Management's Discussion and Analysis

Canadian Tire Corporation, Limited

Fourth Quarter and Full Year 2016

1.0 Preface

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

The financial results for the Retail segment are delivered by the businesses operated by the Company under the Company's retail banners, which include Canadian Tire®, PartSource®, Petroleum, Mark's®, Sport Chek®, Sports Experts®, Atmosphere®, and Pro Hockey Life ("PHL").

In this document:

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

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

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

"Financial Services" refers to the business carried on by the Company's Financial Services subsidiaries, namely Canadian Tire Bank ("CTB" or "the Bank") and CTFS Bermuda Ltd. ("CTFS Bermuda").

"FGL Sports" refers to the retail business carried on by FGL Sports Ltd., and "FGL Sports® stores" includes stores operated under the Sport Chek, Sports Experts, Atmosphere, PHL, National Sports, and Hockey Experts, names and trademarks.

"Mark's" refers to the retail business carried on by Mark's Work Wearhouse Ltd., and "Mark's stores" including stores operated under the Mark's, Mark's Work Wearhouse®, and L'Équipeur® names and trademarks.

"PartSource stores" refers to stores operated under the PartSource name and trademarks.

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

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

1.2 Forward-looking statements
This Management's Discussion and Analysis ("MD&A") contains statements that are forward looking and may constitute "forward looking information" within the meaning of applicable securities legislation. Actual results or events may differ materially from those forecast and from statements of the Company's plans or aspirations that are made in this MD&A because of the risks and uncertainties associated with the Corporation's businesses and the general economic environment. The Company cannot provide any assurance that any forecast financial or operational performance, plans, or financial aspirations will actually be achieved or, if achieved, will result in an increase in the Company's share price. Refer to section 16.0 in this MD&A for a more detailed discussion of the Company's use of forward-looking statements.

1.3 Review and approval by the Board of Directors
The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on February 15, 2017.

1.4 Quarterly and annual comparisons in the MD&A
Unless otherwise indicated, all comparisons of results for Q4 2016 (13 weeks ended December 31, 2016) are compared against results for Q4 2015 (13 weeks ended January 2, 2016) and all comparisons of results for the full year 2016 (52 weeks ended December 31, 2016) are compared against results for the full year 2015 (52 weeks ended January 2, 2016).

1.5 Accounting framework

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

1.6 Accounting estimates and assumptions

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

1.7 Key operating performance measures and additional GAAP and non-GAAP financial measures

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

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

Revenue, as reported in the Company's consolidated financial statements, comprises primarily the sale of goods to Dealers and to franchisees of Mark's and FGL Sports, the sale of gasoline through Petroleum retailers, the sale of goods to retail customers by stores that are corporately owned under the Mark's, PartSource, and FGL Sports banners, the sale of services through the Home Services business, the sale of goods to customers through INA International Ltd. ("INA"), a business-to-business operation, and through the Company's online sales channels, as well as revenue generated from interest, service charges, interchange and other fees, and from insurance products sold to credit card holders in the Financial Services segment, and rent paid by third-party tenants in the CT REIT segment.

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

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

Aspirations with respect to retail sales, Retail ROIC, and ROR have been included in our financial aspirations for the three years ending in 2017. Refer to section 5.0 in this MD&A for the financial aspirations, assumptions, and related risks.

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

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

1.8 Rounding and percentages

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

2.0 Company and industry overview

2.1 Overview of the business

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

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

- shipments to Canadian Tire Dealers and franchisees of FGL Sports and Mark's;
- royalties on sales made by franchisees of FGL Sports and Mark's;
- sales of goods to retail customers of corporately-owned stores and wholesale revenue from sales to business customers;
- franchise rent and Dealer property licence fees;
- sales of gasoline and convenience items at gas bars;
- interest income and service charges on credit card loans receivable;
- merchant and interchange fees on credit card transactions;
- revenue from insurance products sold to credit card holders; and
- rental revenue from third-party tenants leasing space at properties owned by the Company.

The Company has three reportable operating segments for financial reporting purposes: Retail, CT REIT, and Financial Services.

2.1.1 Retail segment

The Company's retail business results are delivered through the Company's retail banners: Canadian Tire, PartSource, Petroleum, Mark's, and the various FGL Sports banners.

Canadian Tire is one of Canada's most shopped general merchandise retailers. For more than 90 years, Canadian Tire has been Canadians' store for life in Canada. Canadian Tire offers products and services in the Living, Playing, Fixing, Automotive, and Seasonal categories. Canadian Tire is best known for the iconic red triangle affixed to every Canadian Tire storefront and also operates the specialty automotive hard parts banner PartSource. Canadian Tire aspires to be identified as "Canada's store" and one of the Canadian consumers' most recognized and trusted brands. One of its strategies to build its brand is to reconnect with customers through renewed marketing campaigns such as Tested for life in Canada™. As part of its evolution, Canadian Tire now offers many of its products and services online for purchase, through its website at www.canadiantire.ca, with in-store pick up across the entire store network. In addition to Canadian Tire's commitment to strengthening its electronic commerce ("eCommerce") platform, it is focused on finding ways to use technology to service and connect with today's customers. Examples include in-aisle product locator devices, product-selection tools in the Automotive category, and enhancements to the Canadian Tire mobile app. Canadian Tire also offers one of Canada's most beloved loyalty programs, My Canadian Tire 'Money'®, which allows customers to choose between paper-based and electronic 'Money'.

The 500 Canadian Tire stores across Canada, including close to 5,600 automotive service bays, are run by third-party operators known as Dealers, who are independent business owners. Dealers buy merchandise from CTC and sell it to consumers in Canadian Tire stores or online. Canadian Tire supports Canadian Tire Dealers with marketing, supply chain management, and purchasing, administrative, financial, and information technology services. Each Dealer owns the fixtures, equipment and inventory of the Canadian Tire store he or she operates and is responsible for the store staff and operating expenses for that store. Each Dealer agrees to comply with the policies, marketing plans, and operating standards prescribed by Canadian Tire, including purchasing merchandise primarily from Canadian Tire and offering merchandise

for sale at prices not exceeding those set by Canadian Tire. In April 2013, the Company and its Dealers agreed to new contract terms which came into effect on June 30, 2013 and generally expire on December 31, 2024. Each contract includes guidelines for gross margin and cost sharing, simplified processes to achieve efficiencies and reduce costs, and guidelines to improve Dealer mobility within the network.

Petroleum is one of Canada's largest independent retailers of gasoline, with a network of 296 retailer-operated gas bars, including 293 convenience stores and 83 car washes. Petroleum operates under the banner Gas+. The majority of Petroleum sites are co-located with a Canadian Tire store as a strategy to drive traffic to the Company's core retail banner stores. In addition, Petroleum has a contract to build and operate 23 Canadian Tire gas bars in state-of-the-art service centres along major Ontario highways (Highway 400 and Highway 401). The service centres feature a gas bar and an associated convenience store. There were 20 of these locations in operation as at December 31, 2016.

Mark's provides Canadians with apparel and footwear for everyday work and everyday living by focusing its core business on developing durable, high-quality, and comfortable items for casual and industrial use. Mark's operates 382 stores nationwide, including 349 corporate and 33 franchise stores that offer industrial wear, men's casual wear, women's casual wear, footwear, and accessories. Mark's operates under the banners Mark's, Mark's Work Wearhouse and, in Quebec, L'Équipeur, and offers products for sale through its website at www.marks.com. Mark's also conducts a business-to-business operation under its "Commercial" division.

FGL Sports is a national retailer of sporting goods and active wear in Canada, operating 433 stores including 257 corporate and 176 franchise stores from coast to coast. FGL Sports offers a comprehensive assortment of brand-name and private-brand products under various banners, with the largest being Sport Chek, Sports Experts and Atmosphere (others include "Intersport", "National Sports", "Hockey Experts" and "Pro Hockey Life"). Sport Chek offers products for sale through its website at www.sportchek.ca.

In addition, the Company operates a Consumer Brands Division which focuses on developing and growing its existing private-brand portfolio across the retail banners and also has responsibility for the identification and acquisition of brands that would be a logical complement or extension to the existing product portfolio. Certain brands are also sold under a business-to-business model under the name INA.

2.1.2 CT REIT segment

CT REIT has a geographically-diversified portfolio of properties which comprises 303 properties located across Canada totaling approximately 24.7 million square feet of gross leasable area. The property portfolio includes Canadian Tire stores, retail developments anchored by a Canadian Tire store, Canadian Tire distribution centres ("DC"s), a mixed-use commercial property, multi-tenant properties not anchored by a Canadian Tire store, and development lands upon which Canadian Tire retail banner stores may be built. CT REIT's primary business involves owning, developing, and leasing income-producing commercial properties. CTC holds an approximate 85.1 percent effective interest in CT REIT.

2.1.3 Financial Services segment

Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options® MasterCard®, the Cash Advantage® MasterCard®, and the Gas Advantage® MasterCard®. Financial Services also markets insurance and warranty products, processes credit card transactions for purchases made in Canadian Tire stores and Mark's stores as well as at Petroleum outlets, and offers financing options to customers on certain purchases from various retail banners. CTC holds an 80.0 percent interest in the Financial Services business, which includes CTB, a federally-regulated financial institution that manages and finances the Company's consumer credit card portfolio. The Bank also offers and markets high-interest savings account deposits, tax-free savings account deposits ("TFSA"), and guaranteed investment certificate deposits ("GIC"s), both directly and through third-party brokers. The Financial Services segment includes CTFS Bermuda, a Bermuda-based reinsurance company that reinsures the risk of certain insurance products marketed to Canadian Tire customers, and Glacier Credit Card Trust ("GCCT" or "Glacier"), a trust established to purchase co-ownership interests in the Bank's credit card loans. Glacier issues debt to third-party investors to fund its purchases.

