/20 projects in 2008. The following table shows the number of Concept 20/20 stores that were built and the number of existing stores that were retrofitted to the Concept 20/20 format in each of 2006, 2007 and 2008, respectively:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
New Builds	7	8	3
Replacements	12	8	10
Retrofits/Expansions	54	48	23

There are currently 228 Concept 20/20 stores. These stores make up approximately 48% of Canadian Tire Stores and approximately 66% 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. The last Concept 20/20 stores were built and retrofitted in 2008. The Company is currently focusing on the "Small Market" format and the "Smart Store" format, as described below.

In 2007, a "Small Market" format that also incorporates a Mark's Work Wearhouse store within a Canadian Tire Store was developed. This format is used to replace existing traditional stores in their markets, and allows CTR to enter incremental markets. Small Market format stores will be paired with a Petroleum gas bar where appropriate. The first Small Market store opened in the summer of 2008 and by the end of 2008, the Company had opened four Small Market stores.

Also in 2007, development began on the "Smart Store" format. The Company launched the Smart Store format, which is intended to enhance sales and the productivity of CTR's product assortments, merchandising and use of space, all at a lower capital cost than Concept 20/20 Stores, in both Welland and Orleans (Ontario) in November 2008.

In 2008, 14 of the 42 CTR build projects included an integrated Mark's component.

### 2.1.3 *Canadian Tire Retail - PartSource*

In the years 2006, 2007 and 2008, the Company opened six, eight and 15 new PartSource stores, respectively, to bring the total number of PartSource branded stores opened in Ontario and Western Canada to 86.

PartSource began testing corporate stores in 2005. As a result of the initial success of this pilot, PartSource has increased the number of its 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, Niagara Falls and Sault Ste. Marie (Ontario). Two of these stores were converted to the PartSource brand in 2007, and the third store was converted in 2008. In 2008, PartSource acquired 11 stores and converted five franchise stores to corporate stores. The 11 automotive parts stores acquired by PartSource in 2008 are located in Brockville, Prescott, Gananoque, Angus, Barrie, North Bay and Timmins (Ontario); Medicine Hat (Alberta); and Halifax, Dartmouth and Lower Sackville (Nova Scotia). Six of these stores were converted to the PartSource brand in 2008, and the other five stores are scheduled to be converted in 2009.

In addition, PartSource has continued to invest in new technology, supply chain infrastructure and the further development of PartSource stores with expanded warehouses across Canada to drive growth at CTR and PartSource. For example, PartSource has developed hub stores ("Hub stores"), which are larger than traditional PartSource stores and are designed to provide a broader assortment of automotive parts, to service both CTR and PartSource customers on an "as needed" basis. In 2008, PartSource opened two new Hub stores and retrofitted three existing stores into Hub stores.

During 2006, 2007 and 2008, 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 employment of specialized, knowledgeable staff in PartSource stores. During 2008, PartSource made significant progress in building on its sales to Canadian Tire Stores and is currently used by approximately 160 Canadian Tire Stores for emergency auto parts service.

#### 2.1.4 *Other Canadian Tire Retail Initiatives*

The "CTR Change" program is a multi-year program aimed at improving and upgrading marketing and merchandising processes within the Company, as well as the systems, processes and operational and organizational structures that support them. In 2008, the Company continued to make progress with respect to its CTR Change program, including implementation of new customer-centric hierarchy functions in operating systems and the implementation of a new pricing system. Also in 2008, CTR enhanced the execution of its pricing strategy by focusing on everyday price competitiveness. A key component of the pricing strategy is to ensure that everyday prices on high volume, high customer perception stock-keeping units ("SKUs") are competitively priced relative to the market. Price reviews are

coordinated with in-store merchandising and signage to ensure customer awareness of competitive regular pricing.

In 2008, the Company continued certain initiatives including the National Association for Stock Car Auto Racing (“NASCAR”) promotional partnership and the “E-Learning” initiative. In September 2006, a 9 ½ year partnership was established among CTR, NASCAR and The Sports Network creating the “NASCAR Canadian Tire Series”, a Canadian stock car racing championship that was launched in May 2007.

CTR’s E-Learning initiative is directed to Canadian Tire Store staff and is intended to improve their product knowledge and confidence in order to enable them to better serve customers.

CTR commenced implementation of an automotive infrastructure initiative in 2008. The “Automotive Infrastructure” program is an initiative to support growth in the Company’s automotive businesses, including CTR and PartSource, and is designed to result in improved customer service at Canadian Tire Stores and PartSource stores. The Automotive Infrastructure program is comprised of three primary components: significant expansion of our auto parts assortment within CTR’s three main auto parts distribution facilities; improving our automotive store operating systems at both CTR and PartSource; and creating a PartSource network of approximately 23 Hub stores across Canada.

CTR’s “A Greener Tomorrow Starts Today” program, which was formally launched in 2008, is designed to establish Canadian Tire stores as a credible location for our consumers to buy environmentally friendly offerings. The program simplifies environmental issues and choices for consumers, provides education to consumers on the positive impact that small changes can have when applied across CTR’s large and loyal customer base and reinforces CTR’s status as a trusted retailer by consumers from coast to coast.

In 2008, building on its success from 2007, CTR reinforced its commitment to home organization solutions and products by focusing on garage organization solutions. In 2008 the garage organization marketing plan included a dynamic consumer communication plan, a robust product offering and merchandising tools to enable Dealers to modify the in-store shopping experience. Dealers and customers continue to respond well to the garage organization solutions. In the next few years CTR will continue to focus on organization solutions for the garage, home and backyard.

#### 2.1.5 *Canadian Tire Retail - Distribution and Supply Chain*

Information concerning the development of CTR’s distribution and supply chain operations, including its 3½ 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) (the "Eastern Canada Distribution Centre") is set out under the heading "Distribution and Supply Chain" on page 13.

Information concerning the sale and leaseback of two of the Company's distribution centres in January 2006 is set out under the heading "Financing of the Company" on page 7.

2.1.6 *Mark's Work Warehouse Ltd.*

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 Warehouse banner. During 2006, 2007 and 2008, Mark's continued to build a Canadian superbrand by pursuing its strategic initiatives including but not limited to: store network expansion; the introduction of Mark's stores integrated with Canadian Tire Stores; category growth of its three major categories (industrial wear, men's wear and women's wear); gross margin rate improvement through better sourcing and improved gross margin management tools; and development of consumer awareness of the Mark's brand and customer understanding of the Mark's "Clothes that Work" message.

During 2008, Mark's opened 18 new corporate stores, relocated 11 corporate stores and one franchise store and expanded six corporate stores. In addition, Mark's opened one mobile store in 2008, bringing its total mobile store count to three.

2.1.7 *Petroleum*

In 2006, 2007 and 2008, Petroleum continued the execution of its growth plan, which included opening new gas bar sites, re-branding gas bar sites of competitors, retrofitting convenience stores to a new convenience store design and upgrading and building new kiosks. "Re-branding" of a gas bar site is the conversion of a competitor's gas bar and kiosk to the Canadian Tire brand.

In 2008, Petroleum opened nine new gas bars, re-branded two competitor gas bars, rebuilt three gas bars and refurbished 21 existing gas bars to better enhance the customer experience and reflect the Canadian Tire brand. Petroleum now operates 273 gas bars, 266 convenience stores and kiosks, 74 car washes, 13 Pit Stops and 86 propane stations.

2.1.8 *Canadian Tire Financial Services Limited*

During the past three years, Financial Services has grown its Canadian Tire MasterCard®/™<sup>1</sup> account portfolio through

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<sup>1</sup> MasterCard, the MasterCard Brand Mark and PayPass are registered trademarks of MasterCard International Incorporated ("MasterCard International").

increases in average balances, new account acquisition and introduction of new credit cards. Financial Services' wholly-owned bank, CTB, manages a portfolio of over 1.7 million active Canadian Tire MasterCard accounts.