In November 2014, Visa and MasterCard submitted voluntary proposals to reduce interchange fees paid by retailers accepting their credit cards as a form of payment for retail sales transactions to an average effective rate of 1.5 percent for five years. The implementation began prior to April 2015. The reduction in interchange fees has impacted revenue growth for credit card issuers partnered with these associations, including the Company. The Company is partially mitigating the impact on its revenue growth with its strong value proposition and enhanced credit approval and in-store acquisition processes.

2.1.4 Foreign operations

The Retail segment has representative offices in the Pacific Rim that perform activities relating to product sourcing, logistics and vendor management, and a subsidiary that has wholesale operations based in the United States ("U.S."), including warehouse facilities in the state of Washington. The Financial Services segment includes a Bermuda-based reinsurance company.

2.2 Competitive landscape

No single retailer (traditional bricks-and-mortar or online) competes directly with Canadian Tire across all its categories of product and service offerings, reflecting Canadian Tire's unique position in the Canadian retail marketplace. Canadian Tire's Living, Playing, Fixing, and Seasonal categories compete with mass merchants, home improvement warehouses, and specialty retailers across a number of product lines, including kitchen, cleaning, storage and organization, tools, and online offerings.

Canadian Tire's Automotive business, including its auto service centres and hard-goods departments, PartSource hard-parts specialty stores and Petroleum retail outlets and gas bars, is one of the Company's core differentiators. The main competition in this category is from independent retailers, including online retailers, national and regional parts and tire specialty shops and automotive dealerships. In recent years, mass merchants and online specialty retailers have become an increasing source of competition, particularly in the tire market.

Mark's offers industrial apparel and footwear as well as men's and women's casual apparel and footwear through bricks-and-mortar stores and online offerings. Mark's has the highest market share in industrial apparel and footwear and is a leader in men's casual apparel in the Canadian retail marketplace. Mass merchants, department stores, specialty retailers, and online retailers compete with Mark's product lines. Mark's core differentiators are its strong private-brand program which is complemented with select national brands that focuses on quality, comfort, durability and functionality, its wide assortment of industrial apparel, its casual and industrial-footwear offering, its online retail channel, and the business-to-business operations of Mark's Commercial.

FGL Sports is a leading national retailer of sporting goods and active wear, offering a wide assortment of brand-name and private-brand products through a network of corporate and franchise stores and its online retail channels. FGL Sports' stores are primarily located in malls, strip malls, and retail power centres. The majority of the stores operate under the Sport Chek and Sports Experts banners. Each banner is focused on a particular niche and operates in the highly fragmented retail marketplace with competitors including independent specialty shops, mass merchants, U.S.-based retailers, and vendor-direct online and outlet-store sales channels. FGL Sports' core differentiators are its strong brand equity in core brands, including both private-brand and elite national brands, world-class digital concept and flagship stores, its online retail channel, real estate coverage with high-profile locations in major shopping centres, and its strategic sports partnerships and sponsorships.

CT REIT's primary business involves owning, developing, and leasing income-producing commercial properties located in Canada. Competitors to CT REIT include other real estate investors, managers, and developers of commercial properties in the Canadian real estate market. Certain of these competitors may have greater financial and other resources and greater operating flexibility than CT REIT. An increase in the availability of funds for investment or an increase in interest in real estate property investments may increase the competition for attractive real estate property investments, thereby increasing purchase prices and reducing yields.

Financial Services plays a significant role strengthening and supporting the Company's core retail businesses. The credit card offering of Financial Services competes with those of the major Canadian banks and other retail companies' financial services arms. Competitors in the financial services industry have been creating mobile-enabled solutions that allow customers the choice of doing their banking online using their computer and through mobile devices. In response to the recent trends, in September 2015, Financial Services launched an innovative mobile payments app which is exclusive to Canadian Tire Options® MasterCard® members. The mobile app is one of several key differentiators for Financial Services as it is the only payment solution in Canada to deliver payment capabilities, gamification features, special offers, and rewards to customers while allowing them to track their credit card information and electronic Canadian Tire 'Money'® rewards.

In future years, the Company anticipates that it will face increased competition from new entrants for both sales and retail locations and new opportunities from industry consolidation. These challenges and opportunities include but are not limited to:

- U.S. or international retailers that do not have bricks-and-mortar stores in Canada but are capturing sales from Canadian customers through eCommerce sites such as Amazon and those belonging to various apparel retailers;

- U.S.-based retailers already in Canada (including Walmart, Costco, Home Depot, Cabela's, Bass Pro Shops, Lowe's, and Nordstrom) that are in the process of expansion or are expected to further expand their store networks in Canada;
- new retailers that may enter Canada in the coming years which could include Dick's Sporting Goods;
- vendor-direct online and outlet-store sales channels, including, for example, those operated by Under Armour and Nike;
- non-traditional market entrants and new technologies such as mobile payments which impact the competitive landscape and credit card industry; and
- Retailers partnering with a competing financial institution or negotiating special arrangements with one of the credit card issuers.

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

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

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

3.0 Core capabilities

Management has identified several core capabilities that differentiate the Company, and its businesses and operations, from those of its competitors and add value for its customers. These include:

Strong brand equity and innovative products

Canadian Tire is committed to preparing Canadians for the jobs and joys for a lifetime in Canada by being a "brand and product-led" organization that offers a portfolio of world-class products and brands that its customers need. The Company has made significant investments in digital technology to further improve the retail experience for its customers and thereby further increase the value of its brand. Recognizing that the Company's brand is its most valuable asset, Canadian Tire Corporation has established a Brand and Community Committee of the Board. This Committee's mandate includes oversight of the effectiveness of strategies to maintain and enhance the brand.

Canadian Tire is one of the most recognized and trusted names in the Canadian retail landscape. Canadian Tire stores and gas bars as well as many of the products offered by Financial Services all share the Canadian Tire "red triangle" logo, leveraging the loyalty and trust summoned by the Canadian Tire brand. Part of the Company's brand strategy includes strengthening the existing private-brand portfolio and developing or acquiring new valuable private-brands. In 2016, the Consumer Brands Division was launched to create products that appeal to consumers and will provide a platform for long-term growth for the Company. The Company plans to build, grow, acquire, and nurture a portfolio of strong national and private-brands that can drive accelerated growth.

Canadian Tire made significant progress in its execution of this strategy in 2016, showcasing its strength in style and design with the evolution of the CANVAS™ home decor line, and its strength-delivering quality and performance with the expansion of the MAXIMUM line of professional-grade tools. Furthermore, the rapid rollout of the WOODS® brand for camping and outdoor enthusiasts delivered innovation and differentiation to the entire outdoor living business, while the well-received FRANK™ brand continued its expansion into new household cleaning and food categories winning customer conversion from national brands. The Company's private-brand and exclusively licensed brands such as Motomaster®, MasterCraft®, NOMA®, Denver Hayes®, WindRiver®, Dakota, Firefly, and McKINLEY have earned a level of credibility that is on par with national brands, and are sought after by consumers from across the country.

As a retailer committed to delivering quality products for life in Canada, Canadian Tire continued to expand the Tested for Life in Canada program through 2016. Over 1,000 products were tested through a panel of over 15,000 testers, with private-brand products accounting for over 85 percent of those tested. 750 products earned the Tested for LIfe in Canada

badge that will serve as a stamp of approval across a myriad of marketing channels, including television, digital, flyer, and in-store. Feedback from products that did not earn the badge of approval is driving product improvements, helping Canadians feel confident that they can count on the products they purchase at Canadian Tire.

Marketing expertise
The Company is engaged in a broad range of marketing activities, which include advertising and promotional programs, customer loyalty programs, market research and various ancillary marketing support services. Canadian Tire, in conjunction with Dealers, FGL Sports, and Mark's build customer awareness and traffic in stores by using various methods. Such methods include distributing weekly promotional flyers and/or electronic flyers available over the internet, catalogues, advertising through radio, television, digital and social media, newspaper, magazine and internet media, and through community events and sports sponsorships.

The weekly flyer at Canadian Tire and Mark's is a significant sales driver for each banner. Canadian Tire's flyer, one of Canada's most read flyers, is delivered to over 12 million households each week and Mark's flyer is delivered to approximately 7.5 million households. Canadian Tire's website at www.canadiantire.ca and its mobile application enable online shopping and have also become primary sources of product information for consumers, providing broad access to information about product assortment, including up-to-date product features, benefits, pricing and customer reviews. During 2016, Canadian Tire also launched a new catalogue known as The WOW Guide™ which uses innovative technology to bring online capabilities to a standard catalogue when used with the Canadian Tire application for mobile devices. Ongoing customer research and consumer data analytics allow FGL Sports to deliver personalized marketing communications to its targeted consumers. The Sport Chek, Sports Experts, Pro Hockey Life and Atmosphere eCommerce sites, located at www.sportchek.ca, www.sportsexperts.ca, www.prohockeylife.com and www.atmosphere.ca, respectively, have been designed to provide a personalized and inspiring shopping experience in addition to providing up-to-date product information, benefits, pricing, and customer reviews. Mark's eCommerce websites, www.marks.com, and in Quebec, www.lequipeur.com, enable online shopping and have become a primary source of product information for consumers, providing up-to-date product features, benefits, pricing and customer reviews.

Loyalty program
Introduced in 1958 as an innovative customer traffic-builder for Canadian Tire stores and gas bars, the My Canadian Tire 'Money'® loyalty program remains a beloved and nostalgic part of the Company's history. Over two years into the digitized program, which introduced electronic 'Money' as an alternative to traditional paper bills, the My Canadian Tire 'Money' program has over 10 million members, and remains one of Canada's most well-known loyalty programs. In September 2015, Financial Services launched an innovative mobile payments application, the Canadian Tire mPay&Play® app, which offers MasterCard card members bonus rewards, exclusive offers and quick and easy account servicing. The mobile payment solution is available exclusively at Canadian Tire and provides card members with the convenience of paying for purchases with their Canadian Tire Options MasterCard using a smartphone. Refer to section 6.1 for further information about the evolution of the Company's loyalty program and the Company's co-marketing initiatives in 2016.

Dealers
The Company's 500 Canadian Tire stores are operated by dedicated entrepreneurs called Dealers who are the face and the voice of the triangle in communities from coast to coast. The Canadian Tire Dealer model is unique to the Company and has served both the Dealers and the Company well for more than 80 years by allowing both parties to move forward collaboratively to succeed in rapidly changing environments with increased competition. It is this relationship and shared purpose of creating a strong enterprise that is a differentiator from other Canadian retailers, and that acts as a strategic advantage, providing the ability to adapt stores and offerings to the local marketplace.

Innovative/digital store layouts
Through its retail banners, the Company delivers innovative store designs that help customers find what they need, quickly and easily. The store network is regularly refreshed and during 2016, 12 former Target locations were renovated to Canadian Tire stores, replacing 10 stores and adding two incremental stores and 440,000 square feet to the network. These stores reflect the latest layout, assortments, and merchandising concepts and include recent digital elements that enhance the customer experience in-store.

June 2015 marked the opening of Canadian Tire's most innovative and digitally enhanced store. At 136,000 square feet, the "Showcase" store in Edmonton boasts over 100 digital screens, a large exterior high-resolution LED screen, digital flyer access, and helpful product selectors in the Living, Playing, Fixing, Seasonal, and Automotive sections. With over 73,000 individual products, the Showcase store has the most extensive assortment of any Canadian Tire store in Canada, and demonstrates the Company's strategy of offering assortments that are tailored to the local market.

At Mark's, known as L'Équipeur in Quebec, customers continue to respond favourably to an improved customer experience due, in part, to clear and consistent navigational signage and better in-store merchandising and assortments across the network. The Company launched a new bilingual website for L'Équipeur in 2015 to focus on in-store digital and eCommerce expansion and continued to invest in enhancements to this as well as the Marks.com website. This year, the Company focused on driving growth with further investments in digital and traditional marketing to build the Mark's brand and retain its status as a leading retailer for Men's jeans, Casual wear, Footwear, and Industrial wear, its key pillars of product growth. Further, Mark's continues to expand its assortment of national brands, evident in the addition of Sperry, Rockport, and Mavi brands in 2016.

At FGL Sports, the retailer further strengthened its position as Canada's leading sporting goods retailer while bringing the best sports brands in the world to Canadians from coast to coast. A focus on enhancing the customer experience has led to improved in-store execution and merchandising as well as the installation of new in-store digital features to better assist customers to make the right purchasing decisions. Through the six new Sport Chek flagship stores (two have opened per year since 2014), FGL Sports is changing customer expectations with its digitally-advanced and personalized retail experience. In 2015, the Company brought a first-of-its-kind live TSN broadcast studio to the Maple Leaf Square store in Toronto, Ontario. In addition, FGL Sports relaunched its new eCommerce website at SportChek.ca, in 2015, and launched Atmosphere.ca, in 2016. In 2016, the Company added a second distribution centre to its fulfillment capacity to support eCommerce sales and the Company expanded its digital footprint through store-based eCommerce where customers can buy certain items online while in-store for home delivery.

Real estate expertise

The Company's strong in-house real estate team manages the entire network of owned and leased properties for all of its banners, and manages a significant portion of CT REIT's portfolio pursuant to a property management agreement. The Company's portfolio represents one of Canada's largest retail networks, comprising 1,702 locations and over 30 million retail square feet. The Company's expertise in real estate enables it to quickly and efficiently identify properties that are ideally situated for future development or redevelopment and to secure high-traffic, sought-after locations for its retail outlets. The Company's real estate management team also has a strong track record of developing commercial and industrial properties.

The Company owns the majority of Canadian Tire store properties either directly or indirectly through its majority interest in CT REIT. The balance of its Canadian Tire stores, as well as almost all Mark's and FGL Sports stores, operate in leased locations.

Technology expertise

Canadian Tire is strategically focused on developing technological capabilities that will drive the omni-retail experience for its customers. New digital technologies have been developed and implemented to enhance Canadian Tire's eCommerce platforms and in-store experiences. The Canadian Tire innovation lab located at Communitech in Kitchener-Waterloo, Ontario contributes to the customer experience by introducing leading edge solutions for field testing. Canadian Tire's "Digital Garage", also located in Kitchener-Waterloo, Ontario, focuses on the creation of new technology solutions that support the Company's digital transformations. CTC's data centre located in Winnipeg, Manitoba serves as the core digital hub for Mark's and FGL Sports and also houses a digital content warehouse, application lab and high performance data centre. The data centre at the AJ Billes DC serves as the primary data centre and digital hub for Canadian Tire retail and CTB, allowing the Company to provide greater digital services to its customers, suppliers, employees and partners. Canadian Tire continues to make progress in the design and implementation of powerful analytical capabilities that assist its buying and logistics functions. Business processes have been examined and redefined to make more efficient use of the information provided from Canadian Tire stores. Modifications to Canadian Tire's technology infrastructure continue to be implemented through CTC's internal technology capabilities as well as through external service providers to achieve the desired functions and processes key to future cost improvements and enhanced customer experiences at Canadian Tire stores.

Global supply chain network

The Company's supply chain is responsible for managing the flow of information and goods among its suppliers, supply chain partners and retail network of stores. Supply chain partners include common-carrier trucking companies, third-party logistics companies, ocean carriers, and railways.

Most Canadian Tire products are distributed to stores from four DCs across Canada. The two DCs in Brampton, Ontario (A.J. Billes DC and Brampton DC) are operated by the Company and are staffed primarily by Company employees, while the DCs in Calgary, Alberta and Montreal, Quebec are operated for the Company by a third-party logistics company. In recent years, the DCs have focused on implementing new technologies aimed at driving efficiencies and improving

operational flexibility. As examples, voice-pick technology that has been implemented is designed to enhance shipment quality and reduce errors, and the utilization of automated-guided vehicle technology at the A.J. Billes DC has replaced conventional lift vehicles and operators.

The Company has identified the need to replace the aging Brampton DC. Land in Bolton, Ontario was acquired in 2013 to replace this DC and construction began in 2014. The new Bolton DC is expected to be fully operational in 2017, at which time the Brampton DC will be decommissioned.

The Company also operates three dedicated automotive parts depots which provide overnight parts delivery to Canadian Tire and PartSource stores.

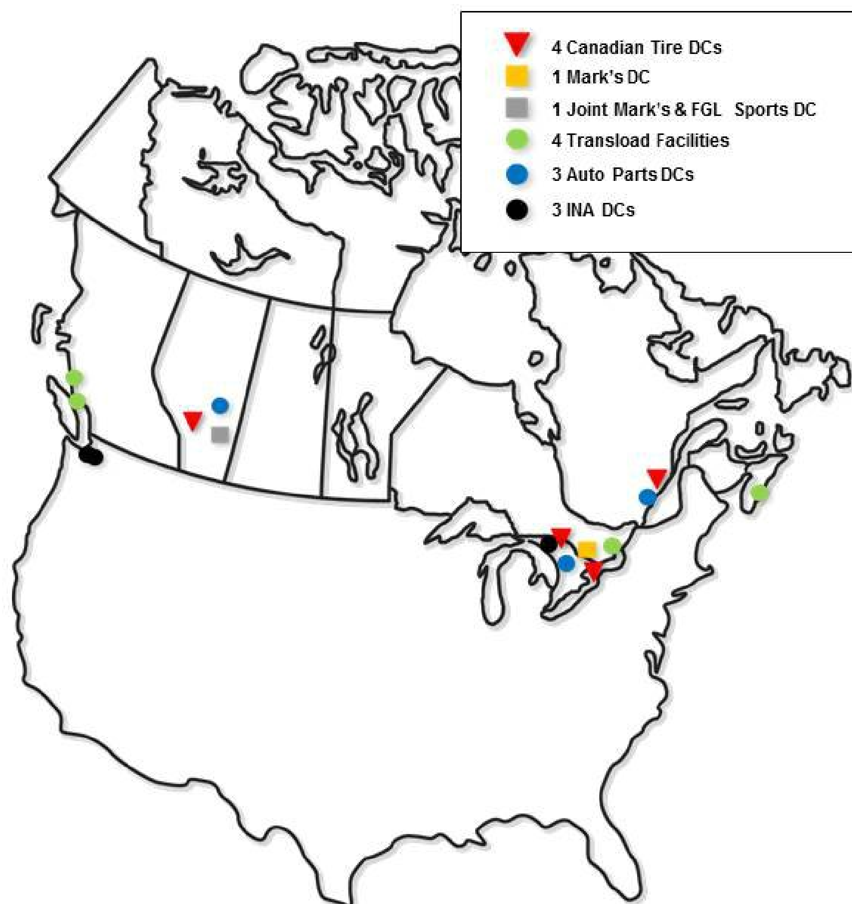
Most FGL Sports products are distributed to stores from two DCs, one in Mississauga, Ontario and the other located in Calgary, Alberta. Both are staffed primarily by Company employees. The Calgary DC opened in 2015 and provided FGL Sports with new distribution capacity in Western Canada and replaced Mark's third-party operated DC in Calgary. These facilities use state-of-the-art warehouse management systems, automated conveyor systems, and light-directed packing systems to distribute products to both franchise and corporate stores. FGL Sports eCommerce orders are fulfilled from these two DCs and are supported by distributed order management technology to facilitate timely, cost effective shipping. Mark's products are distributed to stores from the aforementioned Calgary DC and a DC in Brampton, Ontario, which is operated for the Company by a third-party logistics company.