Commencing in 2006, CTB piloted a Cash Advantage MasterCard in Nova Scotia, which allows customers to earn up to 1% cash back on all purchases. The test market was expanded in 2007 to include British Columbia, Newfoundland and Labrador and the Greater Toronto Area. CTB continues to operate this pilot project. Also during 2007, CTB piloted a 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 and CTB nationally launched the Gas Advantage MasterCard, which provides savings of up to 10 cents per litre of gasoline purchased at Petroleum sites using the Gas Advantage MasterCard.

In October 2006, CTB commenced a pilot project through which high interest savings accounts, GICs and residential mortgages were offered in two pilot markets: Calgary (Alberta) and Kitchener-Waterloo (Ontario). A third test market in London (Ontario) was added in June 2007. In September 2007, the Canadian Tire One-and-Only™ account, which consolidates customers' chequing, savings, credit card, loan and mortgage loan balances into one account, was launched as part of the pilot project.

In January 2008, CTB acquired a line of credit portfolio of unsecured receivables previously owned and managed by a Canadian chartered bank, and marketed by such bank under the Canadian Tire name, for \$29.6 million.

In 2008, CTB re-launched the Canadian Tire Options MasterCard by issuing PayPass®/™ enabled cards.

## 2.1.9 *Financing of the Company*

### **General**

The Company intends to continue to fund its growth through a combination of financing sources including internal cash generation; GICs offered through deposit brokers; securitization of credit card receivables; and accessing the public and private financial markets, as appropriate. Additional information concerning the Company's financing sources can be found under section 8.0 (Financing) of the MD&A in the Company's 2008 Financial Report, which pages are incorporated by reference herein.

### **Committed Bank Lines of Credit**

The Company increased its committed bank lines by \$535 million in November 2007. As of January 3, 2009, CTC had \$1.22 billion

in committed lines of credit of which \$775 million will be increased in term to two years, with annual renewals, subject only to the completion of legal documentation. The remainder of the lines are committed until late 2009 and are typically extended on a quarterly basis thereafter. Reference is made to section 8.0 (Financing) of the MD&A in the Company's 2008 Financial Report for a discussion of the Company's committed bank lines.

### **Medium Term Notes (MTN) Program**

In June 2008, the Company repaid \$150 million of maturing medium term notes. The Company did not issue long term debt in 2008. Medium term notes and debentures in the amount of \$1.3 billion were outstanding as at January 3, 2009.

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. The prospectus 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% per annum pursuant to the March 2007 shelf prospectus. The proceeds from the issue were used for general corporate purposes.

On January 16, 2006, the Company repaid \$200 million in medium term notes that had matured. No corporate debt maturities are scheduled to mature in 2009.

In February 2009, the Company filed a preliminary base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada in connection with the proposed issuance of medium term notes up to an aggregate of \$750 million. In the event the Company is successful in filing a final base shelf prospectus, which is expected to take place prior to the expiry of the current prospectus, the medium term note program will be continued for a further period of 25 months.

### **Broker GIC Deposits**

During the fourth quarter of 2007, CTB began testing the offering of GICs through deposit brokers rather than directly to the retail customer. CTB's GICs that are offered through deposit brokers typically offer a higher interest rate compared to CTB's retail GICs. Individual GIC balances of up to \$100,000 are insured by Canada Deposit Insurance Corporation. CTB's GICs are offered in one to five-year terms and all issued GICs are non-redeemable prior to maturity (except in certain rare circumstances). Given that the overall size of the broker GIC market is estimated to be \$66 billion, CTB believes that there is ample room in the market to take advantage of CTB broker GIC deposits as an alternative funding source to the securitization of credit card receivables at reasonable and cost-effective interest rates.

By the end of 2008, CTB had approximately \$927 million in short and long-term CTB broker GIC deposits outstanding.

### **Securitization of Receivables**

CTB sells 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). Canadian Tire Receivables Trust 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 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. 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 approximately \$2.2 billion of Senior and Subordinated Asset-Backed Promissory Notes and approximately \$62 million of Asset-Backed Commercial Paper. In February 2008, GCCT issued Senior and Subordinated Asset-Backed Promissory Notes for gross proceeds of \$634.9 million, resulting in net proceeds of approximately \$630 million. During 2008, \$570 million of five-year GCCT-issued Senior and Subordinated Asset-Backed Promissory Notes matured and were repaid in full by GCCT. In November 2007, GCCT repaid maturing Senior and Subordinated Asset-Backed Promissory

Notes totalling \$473 million. In November 2006, GCCT issued two Series of Senior and Subordinated Asset-Backed Promissory Notes for gross proceeds of \$570 million and repaid maturing Senior and Subordinated Asset-Backed Promissory Notes totalling \$315 million.

GCCT participates in the Canadian asset securitization market through the use of commercial paper and issuance of medium term notes. Despite the ongoing challenges and uncertainty of the capital markets since August 2007, GCCT demonstrated success in accessing the securitization market in 2008. CTB will continue to assess the securitization market conditions and may 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; 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.

Late in 2009, GCCT term notes of \$625 million will mature which will result in a corresponding increase in receivables at Financial Services, unless GCCT issues new term notes as the existing series matures.

GCCT is a reporting issuer and information prepared by it, which information 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).

In May 2008, Financial Services re-purchased a securitized portfolio of personal loan receivables of \$43.7 million from a third-party trust and as a result of this purchase, Financial Services owned 100% of its personal loan portfolio as of January 3, 2009.

#### **Sale/Leaseback Transactions and Sales of Real Estate**

During September 2008, the Company completed the sale and leaseback of a portfolio of 12 properties for proceeds of \$174 million. Each of the 12 properties in the portfolio includes a recently constructed or expanded Canadian Tire Store and six of the sites also feature a Mark's store. These stores are located in Ontario, Quebec, Nova Scotia, Alberta and British Columbia and together, the properties total approximately 996,000 square feet of gross leaseable area. In August 2008, the Company completed the sale and leaseback of a Canadian Tire Store in Ottawa (Ontario) for proceeds of \$40 million. The Company will continue to selectively consider opportunities to monetize real estate assets including urban Canadian Tire stores and the Eastern Canada Distribution Centre.

In January 2006, the Company completed a transaction 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 Company was able to benefit from favourable real estate market conditions in completing this transaction, and in maintaining 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 leased 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.

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

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

CTR, a division of the Company, offers consumers approximately 114,500 SKUs of auto parts and accessories, sports and leisure products and home products through Canadian Tire Stores located throughout Canada which are operated by independent third-party operators known as Dealers. 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 475 Canadian Tire Stores operated by 467 Dealers.

A description of the various business functions of CTR (which include Marketing, Supply Chain, Dealer Relations, Dealer Finance, Store Design & Support, PartSource and Real Estate and Construction) are set out below. Further information as to recent and proposed activities of CTR is included in section 5.3.1 (Canadian Tire Retail) of the MD&A in the Company's 2008 Financial 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 include 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. Over 30% 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 2009. CTR's purchasing activities are centralized at its home office in Toronto (Ontario) 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, maintenance and store planning has contributed significantly to the consistency of the presentation of the Canadian Tire image to consumers.

The printed Canadian Tire catalogue was phased out in 2008 in favour of investing incrementally in the Company's [www.canadiantire.ca](http://www.canadiantire.ca) website. The website has become the primary source for consumers for product information, providing much broader access to the CTR assortment and up to date product features, benefits and pricing.

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. The weekly Canadian Tire flyer is one of the Company's most significant sales drivers and is Canada's most highly read flyer, with delivery to over 11 million households each week. 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 materials originate within Canadian Tire.