The Company also operates a third DC in Brampton, Ontario which supports INA wholesale Canadian distribution operations and provides additional storage space for FGL Sports. INA has two warehouse facilities in the state of Washington.

The movement of goods from offshore suppliers is managed by the Company's supply chain through a third-party overseas consolidator and network of third-party carrier partners. The Company processes inbound offshore ocean containers through third-party transload facilities in Vancouver, British Columbia, Halifax, Nova Scotia, and Montreal, Quebec.

The Company employs third-party carriers to move goods inbound from North American-based suppliers and outbound from all of its DCs to its retail stores.

The Company's distribution network at a glance:



Prudent credit risk management

Financial Services has more than 25 years of experience managing credit card risk and has a professional team of managers, analysts, and statisticians who use sophisticated industry-standard and proprietary credit-scoring models to manage that risk. As a result, the team is able to make an informed assessment of the credit quality of each customer account and tailor products to achieve an appropriate balance of risk and return.

World-class customer contact centres

The Company's commitment to creating lifelong relationships with its customers is reflected in the success of its customer contact centres at Financial Services. The contact centres continue to be recognized for their commitment to customer service excellence, earning five *Contact Centre of the Year* award titles and nine *Customer Satisfaction* awards over the past decade.

Sport sponsorships

Canadian Tire is a leading supporter of sport in Canada. The Company believes in the "Power of Sport" to unite families, communities, and the nation, and has relationships with over 50 amateur and professional sports organizations, including partnerships with the Canadian Olympic Committee, Canadian Paralympic Committee, Hockey Canada, and Skate Canada. In addition to sport partners, the Company also supports high performance athletes who represent its core values and embody spirit, passion, and excellence within the world of sports. The Company's commitment to sport provides an opportunity to broaden its reach among key consumer groups pursuing sport across a range of disciplines and at all skill levels. In addition, the Company uses its sport focus to increase the attractiveness of its brand and products to customers.

4.0 Historical performance highlights

4.1 Selected annual consolidated financial trends

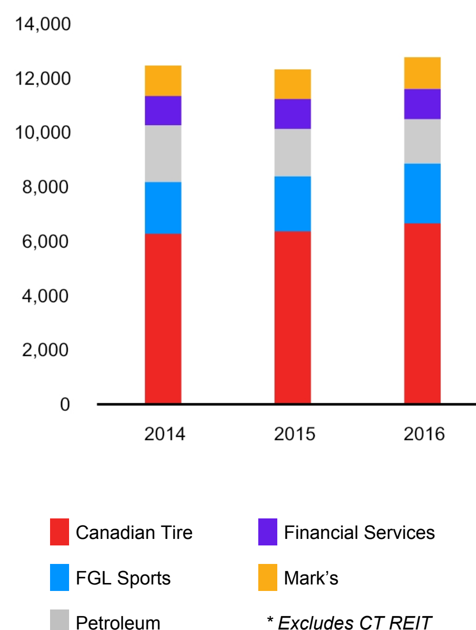
The following table provides selected annual consolidated financial and non-financial information for the last three fiscal periods. The financial information has been prepared in accordance with IFRS.

(C$ in millions, except per share amounts and number of retail locations)	**2016**	2015	2014
Revenue	**$ 12,681.0**	$ 12,279.6	$ 12,462.9
Net income	**747.5**	735.9	639.3
Basic EPS	**9.25**	8.66	7.65
Diluted EPS	**9.22**	8.61	7.59
Total assets	**15,302.8**	14,987.8	14,553.2
Total non-current financial liabilities[1]	**6,027.2**	5,778.6	5,473.0
Financial Services gross average accounts receivables (total portfolio)	**4,911.9**	4,838.7	4,684.6
Number of retail locations	**1,702**	1,698	1,700
Cash dividends declared per share	**$ 2.3750**	$ 2.1500	$ 1.9625
Stock price (CTC.A)[2]	**139.27**	118.16	122.22

[1] Includes short and long-term deposits, long-term debt including the current portion, long-term derivative liabilities included in other long-term liabilities, and the redeemable financial instrument.

[2] Closing share price as of the date closest to the Company's fiscal year-end.

The three-year trend chart highlights changes in revenue by banner between 2014 and 2016.



Consolidated revenue decreased in 2015 compared to 2014 primarily due to:

- lower retail sales at Petroleum due to lower gas prices;
- one less week of Retail segment operations in 2015; and
- a decline in the same-store sales growth at Mark's;

partially offset by:

- increased shipments to Dealers relating to same-store sales growth at Canadian Tire;
- increased retail sales at FGL Sports; and
- increased revenue in Financial Services primarily due to new product offerings and process enhancements that increased the average account balance.

Consolidated revenue increased in 2016 compared to 2015 primarily due to:

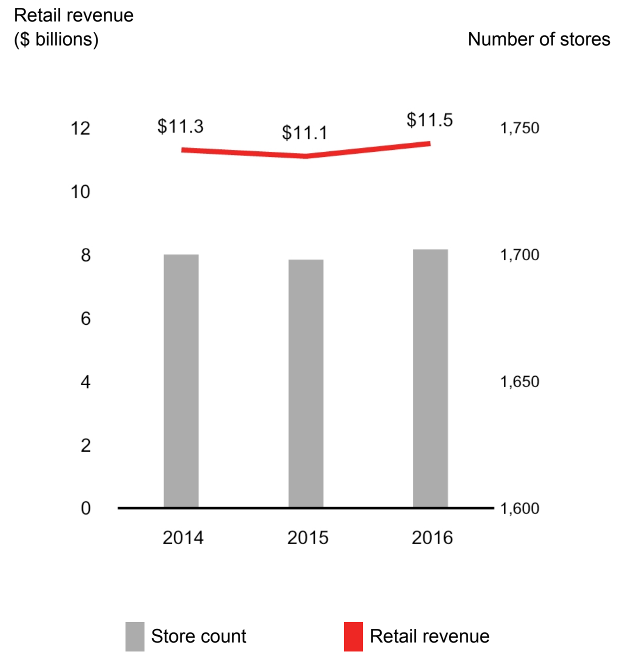
- higher shipments to Dealers relating to same-store sales growth at Canadian Tire and same-store sales growth across the Mark's and FGL Sports banners;
- increased revenue in Financial Services largely attributable to higher credit card charges;

partially offset by:

- lower retail sales at Petroleum due to lower per litre gas prices, offset by higher non-gas sales and higher gas volume.

Store count has increased since 2014. The increase in store count from 2014 is in line with the growth strategy at FGL Sports to increase the number of Sport Chek and Atmosphere banner stores in the network and continued selective expansion at Canadian Tire. In 2015 this was partially offset by the conversion of eight FGL Sports franchise locations to buying members and a slight decline in the number of Mark's stores due to the closure of lower performing stores.

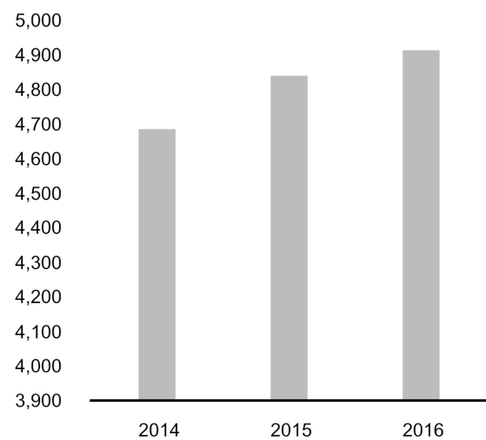
Retail revenue has increased since 2014 in line with the store count despite lower retail sales at Petroleum due to lower gas prices.



Financial Services gross average accounts receivable ("GAAR") for the total portfolio has increased over the past three years.

Average account balances increased since 2014 due in part to enhanced in-store financing offers for Canadian Tire customers and the continued focus on the optimization of approval and credit limit strategies.

Ongoing investment in new account acquisition has also contributed to GAAR growth.

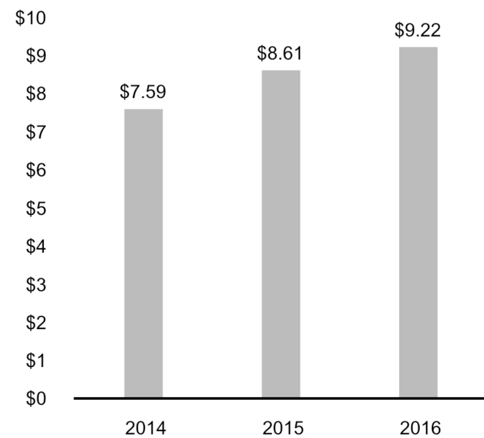


The Company's diluted EPS has increased every year since 2014 primarily due to:

- solid gross margin growth from both the Retail and Financial Services segments, due to strong revenue as well as improvement in gross margin rate in both segments;
- strong retail sales growth at Canadian Tire and FGL Sports (2015) and across all banners (2016);
- increased credit card charges on increased GAAR in the Financial Services segment;
- the Company's share buy-back program which resulted in a reduction in the weighted average number of shares outstanding; and
- the impact of after-tax gains on the sale of surplus properties in 2015;

partially offset by:

- an increase in selling, general, and administrative expenses in both years due to increased investment in the network to support operational efficiencies as well as increased variable compensation expense across the Company in 2016; and
- increased investment in the Financial Services segment to invigorate GAAR growth.



5.0 Three-Year (2015 to 2017) financial aspirations

Financial aspirations: 2015 to 2017

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

The Company announced its three-year growth strategy and financial aspirations for fiscal years 2015 to 2017 in October 2014. The financial aspirations are outlined below along with our 2016 performance and Management's current view of the key assumptions and significant risks:

Financial Measure	Annual Aspiration	2016	Achieved in 2016?
Canadian Tire retail sales annual growth	3%+	**5.6%**	✓
Mark's retail sales annual growth	5%+	**6.0%**	✓
FGL Sports retail sales annual growth	9%+	**6.9%**	✗
Financial Services return on receivables	6%+	**7.43%**	✓

FGL Sports did not achieve its annual retail sales growth aspiration of 9+ percent in 2016 due to lower than expected growth at its franchise stores and unseasonably warm temperatures in the first half of Q4.

Financial Measure	Aspiration over 3-year period 2015 to 2017	2016	Tracking toward 3-year Aspiration?
Average diluted EPS growth[1]	8% to 10%	**7.8%**	✓
Retail return on invested capital	9%+	**8.34%**	✓

[1] Average diluted EPS growth is calculated using normalized diluted EPS.

Average diluted EPS growth for 2015 and 2016 was 7.8 percent. Growth was impacted by continued investment in the Financial Services segment to reinvigorate GAAR growth, the negative impact of a weaker Canadian dollar on product costs across the Retail banners, and spending to drive operational efficiencies which are yielding improved margins and lower expenses. The Company continues to track towards its average three-year target of 8 to 10 percent diluted EPS growth.

Economic conditions that affect the Company's performance have changed since the Retail ROIC aspiration was announced. The deterioration of the Alberta economy, resulting from the decline in oil prices, and the decline in the value of the Canadian dollar compared to the U.S. dollar have resulted in challenges to deliver the growth in earnings required to achieve the Retail ROIC aspiration. Increasing Retail ROIC continues to be a focus for the Company.

In addition, the Company previously announced a three-year average annual operating capital expenditure investment range of between $600 million and $625 million from 2015 through 2017. The expected three-year average is now $450 million to $500 million given the actual spend for 2015 and 2016 and the revised forecasts for 2017 operating capital expenditures. The revised forecast excludes spending for operational efficiency initiatives that may be identified. The revised range includes continued investment in the Company's store network, capital spending relating to the acquisition and renovation of 12 former Target locations, and significant new investments in digital technology.

There have been no other material changes to the key assumptions and significant risks that support the Company's financial aspirations. Based on its assessment as at the date of this MD&A, Management's current view of these key assumptions and significant risks that support the Company's financial aspirations are outlined on the following page:

1. Annual retail sales growth of 3+ percent at Canadian Tire, 5+ percent at Mark's, and 9+ percent at FGL Sports
Key assumptions: • Strong and consistent same-store sales growth across core retail businesses • Retail square footage growth at Canadian Tire and Mark's in line with recent years • Continued Sport Chek network expansion • Growth in eCommerce sales across all retail banners • Positive customer response to brand and product-focused marketing, in-store merchandising, category specific tactical growth initiatives, and digital initiatives • Effective use of loyalty program customer shopping data to create targeted customer offerings and enhance in-store experience
Significant risks: • Limitations on availability of preferred retail locations due to continued competition and demand for retail space in Canada • Increased competition due to expanding and new U.S. retailers, new and existing online competitors, or a significant change in the Canadian retail landscape • Decline in economic growth, consumer confidence, and household spending • The competitiveness of the Company's loyalty programs • Customers' willingness to participate in and the relative attractiveness of the Company's marketing offers • Impact of commodity prices and other factors on the economic condition of various geographic or customer segments
2. Average diluted EPS growth of 8 to 10 percent over the three-year period
Key assumptions: • Realization of retail sales growth aspirations • Increased bottom-line earnings across all businesses through strong margin management, operating expense growth in line with revenue growth, and growth in GAAR in the Financial Services segment • Realization of cost savings and benefits from initiatives aimed at improving gross margin and operating expenses, including Dealer contract initiatives and enterprise-wide operating efficiency initiatives
Significant risks: • Revenue growth not achieved; refer to significant risks associated with retail sales aspirations described above • Increased costs relating to foreign exchange and global sourcing of key products impacting the Company's ability to maintain or reduce operating, supply chain, and/or product costs • Inability to achieve enhanced purchasing efficiencies and a reduction of overhead expenses • Short-term effect on EPS from the Company's capital-allocation initiatives including the potential impact of organic and inorganic growth initiatives designed to create long-term growth • GAAR growth could be challenged by new regulations and adverse economic conditions
3. Financial Services return on receivables of 6+ percent annually
Key assumptions: • Continued GAAR growth • Customers respond positively to new marketing initiatives, including enhanced loyalty program and in-store financing across the retail banners • Continued prudent expense management
Significant risks: • Decline in economic growth, consumer confidence, and household spending • Higher credit or default risk resulting in incremental allowance for future write-offs • GAAR growth could be challenged by new regulations and adverse economic conditions
4. Retail return on invested capital of 9+ percent by the end of 2017
Key assumptions: • Growth in retail earnings due to sales growth and successful execution of operating efficiency initiatives that increase retail gross margin and reduce operating expense as a percentage of revenue • Increased return from existing assets including enhanced same-store productivity and prudent working capital management • Continued successful investments in businesses to achieve organic growth and in projects and initiatives to improve returns • Average annual operating capital expenditures of $450 million to $500 million over the three-year period (updated from the original assumption of an investment between $600 million and $625 million, over the three-year period, given actual spend for 2015 and 2016 and the revised forecasts for 2017 operating capital expenditures)
Significant risks: • Earnings growth not achieved; refer to significant risks associated with retail sales and EPS growth aspirations described above • Increased capital investment due to inorganic growth opportunities that the Company may pursue

6.0 2016 and 2017 Strategic imperatives

6.1 2016 Strategic imperatives

The following is a summary of the Company's strategic imperatives and initiatives for 2016, along with Management's assessment in achieving these initiatives.

1. Strengthen brands and enhance customer experiences

The Company is committed to being a "brand and product-led" organization and being the conduit between its target customers and the best portfolio of retail brands. Management believes that the strength and value of the Company's brands are directly correlated to the strength of its business results. Successful achievement of the initiatives within this strategic imperative will ensure that the Company's brands are supported and enhanced in the eyes of its customers and other key stakeholders.

2016 Initiatives	Final Assessment
• Continue to keep the Company's brands relevant through innovative marketing campaigns and taking advantage of opportunities to highlight innovation and digital capabilities to its target customers	• Achieved
• Continue to build customer connections across all banners by offering unparalleled shopping experiences both in-store and online	• Achieved
• Activate sports and community partnerships to keep the Company's brand in the minds of Canadians	• Achieved
• Grow customer-loyalty program through in-store acquisition and through mobile apps and other digital channels	• Achieved
• Continue to create and offer high-quality, innovative private-brand assortments across the Company's retail banners that will drive customer loyalty and increase brand awareness	• Achieved

During the year, the Canadian Tire team developed and launched two WOW Guides, that feature a combination of a paper catalogue and enhanced online digital content. This guide exemplifies the Company's commitment to innovation and delivering results. eCommerce transactions more than doubled when each of the guides went live and sales of the 2,000+ items included in the Guides exceeded targets.

As part of the Company's ongoing commitment to enhancing the online experience for its customers, the Company continued to upgrade its existing online and eCommerce presence across its core retail banners. In addition, during the year, Atmosphere.ca was launched along with an expanded digital footprint through store based eCommerce kiosks where customers can order and pay for direct to home shipping while in-store.

Mark's stores continued to be renovated to the latest format and focused on driving growth with investments in digital and traditional marketing to build the brand. To ensure Mark's was top-of-mind and to create a more authentic connection with consumers, Mark's also released video content through its digital and social channels surrounding Father's Day, which is typically a major sales event for the business.