As of March 12, 2009, over 30,000 product descriptions were posted on the Company's web-site at [www.canadiantire.ca](http://www.canadiantire.ca). Effective January 29, 2009, customers are no longer able to purchase products online at [www.canadiantire.ca](http://www.canadiantire.ca) for home delivery. The Company's decision to discontinue direct home delivery was based primarily on two factors: first, research indicated that the overwhelming majority of traffic to the website is focused on acquiring product information rather than actually purchasing products online; second, CTR has an extensive store network of 475 stores located within a 10 to 15 minute drive of 90% of the Canadian population. Resources will be used to develop capabilities and features that will significantly enhance the online experience for the millions of customers who visit [www.canadiantire.ca](http://www.canadiantire.ca) every month. This decision does not impact CTR's successful gift card program, as customers still have the ability to order gift cards online for home delivery. In April 2009, CTR expects to re-launch [www.canadiantire.ca](http://www.canadiantire.ca) with a brand new look, new navigational functionality and more information for customers.

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 Canadian Tire 'Money' coupon 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 Options MasterCard and Canadian Tire retail credit cards to purchase merchandise and services at Canadian Tire Stores and Petroleum outlets. For customers who use the Canadian Tire Options 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 2,300 sources of supply, 475 Canadian Tire Stores and 86 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 1,575 full-time equivalent employees are engaged in the physical distribution element of CTR's operations. During

2008, approximately 170 million cubic feet of merchandise were shipped to Canadian Tire Stores and PartSource 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 uses additional distribution centre space that it owns or leases.

The A.J. Billes Distribution Centre, a 1.2 million square foot facility which became operational in 1991, is located in Brampton (Ontario). 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 subsequently expanded in 2005 to 950,000 square feet. Depending upon the number and type of products deployed, the expanded site has the capability to ship 29 million cubic feet of product annually to over 150 Canadian Tire Stores in Western Canada.

In July, 2006, CTR began the construction of the Eastern Canada Distribution Centre, 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, which was commissioned for production in the first quarter of 2009, will support future sales growth at CTR and enable the closing of smaller third-party facilities in Montreal (Quebec) and Brampton (Ontario). CTR has spent \$232.7 million to date on the design, land acquisition, construction, material handling equipment and technology for this facility. In January 2009, CTR signed a five year agreement with Genco Distribution System of Canada, Inc. to operate this facility.

To facilitate the prompt distribution of its products, CTR owns or leases approximately 2,147 trailers, 3,895 chassis and 5,556 intermodal containers. The Company took delivery of approximately 850 additional chassis and 890 intermodal containers in 2008. The Company does not expect to take delivery of a material number of additional chassis or intermodal containers in 2009. 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.

To support growth in automotive hard parts sales and service, CTR opened two auto parts distribution centres during 2002 (one in Calgary and one in 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 within 24 to 48 hours from receipt of an order. During 2007, CTR signed a 3½ 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.

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

The Company's Dealer Relations department includes the Dealer Finance Group, which is responsible for monitoring both the operational and financial performance of Dealers. Dealer Finance manages Dealer changeovers, the Dealer mobility system and the Dealer performance audit process. Dealer Selection and Development is another group 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 implementation 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 19.

### 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 that are not Hub stores typically comprise over 7,200 square feet and offer a selection of approximately 15,000 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 generally

staffed by expert auto parts professionals and licensed automotive technicians. 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 86 PartSource stores in operation which are comprised of 33 franchise stores and 53 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, are generally licensed to Dealers. The premises occupied by 470 of the 475 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 four 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. Of the premises licensed to Dealers by the Company, the Company owns 350 and leases 120 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. In addition, the Company secures distribution centres and office space to support its various businesses. 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. In addition to the properties licensed to Dealers, the Company (including Mark’s) owns or leases from third parties most property upon which 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 certain properties in 2008 and 2006 and the sale of surplus land in December 2006 is set out under the heading “Financing of the Company” on page 7.

## 3.2 Mark’s Work Wearhouse Ltd.

Mark’s is a chain of 372 stores across Canada that offers 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 operates under the name “L’Équipeur” in Quebec and also conducts a business-to-

business operation under the name “Imagewear, a Division of Mark’s Work Wearhouse.”

A wholly-owned subsidiary of the Company, Mark’s is one of the largest specialty apparel retailers in Canada. Mark’s offers 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 368 stores under the Mark’s Work Wearhouse banner (“L’Équipeur” in Quebec) 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: two in Western Canada, two 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 “Mark’s stores integrated with CTR stores” were built: two in Atlantic Canada, three in Ontario and four in Western Canada. During 2008, 14 additional “Mark’s stores integrated with CTR stores” were built: two in Atlantic Canada, two in Quebec, seven in Ontario and three in Western Canada, bringing to 46 the total number of these “Mark’s stores integrated with CTR stores” open for business.

Mark’s engages a third-party logistics company to transport its product shipments from its two distribution centres to its stores and to transport most of its product shipments directly to its stores from domestic suppliers. The same third-party logistics company operates both Mark’s distribution centres in Calgary (Alberta) and Brampton (Ontario) pursuant to an outsourcing arrangement with Mark’s. Both distribution centre facilities are leased to Mark’s by third-party lessors. The current transportation and distribution centre outsourcing arrangements expired at the end of December 2008, but the services continue on the same terms. Negotiations are in progress to complete a renewal or extension of the existing arrangements. The Brampton location continues to operate in its 182,300 square foot facility while the Calgary facility relocated from its 125,500 square foot facility to a new, larger 186,500 square foot facility over the December 2008 to January 2009 timeframe. The movement of goods from off-shore suppliers to these two distribution centres is managed by Mark’s supply chain through third-

party logistics companies. Mark's also receives domestic transportation services from other third-party logistics companies.

### 3.3 Petroleum

Petroleum is responsible for the operation of 273 retail gas bars located in nine provinces, 140 of which are in Ontario and 60 of which are in Quebec. Of these locations, 13 include separate facilities for vehicle lubrication services, 74 include car washes and 86 supply propane. Petroleum outlets also sell convenience products to the public.

All of Petroleum's gas bars are operated by independent agents pursuant to agreements governing the sale of petroleum products using the Canadian Tire name and logo.

Petroleum is in the process of upgrading, replacing and expanding its network of outlets. Petroleum opened nine new gas bars during 2008, and plans to expand its network in 2009 by opening four new gas bars. Petroleum also closed four gas bars in 2008. Petroleum plans to refurbish and upgrade approximately 20 sites in 2009.

As set forth in Section 2.1.7 above, during 2008 Petroleum re-branded two competitor gas bars. 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. At the end of 2008, Petroleum's gas bars included 38 re-branded sites.

In 2008, Petroleum added 11 new convenience stores and closed four convenience stores. There are a total of 266 convenience stores at the 273 gas bars operating under the Canadian Tire banner. In 2009, Petroleum plans to open a convenience store at most of its new gas bar locations.

Further information concerning Petroleum's strategy is included in section 5.3.3 (Canadian Tire Petroleum) of the MD&A in the Company's 2008 Financial Report.

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

Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, Cash Advantage MasterCard, Vacation Advantage MasterCard and Gas Advantage MasterCard. Financial Services also markets personal loans, lines of credit, insurance and warranty products and an emergency roadside assistance service called Canadian Tire Roadside Assistance®. CTB, a wholly-owned subsidiary of Financial Services, is a federally regulated bank that manages and finances Canadian Tire's consumer MasterCard and retail credit card portfolios, as well as the personal loan and line of credit portfolios. CTB also markets high-interest savings accounts, GICs, residential mortgages and the Canadian Tire One-and-Only™ account (which consolidates customers' chequing, savings, loans and mortgage loan balances into one account) in three pilot markets; and offers GICs through third-party brokers.

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 27.

Information concerning Canadian Tire 'Money' on the Card is set out under the heading "Marketing" on page 12.

### 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 (subject to renewal terms).

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 (subject, as set forth above, to renewal terms). 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.

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 of 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, as described under the heading "Other Canadian Tire Retail Initiatives" in Section 2.1.4, the Company and the Dealers have agreed to support a new major automotive infrastructure project to reinforce the Company's leadership position in its cornerstone automotive business.

A policy of the Company is to offer new Dealers smaller volume Canadian Tire Stores and, based upon successful operation of their Canadian Tire Stores, to offer them larger volume 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 section 13.2 (Trust financing for Dealers) of the MD&A in the Company's 2008 Financial Report.

The distribution of the 475 Canadian Tire Stores by province and territory is indicated below:

<b><u>Province or Territory</u></b>	<b><u>Number of Canadian Tire Stores</u></b>
British Columbia	52
Alberta	48
Saskatchewan	13
Manitoba	14
Ontario	200
Quebec	95
New Brunswick	17
Nova Scotia	20
Prince Edward Island	2
Newfoundland and Labrador	12
Yukon	1
Northwest Territories	1

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 2008, the total area of retail space for all Canadian Tire Stores was approximately 18.7 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 used 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 SKU. 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. 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 information technology continue to be implemented so as to achieve the desired functions and processes that are key to future cost improvements.

Financial Services and Mark's each have 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. 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.

At Mark's, day-to-day systems and help desk operations were historically outsourced, while applications services and administration were handled internally. In February 2009, Mark's signed a 5½ year agreement, effective January 1, 2009, with EDS Canada Inc. ("EDS"), an HP company, by which EDS became Mark's managed information technology services provider. Pursuant to the agreement, EDS will provide Mark's with managed information technology services for all infrastructure operations as well as application management, support and development technology and services, using a global services delivery model. Transition activities are in progress and are expected to be completed by July 1, 2009.

### 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 including PartSource), Financial Services, Petroleum and Mark's are as follows:

	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
<b>CTR</b> <b>(including</b> <b>PartSource)</b>	<b>4,741</b>	<b>359</b>
<b>Financial Services</b>	<b>1,266</b>	<b>265</b>
<b>Petroleum</b>	<b>77</b>	<b>1</b>
<b>Mark's</b>	<b>1,605</b>	<b>3,222</b>

Collectively, the foregoing employees and Dealers, Petroleum agents, PartSource franchisees, Mark's franchisees and their respective employees number in excess of 57,000 individuals.

### 3.8 Business Development Initiatives

For information about business development initiatives reference is made to section 6.0 (New Business Development) of the MD&A in the Company's 2008 Financial 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 single organization or type of business that competes directly with all product categories of Canadian Tire Stores, although several competitors are in one or more of the product categories 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 section 5.3.1.1 (2008 Strategic Plan performance (CTR)) of the MD&A in the Company's 2008 Financial Report.

### 3.9.2 *Mark's Work Warehouse 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 section 5.3.2.1 (2008 Strategic Plan performance (Mark's)) of the MD&A in the Company's 2008 Financial Report.

### 3.9.3 *Petroleum*

Petroleum competes with other gas bars, convenience stores and car washes. 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 objective is to drive traffic and sales at CTR and receivables growth at Financial Services while generating net earnings.

Petroleum's contribution to the Company's profitability is 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 business model for gas bar operations (consisting of industry-standard agent-operated gas bar sites and access to 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. Petroleum currently sources its fuel from three leading Canadian refiners at competitive prices and has one primary supplier and two ancillary suppliers. Petroleum's primary supply contract is due for renewal at the end of 2010 and Petroleum believes that it will maintain

consistent fuel supply at competitive prices throughout such period.

A number of initiatives designed to maintain and enhance the competitive position of Petroleum are described in section 5.3.3.1 (2008 Strategic Plan performance (Petroleum)) of the MD&A in the Company's 2008 Financial Report.

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

The Canadian Tire MasterCard issued by CTB compete with other general purpose credit cards issued by banks and other financial institutions in the highly regulated and competitive Canadian bank card market.

As of December 2008, the size of the Canadian bank card market (defined as all Visa and MasterCard standard and premium cards issued by Canadian financial institutions) was approximately \$84.5 billion in outstanding receivables. The Canadian Tire MasterCard currently has approximately a 4.5% share of this 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 bank card market.

The Canadian Tire personal loan and line of credit products compete with other comparable products offered by banks and other financial institutions, and are issued on terms and conditions that are competitive with such other products.

Financial Services' pilot project (as described in Section 2.1.8 above) offers high interest savings accounts, GICs 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 in section 5.3.4.1 (2008 Strategic Plan Performance (Financial Services)) of the MD&A in the Company's 2008 Financial 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 atypical 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 2008<sup>(2)</sup></b>	<b>Q3 2008<sup>(2)</sup></b>	<b>Q2 2008<sup>(2)</sup></b>	<b>Q1 2008<sup>(2)</sup></b>	<b>2008<sup>(2)</sup></b>	<b>Q4 2007<sup>(1)</sup></b>	<b>Q3 2007<sup>(1)</sup></b>	<b>Q2 2007<sup>(1)</sup></b>	<b>Q1 2007<sup>(1)</sup></b>	<b>2007<sup>(1)</sup></b>
Gross operating revenue	\$ 1,636.4	\$ 1,399.3	\$ 1,562.1	\$ 1,071.3	\$ 5,669.1	\$ 1,583.7	\$ 1,304.0	\$ 1,514.9	\$ 1,070.9	\$ 5,473.5
Earnings before income taxes	\$ 26.6	\$ 94.0	\$ 85.0	\$ 43.6	\$ 249.2	\$ 81.0	\$ 94.9	\$ 88.5	\$ 38.0	\$ 302.4
Percentage of full year gross operating revenue	28.9%	24.7%	27.5%	18.9%	100.0%	28.9%	23.8%	27.7%	19.6%	100.0%
Percentage of full year earnings before income taxes	10.7%	37.7%	34.1%	17.5%	100.0%	26.8%	31.4%	29.3%	12.5%	100.0%

<b>Mark's quarterly results</b>										
(\$ in millions)	<b>Q4 2008<sup>(2)</sup></b>	<b>Q3 2008<sup>(2)</sup></b>	<b>Q2 2008<sup>(2)</sup></b>	<b>Q1 2008<sup>(2)</sup></b>	<b>2008<sup>(2)</sup></b>	<b>Q4 2007<sup>(1)</sup></b>	<b>Q3 2007<sup>(1)</sup></b>	<b>Q2 2007<sup>(1)</sup></b>	<b>Q1 2007<sup>(1)</sup></b>	<b>2007<sup>(1)</sup></b>
Gross operating revenue	\$ 355.7	\$ 168.7	\$ 200.6	\$ 147.5	\$ 872.4	\$ 326.2	\$ 159.8	\$ 187.2	\$ 152.1	\$ 825.3
Earnings before income taxes	\$ 71.7	\$ (0.3)	\$ 7.9	\$ (3.4)	\$ 75.9	\$ 67.0	\$ 6.2	\$ 25.0	\$ (0.2)	\$ 98.0
Percentage of full year gross operating revenue	40.8%	19.3%	23.0%	16.9%	100.0%	39.5%	19.4%	22.7%	18.4%	100.0%
Percentage of full year earnings before income taxes	94.5%	(0.4)%	10.4%	(4.5)%	100.0%	68.4%	6.3%	25.5%	(0.2)%	100.0%

(1) The 2007 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. Please refer to note 1 in the Annual Consolidated Financial Statements in the Company's 2008 Financial Report.

(2) Fiscal 2008 gross operating revenue and earnings (loss) before income taxes are based on a 14-week period for the fourth quarter and a 53-week period for the year, compared to 13-weeks for the fourth quarter in 2007 and 52-weeks for the year in 2007.