CTC continues to believe that supporting sports and community partnerships elevates its brand and keeps the Company top-of-mind with Canadians throughout the year. As such, the Company continued its partnership with the Canadian Olympic School program and government committees, inspiring kids to get active in school throughout the country. CTB has partnered with Own the Podium and the Canadian Olympic Committee to provide advanced sports analytics for Canada's athletes. The Company has also partnered with the Canadian Armed Forces to provide military bases across Canada with access to sporting equipment to support troops and their families.

The customer loyalty program has over 10 million members, reflecting the Company's initiatives to stimulate both sales at its retail banners and receivables growth in its credit card portfolio. This was achieved primarily through the continued focus on integration initiatives with the Retail business, for example an expanded in-store financing offer which provides the customers added flexibility when making purchases larger than $200.

Private-brands continued to provide the Company with additional sales and competitive advantages, made possible with the Company's expertise in developing products, quality management, and direct sourcing. During 2016, a Consumer Brands Division was created to form a Company-wide strategy and long-term growth platform for CTC's unique products and brands. Brands like NOMA, CANVAS, Mastercraft, and FRANK at Canadian Tire, McKinley at Atmosphere, and Denver Hayes and Dakota at Mark's, continue to set the Company apart from the competition whether online or in-store.

2. Transition to the new world of omni-retail where digital complements the physical

In order to compete on a global basis and continue to be relevant and engaged with its customers, the Company must invest in the future of digital retailing to enhance both its physical store networks and eCommerce capabilities. The "digitization of retail" requires significant investment in foundational technological platforms in order to continue to successfully transition the Company from traditional bricks-and-mortar to omni-channel retailing.

2016 Initiatives	Final Assessment
• Create world-class digital experiences through digital marketing, in-store technology, eCommerce, and integrated loyalty programs that complement physical retail stores	• Achieved
• Utilize customer data and shopping insights to personalize and enhance offers, communication and content, and achieve efficiencies	• Achieved

Financial Services continues to support the Retail business through in-store and online offers which serve to drive retail sales growth while adding new accounts and increasing account balances in the credit card portfolio.

At Canadian Tire, the banner's online and digital presence continued to strengthen as the eCommerce site, canadiantire.ca, was completely redesigned to offer an improved online experience for customers. More refined search functionality, improved navigation, an expanded digital flyer, and the integration of the eTires website into canadiantire.ca were also incorporated following the redesign. The Company offered an increased product assortment in 2016, adding new online only vendors and thousands of online exclusive offers. As well during the year, following a successful pilot in the Ottawa market, flyer items were made available for online purchase for customers to pick up in-store.

As mentioned FGL Sports enhanced their online presence with the launch of the Atmosphere.ca website. This site also includes a Facebook messenger chat tool to broaden the communication channels with its customers. FGL Sports also opened two digitally enhanced flagship stores; one on Robson Street in Vancouver, British Columbia and another at Sherway Gardens in Toronto, Ontario. These stores offer elevated in-store experiences that blend physical and digital elements of the shopping experience. For example, motion-triggered content allows for tactical messages to appear on screen when customers walk by, a stride ID fit lab allows customers to obtain a 3-D foot scan as well as a running gait analysis to provide insights into the most suitable shoe for that customer, and 3-D product holograms provide an elevated view of key products in stores.

With pre-roll videos and engaged social posts on popular social media outlets such as YouTube, Facebook, Twitter, and Instagram, Mark's increased its digital advertising throughout the year. The digital videos were considered Best in Class by Google when measuring ad recall, intent to purchase, and increase in searches among viewers of the video. Mark's fall jeans campaign also generated over two million views on both YouTube and Facebook. Mark's digital efforts also included providing an integrated path to purchase and special programs or initiatives that are accessible to customers across all channels.

During the year, using customer data and shopping insights, Canadian Tire retail deployed one-on-one weekly communications and promotional offers to loyalty members which allowed the Company to engage customers through personalized product offers. In addition, a new digital platform was launched providing the Company with the capabilities to trigger real-time communications and promotions based on customer behaviour.

3. Drive growth and productivity in core businesses

The Company continues to focus on driving organic growth and productivity within its four core banners: Canadian Tire, FGL Sports, Mark's, and Financial Services. It will also pursue inorganic opportunities, including eCommerce and new world omni-retail capabilities to create new growth platforms and bring required competencies to the Canadian Tire family of companies.

2016 Initiatives	Final Assessment
• Continue to drive sales and revenue across all banners through ongoing category management, innovative marketing campaigns, new product assortments, and enhanced in-store and digital experiences	• Achieved
• Achieve sustainable and profitable growth through productivity initiatives that target the operating expense structure and gross margins	• Achieved
• Continue to increase the retail footprint by adding flagship stores at FGL Sports and building new or expanded Canadian Tire and Mark's stores	• Achieved
• Pursue selective acquisitions that strengthen and grow our existing portfolio of brands and bring new-world capabilities	• Achieved
• Allocate capital through a balanced approach to maximize growth and long-term shareholder returns	• Achieved
• Re-invigorate GAAR growth by investing in in-store financing programs that drive sales at Canadian Tire	• Achieved

In addition to the innovative marketing campaigns at Mark's and FGL Sports discussed previously, Canadian Tire continued to expand the Tested for Life in Canada program through 2016, a proprietary consumer testing program comprising of over 15,000 Canadians from across the country. An example of this is the MAXIMUM Tool Drop campaign that featured hundreds of tools being dropped-off to trade professionals across the country. Over 400 products were tested, with 82 percent earning the Tested for life in Canada badge.

Canadian Tire continued to focus on operational effectiveness within the retail banners, the benefits of which have more than offset foreign exchange pressures and have contributed to our improved gross margin rate throughout the year.

During 2016, two Mark's stores and two Canadian Tire retail stores were opened. Also, 12 locations, formerly held by Target Canada and acquired by CTC in 2015, were renovated to the latest Canadian Tire retail store format and replaced existing locations during the year, adding a net two new locations and an additional 440,000 retail square feet to the network.

The Company continues to pursue selective acquisitions to grow its existing portfolio of brands and to support this pursuit created a Consumer Brands Division during the year. The mandate of the division is to develop and execute an integrated strategy surrounding the Company's existing portfolio of private-brands. In addition, it will have oversight for the acquisition of brands that have runway for growth and will develop new brands that logically complement or extend the existing product portfolio as the Company moves forward.

The Company is committed to allocating capital through a balanced approach. As part of this approach, on November 10, 2016, the Board of Directors announced an increase to the quarterly dividend rate payable to the holders of its Class A Non-Voting Shares and Common Shares by 13 percent. Also, the Company fulfilled its stated intention (announced November 12, 2015) of repurchasing $550 million of its outstanding Class A Non-Voting shares through December 31, 2016. Further, on November 10, 2016, the Company announced its intention to repurchase a further $550 million of its Class A Non-Voting Shares, in excess of the amount required for anti-dilutive purposes by the end of 2017.

Increased awareness and available options for the Company's in-store financing programs, due in part to investment in key marketing initiatives such as The WOW Guide, had a favourable impact on GAAR growth by generating nearly twice as many financed sales compared to last year.

4. Create an agile and high-performing corporate culture

The Company believes its success is closely tied to the quality of its leadership and is committed to attracting, developing, and retaining world-class talent that will drive growth in the business and foster a compelling corporate culture. The Company continues to be focused on developing or acquiring talent in key areas such as digital retailing, marketing, and data analytics in order to drive growth in its core businesses.

2016 Initiatives	Final Assessment
• Attract and develop talent to ensure required capabilities and expertise to bring the Company into the new world of retail	• Achieved
• Engage employees to stimulate innovation and growth	• Achieved
• Develop and share capabilities by collaborating across the businesses	• Achieved
• Deepen connections in communities across the country	• Achieved

The organization continued to identify, acquire, and develop resources across all levels and banners of the Company during 2016. In addition, the Company implemented Workplace (essentially Facebook at work) to improve communication and collaboration for its employees.

Canadian Tire continues to focus on pursuing opportunities to connect with its customers over their life cycle, across all banners. During the year, its Brand, Marketing, Corporate Affairs, and Communications teams were centralized under one executive who provides oversight with a company-wide lens, thus fostering collaborations across the business.

Canadian Tire's Jumpstart charity continued the support of local communities throughout 2016, deepening connections throughout the country. During the year, close to 220,000 Jumpstart children were helped through needs-based programs developed by community partners. During a six-week period, Jumpstart assisted Sport Canada and the Ministry of Canadian Heritage to identify over 4,800 children of Syrian refugees and new Canadian families to provide them with access to sports and recreation programming in their communities. As well, the Jumpstart and Hockey Canada Big Play initiative allowed more than 1,130 kids from 334 local hockey associations to participate in recreational hockey programs.

6.2 2017 Strategic imperatives

For 2017, the Company will pursue the following strategic imperatives and key initiatives which support the achievement of the three-year (2015-2017) financial aspirations. These imperatives and initiatives are aligned with the Company's focus of being the undisputed number one retail brand in Canada by building strong connections with customers over their lifetime, providing a unique portfolio of world-class products and brands, and offering a unique customer experience while preparing customers for the jobs and joys for a lifetime in Canada.