### 3.11 Environmental Protection

Canadian Tire has established policies and 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. Additional information about our environmental policies and environmental risks can be found under sections 5.3.1.6 (Business risks – CTR), 5.3.3.3 (Petroleum's financial results) and 5.3.3.5 (Business risks – Petroleum) of the MD&A in the Company's 2008 Financial Report and Section 3.16 of this Annual Information Form.

### 3.12 Intangible Properties

Canadian Tire has established procedures to protect the trade marks which are material to the business carried on by it, including the trade mark Canadian Tire®, the design presentations 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, Financial Services, Petroleum, PartSource and Mark's are considered to be important assets of Canadian Tire and are defended vigorously where appropriate. Canadian Tire licenses the use of certain trade marks to Financial Services and CTB.

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. 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 for CTR, 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 for CTR.

#### 3.13.1 *Canadian Tire Retail*

In 2008, approximately 40% of the value of products purchased by CTR 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 suppliers which can include, but are not limited to, currency fluctuations; the stability of manufacturing operations in other countries; and transportation and port disruptions. CTR also uses internal resources and third-party quality assurance providers to proactively manage product quality with vendors in the foreign sourcing regions. The Company believes that its business practices are appropriate to mitigate the risks referenced in this Section 3.13.1.

3.13.2 *Mark's Work Wearhouse Ltd.*

Approximately 30% of the value of merchandise purchased by Mark's is sourced directly from vendors outside North America, primarily 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 some comparable merchandise from alternate areas including Mexico and Europe as well as from domestic and U.S. manufacturers.

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 order to provide effective services in the event of a systems failure.

Financial Services owns CTFS Bermuda, a Bermuda 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 and 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 467 Dealers who operate the 475 Canadian Tire Stores. The Company is not dependent upon 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 (in the case of mortgages) 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. Reference is made to section 8.1.4 (Asset-backed commercial paper) of the MD&A in the Company's 2008 Financial Report for further information about the asset-backed commercial paper 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 supports 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 Canadian Tire JumpStart™ program is now the primary focus and delivery vehicle of the Foundation's community initiatives.

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 (the "Supplier Code") sets out the principles and practices of ethical business practice that the Company expects of its suppliers of goods and services. The Supplier Code outlines 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 the Supplier Code requirements from suppliers with whom they do business. Compliance with the Supplier Code is monitored through periodic assessments of suppliers, including third-party audits where appropriate. Oversight responsibility for the Supplier Code has been delegated by the Board of Directors to the Audit Committee. The Company also has an internal Code of Business Conduct (the "Code of Business Conduct") which addresses expected conduct of its directors, officers and employees in relation to compliance with all laws and commitment to integrity, honesty and respect when dealing with each other, business partners and communities. Oversight responsibility for the 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 compliance with both codes. Copies of each of the above mentioned codes may be obtained without charge by contacting Canadian Tire Corporation, Limited, 2180 Yonge Street, P.O. Box 770, Station K, Toronto, Ontario, M4P 2V8, Attention: Palma Barbieri, Vice-President, Risk Management and Compliance Services. The codes are also available at [www.corp.canadiantire.ca](http://www.corp.canadiantire.ca) and on SEDAR at [www.sedar.com](http://www.sedar.com).

### 3.16.1 *Corporate Social Responsibility*

During 2008, the Company completed the development of its corporate social responsibility ("CSR") statement and guiding principles as part of its comprehensive plan to advance Canadian Tire's overall economic, social and environmental performance. The CSR statement and principles were reviewed and adopted by the Social Responsibility Committee of the Board of Directors. A reporting framework and communication plan were developed during the year, with a focus on enhancing the Company's formal disclosure in this area.

In 2008, following an in-depth review of the Company's key operational and environmental impacts, Canadian Tire developed a business sustainability strategy which is focused on improving the profitability and performance of its business while also advancing the Company's contributions to society and maintaining the future health of our environment. The key priorities to be addressed by the strategy are: to reduce energy consumption across the Company's operations and store networks; to reduce the amount of waste generated and sent to landfill; to provide customers with quality merchandise that meets their needs and supports their environmental goals; and to reduce the amount of excessive product packaging while enhancing product protection.

In 2009, various employee innovation networks will be established to advance these important initiatives across the Company.

### 3.16.2 *Environmental and Health and Safety Compliance*

The Company takes pride in ensuring a high standard of performance with respect to environmental and occupational health and safety legislative obligations. To ensure ongoing compliance with applicable laws and regulations and consistent practices across the organization, the Company has established environmental and occupational health and safety policies as well as an associated environmental health and safety (“EHS”) program. 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.

Throughout 2008, the Company was actively involved with industry-funded associations including the Retail Council of Canada and its Quebec affiliate, the Conseil québécois du commerce de détail Environmental Committees, in order to stay abreast of environmental developments at industry and legislative levels.

With respect to implementation of the environmental and occupational health and safety policies, the Company’s business units and corporate support groups undertook certain initiatives in 2008 (as set forth in Sections 3.16.2.1 through 3.16.2.6 below).

#### 3.16.2.1 *Canadian Tire Retail*

In 2008, CTR diverted 52.2% (3436 metric tons) of the waste from the Toronto area distribution facilities away from landfill to recycling. The waste materials included metal, wood, cardboard, plastic, stretch film and paper.

The Ontario Workplace Safety & Insurance Board (“WSIB”) recognized the Company’s above-average workplace health and safety performance in 2008 relating to lost time injury frequency. The WSIB granted a 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 2008, the Company 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”). MSDS provide workers and emergency personnel with the proper procedures for handling or working with a particular substance. This information is vital to emergency responders such as fire fighters, hazardous material

crews, emergency medical technicians and emergency room personnel.

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. District Managers report quarterly to the Mark's corporate office on the status of this program in the field and report any deficiencies that may require attention. Each Regional Human Resources Manager also schedules store visits and escalates health and safety concerns to the District Manager and corporate office. Regular store compliance audits are conducted on most Mark's stores, and most store level employees have completed health and safety training. With the rollout of the Health and Safety Awareness program in 2008, Mark's improved store compliance and further strengthened the Mark's health and safety program.

3.16.2.3 *Petroleum*

During 2008, Petroleum continued its comprehensive program to control gasoline inventory. The program includes an 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 gasoline inventory variances; 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 variances are significantly below the government tolerance limit.

Throughout 2008, Petroleum continued its program of replacing underground steel gasoline storage tanks and piping at Petroleum sites with double walled fiberglass tanks and piping that is intended to reduce the risk of gasoline leaks. Petroleum sites with existing underground steel equipment are maintained as per government regulations and will eventually be replaced (currently at a pace of approximately two per year).

In 2008, Petroleum continued its 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 health and safety committee that provides health and safety education and monitors compliance with applicable laws and regulations. During 2008, Financial Services provided several health and safety programs to its supervisors and managers including disability management and accommodation training. General health and safety training was provided to new employees attending orientation sessions as well as to members of the Financial Services health and safety committee. Employees receive health and safety updates through Financial Services' electronic employee bulletin board, physical bulletin boards and quarterly employee newsletters.

In 2008, Financial Services launched an environmental initiative to improve energy efficiencies as well as reduce waste and water usage. A cross-divisional Financial Services Green Team was established to identify, evaluate and execute upon both energy and waste improvements. A Green Awareness Campaign was implemented to assist employees with making environmentally friendly choices at work and at home. In addition, Financial Services implemented a "Community Green" partnership with Abitibi Bowater in 2008 which encourages paper recycling; promotes corporate environmental stewardship; and supports the Foundation.

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, as part of its web-based standardized occupational health and safety compliance program, PartSource introduced a driver safety management program. All staff are required to take basic online driver education training.

3.16.2.6 *Canadian Tire Real Estate Limited*

CTREL has developed and implemented an environmental audit program for Canadian Tire Stores and Petroleum gas bars. During 2008, CTREL performed environmental audits at 42 Canadian Tire

Stores in connection with the Dealer changeover process. Information sessions were provided to over 65 Canadian Tire Dealers and their staff on methods to improve operational housekeeping policies and procedures to safeguard the environment. CTREL's methodologies and protocols to prevent and manage environmental issues and implement regulatory requirements for properties owned or leased by the Company meet or exceed industry standards.

### 3.17 Risk Factors

The Company is exposed to a variety of risk factors and has identified the principal risks inherent in its businesses. These are briefly described below in order of most serious to least, as assessed as of the date of this Annual Information Form. The relative seriousness of these inherent principal risks is impacted by the external environment and the Company's business strategies. Therefore, the order of seriousness of the following inherent principal risks will vary from time to time.

1. Economic – shifts in the economic environment could significantly affect consumer confidence and spending, the default rate with respect to credit products at Financial Services and our ability to fund operations and planned strategic initiatives.
2. Capital and funding – lack of sufficient capital could impede our ability to absorb the impact of unexpected losses. Additionally, a lack of sufficient liquidity or financing could significantly affect our ability to fund operations and strategic initiatives, including construction activities.
3. Consumer credit – failure or inability to accurately predict the creditworthiness or credit behaviour of our customers could significantly affect our earnings.
4. Competitive – material changes in the strategic direction, positioning or practices of competitors could result in lost market share or reduced margins.
5. Information management – inappropriate safeguarding of sensitive business and private personal information could damage our reputation and significantly affect our financial performance.
6. Product safety – unsafe products or services that do not meet regulatory requirements could pose a risk to the health and safety of our customers and employees, as well as the public or the environment, and can adversely affect our reputation.
7. Legislative compliance – failure to comply with laws and regulations could result in sanctions and financial penalties that could negatively impact our earnings and reputation.
8. Financial Instruments – inappropriate hedging processes for foreign currency, interest rate and equity exposures could significantly affect our operating and financial performance.

9. Geopolitical – changes in the domestic and international political environments could impact our ability to source and provide products and services.
10. Business continuity – hazards, disasters and business interruptions could compromise the safety of our employees or customers and our ability to provide products and services.
11. Quality of management team – an inability to attract, motivate, develop, retain and maximize the productivity of senior leaders could affect our ability to achieve strategic objectives.
12. Technology – not having the right technology and functionality could significantly affect our ability to achieve our strategic objectives.
13. Ethical business conduct – unethical business conduct could negatively impact the Company's relationship with its employees, business partners, customers and investors as well as the public and its various brands.
14. Accounting, valuation and reporting – financial information and reporting that lacks integrity or is not compliant with accounting standards could have a significant impact on our reputation.

Further explanations of the above noted risks, including the mitigation strategies by which the Company manages them, can be found under section 14.0 (Enterprise Risk Management), section 14.1 (Board accountability), section 14.2 (Principal risks) and section 14.3 (Financial instruments) in the MD&A in the Company's 2008 Financial Report, which is incorporated herein by reference. In addition, other risk factors that may cause actual results or events to differ materially from those forecast are set out under section 14.4 (Other risks) in the MD&A in the Company's 2008 Financial Report, which is also incorporated herein by reference.

The Company cautions that the preceding discussion of risks is not exhaustive. When considering whether to purchase securities of the Company, investors and others should carefully consider these factors as well as other uncertainties, potential events and industry specific factors that may adversely impact the Company's future results.

### 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 18.

### 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

CTR's objective is to launch new products with innovative features, at compelling prices, that enhance our unique mix of automotive, home and leisure products and are not sold by any other retailer in this combination. New products recently introduced by CTR include Mastercraft 3-in-1 nailers, carbon-fibre long handle outdoor tools and Blue Planet light bulbs.

Additional information concerning new products introduced by CTR is set out under the heading "Other Canadian Tire Retail Initiatives" in Section 2.1.4.

In order to retain competitiveness in the apparel and footwear industry, Mark's continuously introduces new or improved garments and footwear. In recent years Mark's has introduced products such as soft shape retention ladies sweaters, anti-slip footwear for specified types of industrial use and never iron shirts for men and women. These items are advertised in Mark's flyers and are occasionally supplemented with magazine or television advertising campaigns.

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

Based on the dividend policy, the Company has declared the following dividends:

<u>Year</u>	<u>Annual Dividend Per Share</u>
2006	\$0.66
2007	\$0.74
2008	\$0.84

On February 7, 2008 the Company announced a 13.5% increase in the annual dividend payment rate from \$0.74 per share to \$0.84 on each Common and Class A Non-Voting share. On March 6, 2008 the Company declared a quarterly dividend of \$0.21 per share that was payable June 2, 2008 for holders of record as of April 30, 2008.

On May 8, 2008, the Company announced a quarterly dividend of \$0.21 per share on each Common and Class A Non-Voting share. The dividend was payable September 2, 2008 to Common and Class A shareholders of record as of July 31, 2008.

On August 7, 2008, the Company announced a quarterly dividend of \$0.21 per share on each Common and Class A Non-Voting share. The dividend was payable December 1, 2008 to Common and Class A shareholders of record as of October 31, 2008.

On December 4, 2008, the Company announced a quarterly dividend of \$0.21 per share on each Common and Class A Non-Voting share. The dividend was payable March 2, 2009 to Common and Class A shareholders of record as of January 30, 2009.

On February 12, 2009, the Board of Directors announced a quarterly dividend of \$0.21 per share on each Common and Class A Non-Voting share. The dividend is payable June 1, 2009 to shareholders of record as of April 30, 2009.

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 section 9.0 (Equity) of the MD&A in the Company's 2008 Financial Report for a discussion of the Company's capital structure. The authorized capital of the Company consists of 100,000,000 Class A Non-Voting Shares and 3,423,366 Common Shares, of which 78,142,393 Class A Non-Voting Shares and 3,423,366 Common Shares were issued and outstanding as of March 12, 2009.

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

The holders of Common Shares of the Company are entitled to vote at all meetings of holders of Common Shares and to vote on the election of thirteen of the sixteen directors to be elected at the annual meeting of shareholders 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, the entitlement to vote in the circumstances referred to under the heading "Change in Class A Non-Voting Shares and Common Shares" on page 39 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 and thereafter be entitled to one vote per share at all meetings of shareholders and thereafter the Class A Non-Voting Shares shall be designated as Class A Shares.

The Common Shares and Class A Non-Voting Shares are each voted separately as a class, except in clearly-defined circumstances, as described in this Section 5.1 – General

Description of Capital Structure. 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 12, 2009, the Class A Non-Voting Shares would represent approximately 95.8% of the aggregate voting rights attached to the Common Shares and the Class A Non-Voting Shares. See the Company's articles 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 or declared and set apart for payment 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 35.

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:

<u>Security</u>	<u>Rating</u>
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, such as the Company's medium term notes and debentures, by rating categories ranging from a high of AAA to a low of D. For DBRS, each rating category is denoted by the subcategories "high" and "low" and the absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. For S&P, the addition of a plus (+) or minus (-) sign is included to show relative standing within the major rating categories.

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 securities. Long-term debt instruments rated in the BBB category by S&P exhibit adequate capacity by the obligor to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment.

DBRS rates commercial paper and short-term debt ranging from a high of R-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. S&P rates commercial paper and short-term debt ranging from a high of A-1 to a low of D. A short-term obligation rated A-1 (Low) (CDN) by S&P is within the highest rated category. The obligor's capacity to meet its financial commitment on the obligation is strong; however, a designation of "low" means that the company may be slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than higher rated companies.