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

1. Achieve sustainable growth by strengthening the Company's brands and product offerings and enhancing customer experiences (connections)

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

2017 Initiatives
• Continue to drive sales and revenue across all banners through ongoing category management, new product brands and assortments, and enhanced in-store and digital experiences • Continue to evolve the Company's retail eCommerce capabilities to drive sales growth and provide customers with access to the shopping channels and experiences that they want • Pursue additional opportunities to integrate the financial services business with the Company's retail operations driving both retail sales, new accounts, and increased engagement with the Company's loyalty program • Activate sports and community partnerships to keep the Company's brand elevated in the minds of Canadians • Through the Consumer Brands division, continue to develop and offer high-quality, innovative private-brand assortments and pursue selective acquisitions that strengthen and grow the existing portfolio of brands across the Company's retail businesses

2. Drive profitability, operational excellence, and increased efficiencies in core businesses

The Company continues to focus on driving organic growth and operational efficiency within its four core banners: Canadian Tire, FGL Sports, Mark's, and Financial Services. Through various operational excellence initiatives, the Company expects to identify opportunities to implement new processes and technology that will drive ongoing operational improvements across the organization as well as drive higher profitability.

2017 Initiatives
• Achieve sustainable and profitable growth through operational efficiency initiatives that target the Company's operating expense structure and gross margin performance • Become a world-class online destination with omni-channel and fulfillment options that meet evolving customer expectations • Identify opportunities across the organization to consolidate functions and areas of expertise to build centres of excellence that support all the banners • Allocate capital through a balanced approach to maximize growth and long-term shareholder returns • Identify opportunities within the current store network to make existing stores more profitable • Continue to invigorate GAAR growth by investing in in-store financing and offers that drive sales at the Company's physical retail stores and drive new accounts or increase account balances at Financial Services

3. Transform the business by developing a high-performing, talented, and results-oriented corporate culture

The Company believes its success is closely tied to the quality of its leadership and is committed to attracting, developing, and retaining world-class talent that will drive growth in the business and foster a compelling corporate culture. The Company will continue to develop or acquire talent in key areas such as digital retailing, marketing, and data analytics in order to drive growth in its core businesses.

2017 Initiatives
• Attract, develop, and manage future leadership talent to build required capabilities and expertise to bring the Company into the new world of retail • Engage employees to stimulate innovation and growth and collaborate across businesses where relevant • Invest in talent to advance eCommerce, fulfillment, data analytics, and predictive marketing capabilities to fulfill customer experience expectations and to win in omni-channel • Deepen customer connections in communities across the country to focus on and expand customer lifecycle engagement

7.0 Financial performance

7.1 Consolidated financial performance

Non-operational items

The results of operations in the current and previous quarter and year-to-date ended December 31, 2016 and January 2, 2016 did not include material non-operational items. As a result, the Company has not included a measure of "normalized" earnings or "normalized" diluted EPS in this MD&A.

7.1.1 Consolidated financial results

(C$ in millions, except where noted)	Q4 2016	Q4 2015	Change	2016	2015	Change
Retail sales[1]	**$ 4,383.5**	$ 4,031.0	8.7 %	**$ 14,370.6**	$ 13,762.0	4.4 %
Revenue	**$ 3,641.0**	$ 3,380.2	7.7 %	**$ 12,681.0**	$ 12,279.6	3.3 %
Gross margin dollars	**$ 1,296.7**	$ 1,177.6	10.1 %	**$ 4,392.5**	$ 4,135.3	6.2 %
Gross margin as a % of revenue	**35.6%**	34.8%	78 bps	**34.6%**	33.7%	96 bps
Other expense (income)	**$ 2.4**	$ (3.9)	(162.6)%	**$ (4.3)**	$ (54.9)	(92.2)%
Selling, general and administrative expenses	**910.8**	823.8	10.6 %	**3,291.9**	3,096.1	6.3 %
Net finance costs	**25.4**	22.3	13.7 %	**93.9**	92.8	1.1 %
Income before income taxes	**$ 358.1**	$ 335.4	6.8 %	**$ 1,011.0**	$ 1,001.3	1.0 %
Income taxes	**93.0**	93.9	(0.8)%	**263.5**	265.4	(0.7)%
Effective tax rate	**26.0%**	28.0%		**26.1%**	26.5%	
Net income	**$ 265.1**	$ 241.5	9.7 %	**$ 747.5**	$ 735.9	1.6 %
Net income attributable to:						
Shareholders of Canadian Tire Corporation	**$ 246.8**	$ 225.2	9.6 %	**$ 669.1**	$ 659.4	1.5 %
Non-controlling interests	**18.3**	16.3	12.2 %	**78.4**	76.5	2.4 %
	$ 265.1	$ 241.5	9.7 %	**$ 747.5**	$ 735.9	1.6 %
Basic EPS	**$ 3.47**	$ 3.02	15.0 %	**$ 9.25**	$ 8.66	6.8 %
Diluted EPS	**$ 3.46**	$ 3.01	15.1 %	**$ 9.22**	$ 8.61	7.1 %
Weighted average number of Common and Class A Non-Voting Shares outstanding:						
Basic	**71,101,887**	74,638,445	NM[2]	**72,360,303**	76,151,321	NM[2]
Diluted	**71,249,119**	74,939,608	NM[2]	**72,555,732**	76,581,602	NM[2]

[1] Key operating performance measure. Refer to section 11.3.1 in this MD&A for additional information.
[2] Not meaningful.

Non-controlling interests

The following table outlines the net income attributable to the Company's non-controlling interests. For additional details, refer to Note 14 of the annual consolidated financial statements contained in the Company's 2016 Report to Shareholders.

(C$ in millions)	Q4 2016	Q4 2015	2016	2015
Financial Services Non-controlling interest percentage 20.0% (2015 - 20.0%)	**$ 12.2**	$ 10.6	**$ 52.4**	$ 53.0
CT REIT Non-controlling interest percentage 14.9% (2015 - 16.2%)	**5.2**	5.2	**21.4**	20.6
Retail segment subsidiary Non-controlling interest percentage 50.0% (2015 - 50.0%)	**0.9**	0.5	**4.6**	2.9
Net income attributable to non-controlling interests	**$ 18.3**	$ 16.3	**$ 78.4**	$ 76.5

Consolidated fourth quarter 2016 versus fourth quarter 2015

Earnings Summary

Diluted EPS was $3.46 in the quarter, an increase of $0.45 per share, or 15.1 percent, compared to the prior year. The earnings performance reflects strong revenue growth and improved gross margin contribution from the Retail and Financial Services segments, as well as the favourable impact of share repurchases and a lower effective tax rate on year-over-year diluted EPS; partially offset by increased selling, general, and administrative expenses.

Retail sales

Consolidated retail sales increased $352.5 million or 8.7 percent; however, this includes a 5.9 percent increase in Petroleum retail sales due to higher per litre gas prices. Excluding Petroleum, consolidated retail sales increased 9.1 percent reflecting increased sales across the Canadian Tire, FGL Sports, and Mark's banners. Refer to sections 7.2.3 for further information regarding Retail segment sales in the quarter.

Revenue

Consolidated revenue increased $260.8 million, or 7.7 percent, which includes a $25.1 million increase in Petroleum revenue resulting from higher per litre gas prices. Excluding Petroleum, consolidated revenue increased 7.9 percent primarily due to higher shipments at Canadian Tire, increased sales at FGL Sports and Mark's, and higher revenue in Financial Services. Refer to sections 7.2.3 and 7.4.2 for further information regarding Retail and Financial Services segment revenue.

Gross margin

Consolidated gross margin dollars increased $119.1 million, up 10.1 percent driven by increased sales and revenue across all retail banners and increased revenue in the Financial Services segment. The gross margin rate increase of 78 basis points is impacted by higher year-over-year per litre gas margins at Petroleum. Excluding Petroleum, the gross margin rate increased 79 basis points reflecting a rate improvement at Canadian Tire and Mark's as well as a higher gross margin rate in the Financial Services segment. Refer to sections 7.2.3 and 7.4.2 for further information regarding Retail and Financial Services segment gross margin.

Other expense (income)

Consolidated other income decreased $6.3 million (from income of $3.9 million to an expense of $2.4 million) primarily due to an increase in year-over-year Retail segment asset impairment charges resulting from the Company's annual review of long-lived assets.

Selling, general and administrative expenses

Consolidated selling, general and administrative expenses increased $87.0 million, or 10.6 percent, primarily due to:

- higher operating costs to support the Company's continued investment in operational effectiveness initiatives;
- higher variable compensation expense across the Company;
- increased occupancy costs relating to new stores at Canadian Tire (including Target conversions), new and renovated stores at FGL Sports, and timing of environmental and maintenance and repairs expense at Petroleum;
- higher store wages to support increase sales volumes at FGL Sports and Mark's;
- increased loyalty costs which are reported within marketing and advertising expense on a consolidated basis;
- increased depreciation and amortization relating to higher capital spending on IT initiatives and increased capital investment in the Retail network; and
- increased spend to support the Company's information systems.

Net finance costs

Consolidated net finance costs increased $3.1 million, or 13.7 percent, primarily due to higher interest expense on long-term debt.

Income taxes

The effective tax rate decreased to 26.0 percent from 28.0 percent in the prior year. Refer to Tax Matters in section 10.0 of this MD&A for further details.