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 December 2007 to and including January 2009 were as follows:

**Common Shares (CTC)**

	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume Traded</u></b>
	<b>(\$)</b>	<b>(\$)</b>	
December 2007*	85.99	80.00	7,461
January 2008	84.00	67.10	12,290
February 2008	80.33	75.05	8,407
March 2008	101.50	75.00	22,514
April 2008	82.45	77.02	6,361
May 2008	80.00	74.00	10,375
June 2008	75.49	68.01	7,718
July 2008	73.45	61.56	9,430
August 2008	64.90	60.00	6,855
September 2008	64.05	53.60	12,855
October 2008	53.93	48.00	13,652
November 2008	54.23	41.00	8,218
December 2008	52.00	41.41	9,283
January 2009*	56.57	48.05	7,064

\*The Common Shares traded for only a partial month during the Company's 2008 financial year.

The price ranges and volumes of Class A Non-Voting Shares of the Company traded on the TSX on a monthly basis from December 2007 to and including January 2009 were as follows:

**Class A Non-Voting Shares (CTC.a)**

	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume Traded</u></b>
	<b>(\$)</b>	<b>(\$)</b>	
December 2007*	75.36	67.40	4,211,256
January 2008	74.78	55.78	6,899,725
February 2008	65.97	60.15	4,963,069
March 2008	66.79	61.25	7,685,043
April 2008	70.00	63.90	4,643,226
May 2008	67.96	59.00	8,023,709
June 2008	60.67	52.40	8,653,625
July 2008	56.95	47.93	5,418,021
August 2008	54.98	48.40	7,369,959

**Class A Non-Voting Shares (CTC.a)**

	<b><u>High</u></b> <b><u>(\$)</u></b>	<b><u>Low</u></b> <b><u>(\$)</u></b>	<b><u>Volume Traded</u></b>
September 2008	53.50	47.56	12,499,396
October 2008	50.85	41.80	6,339,324
November 2008	47.65	36.56	7,078,749
December 2008	45.49	37.81	6,085,493
January 2009*	48.74	39.44	5,092,254

\*The Class A Non-Voting Shares traded for only a partial month during the Company's 2008 financial year.

**7. Directors and Officers**

The names, province or state of residence, years of service as a director and present principal occupations of the directors of the Company as at March 12, 2009 are as follows:

<b><u>Name and Province or State of Residence</u></b>	<b><u>Year First Elected as a Director</u></b> <sup>1</sup>	<b><u>Present Principal Occupation</u></b> <sup>2</sup>
Maureen J. Sabia Ontario, Canada	1985	Non-Executive 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	President, Sandy McTyre Retail Ltd., which operates a Canadian Tire Store
Peter W. Currie Ontario, Canada	2008	Corporate Director
Brian G. Domelle Ontario, Canada	2008	President, Brian Domelle Enterprises Limited, which operates a Canadian Tire Store

<u>Name and Province or State of Residence</u>	<u>Year First Elected as a Director<sup>1</sup></u>	<u>Present Principal Occupation<sup>2</sup></u>
H. Garfield Emerson, Q.C. Ontario, Canada	2007	Principal, Emerson Advisory, an independent business and financial advisory firm; and Corporate Director
Daniel E. Fournier Quebec, Canada	2006	Executive Vice-President and Chief Investment Officer, SITQ Inc., a real estate subsidiary of Caisse de dépôt et placement du Québec
Robert M. Franklin Ontario, Canada	2007	President, Signalta Capital Corporation, a private investment holding company; and Corporate Director and Trustee
Keith E. Gostlin British Columbia, Canada	2006	President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire Store
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
James A. Riley Toronto, Ontario	2006	Partner, Goodmans LLP, a law firm
Graham W. Savage <sup>4</sup> Ontario, Canada	1998	Chairman, Callisto Capital LP, a merchant banking partnership; and Corporate Director



<u>Name and Province or State of Residence</u>	<u>Year First Elected as a Director<sup>1</sup></u>	<u>Present Principal Occupation<sup>2</sup></u>
Stephen G. Wetmore Ontario, Canada	2003	President and Chief Executive Officer of the Company

The names, province or state of residence and present principal occupations of the executive officers of the Company as at March 12, 2009 are as follows:

<u>Name and Province or State of Residence</u>	<u>Present Principal Occupation<sup>3</sup></u>
Maureen J. Sabia Ontario, Canada	Non-Executive Chairman of the Board of the Company; President, Maureen Sabia International, a consulting firm; and Corporate Director
Stephen G. Wetmore Ontario, Canada	President and Chief Executive Officer
J. Huw Thomas Ontario, Canada	Executive Vice-President, Finance and Administration and Chief Financial Officer
Michael B. Medline Ontario, Canada	Chief Corporate Officer and President, Diversified Businesses
G. Michael Arnett Ontario, Canada	President, Canadian Tire Retail
Marco Marrone <sup>5</sup> Ontario, Canada	President, Canadian Tire Financial Services Limited
Paul D. Wilson Alberta, Canada	President, Mark's Work Wearhouse Ltd.
Patrick R. Sinnott Ontario, Canada	Executive Vice-President, Technology and Supply Chain
Robyn A. Collver Ontario, Canada	Senior Vice-President, Secretary and General Counsel
Kristine Freudenthaler Ontario, Canada	Senior Vice-President, Information Technology and Chief Information Officer

<u>Name and Province or State of Residence</u>	<u>Present Principal Occupation</u> <sup>3</sup>
Stanley W. Pasternak Ontario, Canada	Senior Vice-President and Treasurer
Sharon J. Patterson Ontario, Canada	Senior Vice-President, Human Resources
Kenneth Silver Ontario, Canada	Senior Vice-President, Real Estate and Strategy
Bruce Allen Ontario, Canada	President, Petroleum
Stuart Auld Ontario, Canada	President, PartSource
C. Peter Kilty Ontario, Canada	Senior Vice-President, Dealer Relations
Glenn G. Butt Ontario, Canada	Senior Vice-President, Store Support and Design, CTR
Peter Lane <sup>6</sup> Ontario, Canada	Senior Vice-President, Finance and Administration, CTR
Reginald J. McLay Ontario, Canada	Senior Vice-President, Marketing and Sourcing Services
Duncan F. Reith Ontario, Canada	Senior Vice-President, Merchandising, CTR
John Salt Ontario, Canada	Senior Vice-President, Supply Chain, CTR
Candace A. MacLean Ontario, Canada	Vice-President and Assistant Treasurer

**NOTES:**

1. 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.

2. Each of the directors of the Company has had the principal occupation indicated opposite his or her name during the past five years except:
  - (a) O.G. Billes, who prior to September 2008 was a Canadian Tire Dealer-in-Training; prior to August 2007 was Special Projects Manger, Petroleum; from 2004 to 2005 was Manager, New Business Development; in 2004 was Manager, Divisional Initiatives, Customer Service Strategic Development, Canadian Tire Financial Services Limited; and from 2003 to 2004 was Manager, In-store Receiving and Logistics in connection with Canadian Tire Associate Store #237. Mr. 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;
  - (b) P.W. Currie, who from 2005 to 2007 was Executive Vice-President and Chief Financial Officer of Nortel Networks Corporation and who from 1999 to 2004 was Vice Chairman and Chief Financial Officer of Royal Bank of Canada;
  - (c) H.G. Emerson, who prior to September 2006 was National Chair of Fasken Martineau DuMoulin LLP, a law firm;
  - (d) D.E. Fournier, who prior to June 2008 was President, ACNG Capital Inc., a real estate value creation and strategic planning firm;
  - (e) R.M. Franklin, who prior to March 2007 was Chairman of Photowatt Technologies Inc., a subsidiary of ATS Automation Tooling Systems Inc.;
  - (f) J. A. Riley, who prior to September 2006 was Senior Partner and Chair Toronto Office, Ogilvy Renault LLP, a law firm; and
  - (g) S.G. Wetmore, who prior to November, 2008 was President and CEO, Bell Aliant Regional Communications Income Fund; prior to July 2006 was Executive Vice-President, BCE Inc. since 2002 and Group President, Corporate Performance and National Markets, Bell Canada since 2005; from 2003 to 2005 was Group President National Markets, Bell Canada; and in 2003 was Chief Corporate Officer, Bell Canada.
3. With the exception of the holding of other offices at the Company, Canadian Tire Financial Services Limited and Mark's Work Warehouse 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, except as noted below:
  - (a) P. Lane, who prior to joining the Company on May 2008 was an independent business consultant and who prior to January 2006 was Chief Financial Officer of Hollinger International Inc.; and
  - (b) D. Reith, who from February 2006 to July 2006 was General Manager, Sobey's Urban Toronto, Sobeys Inc. and who from April 2004 to February 2006 was Chief Merchandising Officer, Sobeys Inc.
4. G.W. Savage was a director of Microcell Inc. when it filed for protection under the *Companies' Creditors Arrangement Act*. Mr. Savage is a director of Sun-Times Media Group, Inc., a successor entity of Hollinger International Inc. ("Hollinger"), and has been a director of that entity since July of 2003. On June 1, 2004, the Ontario Securities Commission issued a permanent management cease trade order (the "Ontario Cease Trade Order") against the insiders of Hollinger for failing to file its interim financial statements and interim MD&A for the three-month period ended March 31, 2004 and its annual financial statements, MD&A and AIF for the year ended December 31, 2003. In addition, the British Columbia Securities Commission issued a cease trade order against insiders of Hollinger resident in British Columbia on May 21, 2004, as updated on May 31, 2004 (the "BC Cease Trade Order"). The Ontario Cease Trade Order was allowed to

expire on January 9, 2006 and is no longer in effect. The BC Cease Trade Order was revoked on February 10, 2006 and is no longer in effect.

5. 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 its financial statements and MD&A for the financial year ending December 31, 2005, which expired in August 2006.
6. P.K. Lane was the Chief Financial Officer of Hollinger from October 2002 until January 2006. While Mr. Lane was the Chief Financial Officer of Hollinger, the Ontario Securities Commission issued the Ontario Cease Trade Order and the British Columbia Securities Commission issued the BC Cease Trade Order. The Ontario Cease Trade Order was allowed to expire on January 9, 2006 and is no longer in effect. The BC Cease Trade Order was revoked on February 10, 2006 and is no longer in effect.

### **Ownership, Control and Direction of Securities by Directors and Executive Officers**

On March 12, 2009, all directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over 2,101,151 Common Shares of the Company (approximately 61.4% of the issued and outstanding Common Shares of the Company) and 896,664 Class A Non-Voting Shares of the Company (approximately 1.1% of the issued and outstanding Class A Non-Voting Shares of the Company). In addition, as of March 12, 2009, 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% of the issued and outstanding Common Shares of the Company) and 1,119,119 of the Class A Non-Voting Shares of the Company (approximately 1.4% of the issued and outstanding Class A Non-Voting Shares of the Company).

### **Committees of the Company's Board of Directors**

The present members of the Company's Audit Committee are G.W. Savage (Chairman), P.W. Currie, R.M. Franklin and T.R. Price. The present members of the Company's Management Resources and Compensation Committee are F. Potter (Chairman), M.G. Billes, H.G. Emerson, D.E. Fournier, T.R. Price and J.A. Riley. The present members of the Company's Governance Committee are J.A. Riley (Chairman), M.G. Billes, P.W. Currie, H.G. Emerson, D.E. Fournier, S.R. Perles, F. Potter and G.W. Savage. The present members of the Company's Social Responsibility Committee are S.R. Perles (Chairman), O.G. Billes, B.G. Domelle, R.M. Franklin and K.E. Gostlin.

## **8. Legal Proceedings and Regulatory Actions**

### **8.1 Legal Proceedings and Regulatory Actions**

The Company and certain of its subsidiaries are party to a number of legal proceedings. As at January 3, 2009 there were a number of claims outstanding. 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.

Since December 29, 2007: (a) there have been no penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority; (b) there have been no other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; and (c) the Company has not entered into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority.

## **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 (Ontario) and Branch Registers of Transfers at stock transfer offices in the cities of Halifax (Nova Scotia), Montreal (Quebec), Winnipeg (Manitoba), Calgary (Alberta) and Vancouver (British Columbia).

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 (Ontario), and Branch Registers of Transfers at offices in the cities of Montreal (Quebec), Calgary (Alberta) and Vancouver (British Columbia), 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 November 18, 2003 and has a 10-year term.

## **11. Interests of Experts**

### **11.1 Names of Experts**

Deloitte & Touche LLP are the auditors of the Company and are 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), Peter W. Currie, Robert M. Franklin and Timothy R. Price. Each member of the Audit Committee is independent and financially literate within the meaning

of the definitions set out in National Instrument 52-110 – Audit Committees (“NI 52-110”).

### 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:

<b><u>Audit Committee Member</u></b>	<b><u>Education and Experience</u></b>
Graham W. Savage (Chairman)	Mr. Savage has 37 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.
Peter W. Currie	Mr. Currie has over 15 years experience as Chief Financial Officer for various companies, including two of Canada’s largest and most complex global, public organizations. As CFO, Mr. Currie has been responsible for all accounting, financial planning, treasury and internal audit activity and has been instrumental in transforming businesses, developing strategies, re-capitalizing companies, as well as developing and implementing cost reduction initiatives and mergers, acquisitions and divestitures. Mr. Currie has served on and is a member of several audit committees, many of which he has chaired. Mr. Currie holds a B.A. in Economics and an M.B.A. in Marketing and General Management from York 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 to 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.
Timothy R. Price	As Chairman, Brookfield Funds, Brookfield Asset Management Inc., Mr. Price has over 30 years of management experience with the Brookfield group of companies. His primary role in these companies has included raising capital and operating a merchant bank. In addition to serving on the Board of Canadian Tire, Mr. Price is also a director of two publicly listed companies, including

**Audit Committee  
Member**

**Education and Experience**

a major bank. He also serves on the board of two foundations and is a member of an advisory board of a school of business. Mr. Price is a graduate of the University of Victoria and held a Chartered Accountant designation in Quebec from 1970 to 2005.

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 Company 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 29, 2007 and January 3, 2009 were \$2,696,868 and \$2,819,382, 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 12.5.1 Audit Fees for the financial years ending December 29, 2007 and January 3, 2009, were \$1,245,442 and \$1,206,595, 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 29, 2007 and January 3, 2009 were \$745,155 and \$491,637, 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*

The aggregate 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 29, 2007 and January 3, 2009 were \$nil and \$57,076, respectively. These services related primarily to information security services in connection with complying with industry standards.

**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 Company's Management Information Circular prepared in connection with the Annual Meeting of Shareholders of the Company that was held on May 8, 2008, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional financial information is provided in the Company's Consolidated Financial Statements and MD&A for the financial year ended January 3, 2009, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).



**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 National 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 and of the Corporation's profit sharing plans;
- (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:

- (1) reviewing with management the Corporation's tolerance for financial Risk;
- (2) reviewing with management its assessment of the significant financial Risks facing the Corporation;

- (3) 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;
- (4) reviewing with management its plans, processes and programs to manage and control such Risks;
- (5) 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;
- (6) 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;
- (7) reviewing foreign currency, interest rate and commodity price Risk mitigation strategies, including the use of derivative financial instruments;
- (8) reviewing the adequacy of insurance coverages maintained by the Corporation;
- (9) 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.
- (10) approving counterparties to derivative transactions with long term investment grade ratings pursuant to the Securities and Derivatives Board Policy;
- (11) 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;
- (12) 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 behaviour 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.