Consolidated full year 2016 versus full year 2015

Earnings Summary

Diluted EPS was $9.22, an increase of $0.61 per share, or 7.1 percent, over the prior year, which included a $0.33 per share gain from the sale of surplus property. Excluding this gain, diluted EPS increased 11.4 percent, year-over-year, driven by strong revenue growth and improved gross margin contribution from the Retail and Financial Services segments, Petroleum's higher per litre gas margins, and the favourable impact of share repurchases and a lower effective tax rate on year-over-year diluted EPS; partially offset by increased selling, general, and administrative expenses due, in part, to the Company's continued investment in GAAR growth and operational effectiveness initiatives.

Retail sales

Consolidated retail sales increased $608.6 million, or 4.4 percent, over the prior year; however, this includes a 4.2 percent decline in Petroleum retail sales due to lower per litre gas prices. Excluding Petroleum, consolidated retail sales increased 5.9 percent reflecting higher sales at Canadian Tire, FGL Sports, and Mark's. Refer to sections 7.2.3 for further information regarding Retail segment sales in the year.

Revenue

Consolidated revenue increased $401.4 million, or 3.3 percent, over the prior year, which includes a $100.3 million decline in Petroleum revenue resulting from lower per litre gas prices. Excluding Petroleum, consolidated revenue increased 4.8 percent due to increased shipments at Canadian Tire, higher sales at FGL Sports and Mark's, and higher revenue in the Financial Services segment. Refer to sections 7.2.3 and 7.4.2 for further information regarding Retail and Financial Services segment revenue.

Gross margin

Consolidated gross margin dollars increased $257.2 million, or 6.2 percent, driven by increased sales and revenue across all retail banners and increased revenue in the Financial Services segment. The gross margin rate increase of 96 basis points is positively impacted by the lower year-over-year per litre gas margins at Petroleum. Excluding Petroleum, the gross margin rate increased 58 basis points reflecting solid growth in the gross margin rate at Canadian Tire and in the Financial Services segment. Refer to sections 7.2.3 and 7.4.2 for further information regarding Retail and Financial Services segment gross margin.

Other income

Consolidated other income decreased $50.6 million primarily due to a lower value of Retail segment real estate gains compared to the prior year, including a $29.2 million gain on the sale of surplus property, as well as an increase in Retail segment asset impairment charges resulting from the Company's annual review of long-lived assets.

Selling, general and administrative expenses

Consolidated selling, general, and administrative expenses increased $195.8 million, or 6.3 percent, compared to the prior year primarily due to:

- higher operating costs to support the Company's continued investment in operational effectiveness initiatives;
- higher variable compensation expense across the Company;
- increased marketing and advertising expenditures in the Retail segment and higher acquisition costs in the Financial Services segment to support the Company's continued investment in GAAR growth;
- increased depreciation and amortization relating to higher capital spending on IT initiatives and increased investment in the Retail network;
- increased spend to support the Company's information systems;
- increased personnel expenses due to severance costs associated with organizational changes that occurred during the year, including a change in the Chief Executive Officer of the Company, and due to higher store wages and benefits to support increased sales volumes at FGL Sports and Mark's; and
- increased occupancy costs relating to new stores at Canadian Tire (including Target conversions) and new and renovated stores at FGL Sports, partially offset by a larger than typical property tax refund.

Income taxes

The effective tax rate decreased to 26.1 percent from 26.5 percent in the prior year. Refer to Tax Matters in section 10.0 of this MD&A for further details.

7.1.2 Consolidated key operating performance measures

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

(C$ in millions)	Q4 2016	Q4 2015	Change	2016	2015	Change
Net income attributable to Shareholders of Canadian Tire Corporation	**246.8**	$ 225.2	9.6%	**669.1**	$ 659.4	1.5%
Adjusted EBITDA[1]	**$ 506.6**	$ 474.0	6.9%	**$ 1,561.8**	$ 1,518.8	2.8%
Selling, general and administrative expenses (excluding depreciation and amortization) as a % of revenue[2]	**21.7%**	21.0%	69 bps	**22.4%**	21.8%	59 bps
Adjusted EBITDA[1] as a % of revenue	**13.9%**	14.0%	(11) bps	**12.3%**	12.4%	(5) bps

[1] Adjusted EBITDA is a non-GAAP measure; refer to section 11.3.2 in this MD&A for a reconciliation of adjusted EBITDA to net income attributable to Shareholders of Canadian Tire Corporation and additional information.

[2] Selling, general and administrative expenses exclude depreciation and amortization of $121.2 million in Q4 2016 (2015 - $114.0 million) and $448.9 million Q4 YTD 2016 (2015 - $415.8 million).

Adjusted EBITDA has increased compared to the prior year despite a $29.2 million gain on the sale of surplus property in the prior year, largely due to the strong performance in the Retail segment. Adjusted EBITDA as a percentage of revenue has decreased slightly compared to the prior year as the rate of revenue growth slightly outpaced that of Adjusted EBITDA.

Selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue increased compared to the prior year. During the full year 2016 and 2015, this metric has been negatively impacted by the significant decline in Petroleum revenue due to lower gas prices year-over-year. Excluding the decline in Petroleum revenue for the full year, selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue increased 32 basis points in 2016 compared to 2015. This performance measure is impacted by the increase in variable compensation across the Company as well as the cost of the Company's continued investment in operational effectiveness initiatives. The majority of the benefit of the investment in operational effectiveness initiatives is reflected in gross margin.

7.1.3 Seasonal trend analysis

Quarterly operating net income and revenue are affected by seasonality. The fourth quarter typically generates the greatest contribution to revenues and earnings, and the first quarter the least, largely due to the seasonal nature of some merchandise and the timing of marketing programs in the retail businesses. The following table shows the financial performance of the Company by quarter for the last two years. The quarterly trend could be impacted by non-operational items.

(C$ in millions, except per share amounts)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue	**$ 3,641.0**	$ 3,128.4	$ 3,352.2	$ 2,559.4	$ 3,380.2	$ 3,126.8	$ 3,257.7	$ 2,514.9
Net income	**265.1**	197.8	199.0	85.6	241.5	219.9	186.2	88.3
Basic EPS	**3.47**	2.45	2.47	0.90	3.02	2.63	2.16	0.88
Diluted EPS	**3.46**	2.44	2.46	0.90	3.01	2.62	2.15	0.88

7.2 Retail segment performance

7.2.1 Retail segment key operating performance measures

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. The Retail sales growth metric for Q4 2015 and the full year 2015, included in the key operating performance measures in the table below, were impacted by 2014 including one extra week of retail operations. Refer to section 11.3.1 in this MD&A for definitions and further information on performance measures.

(year-over-year percentage change, C$ in millions, except as noted)	**Q4 2016**	Q4 2015	Change	**2016**	2015	Change
Retail segment - total						
Retail sales growth	**8.7%**	(5.6)%		**4.4 %**	(0.7)%	
Consolidated same-store sales growth[1]	**7.9%**	0.6 %		**4.7 %**	3.0 %	
Revenue[2]	**$ 3,332.8**	$ 3,087.0	8.0%	**$ 11,453.4**	$ 11,075.3	3.4 %
Retail ROIC[3]	**8.34%**	8.09 %		**n/a**	n/a	
Income before income taxes	**$ 265.9**	$ 250.2	6.3%	**$ 621.8**	$ 604.9	2.8 %
EBITDA[4]	**$ 359.9**	$ 334.4	7.6%	**$ 958.8**	$ 913.0	5.0 %
Retail segment - by banner						
Canadian Tire						
Retail sales growth[5]	**9.6%**	(2.6)%		**5.6 %**	2.4 %	
Same-store sales growth[1, 5]	**8.1%**	2.0 %		**4.2 %**	3.2 %	
Sales per square foot[6] (whole $)	**$ 403**	$ 400	0.9%	**n/a**	n/a	
Revenue[2, 7]	**$ 1,879.7**	$ 1,719.5	9.3%	**$ 6,653.1**	$ 6,352.3	4.7 %
FGL Sports						
Retail sales growth[8]	**6.4%**	(5.7)%		**6.9 %**	2.7 %	
Same-store sales growth[1, 8]	**5.1%**	(0.4)%		**6.0 %**	4.4 %	
Sales per square foot[9] (whole $)	**$ 299**	$ 289	3.3%	**n/a**	n/a	
Revenue[2]	**$ 624.7**	$ 594.0	5.2%	**$ 2,199.7**	$ 2,028.5	8.4 %
Mark's						
Retail sales growth[10]	**10.8%**	(10.2)%		**6.0 %**	(2.3)%	
Same-store sales growth[1, 10]	**10.6%**	(5.2)%		**6.1 %**	(0.5)%	
Sales per square foot[11] (whole $)	**$ 337**	$ 325	3.7%	**n/a**	n/a	
Revenue[2, 12]	**$ 442.7**	$ 402.0	10.1%	**$ 1,154.4**	$ 1,092.6	5.7 %
Petroleum						
Gasoline volume growth in litres	**3.1%**	(7.3)%		**0.1 %**	0.3 %	
Same-store gasoline volume growth in litres[1]	**2.3%**	(0.1)%		**(0.2)%**	2.0 %	
Retail sales growth	**5.9%**	(15.4)%		**(4.2)%**	(13.8)%	
Revenue[2]	**$ 425.7**	$ 400.6	6.3%	**$ 1,634.7**	$ 1,735.0	(5.8)%
Gross margin dollars	**$ 42.9**	$ 39.4	9.0%	**$ 178.7**	$ 173.9	2.8 %

1 Refer to section 11.3.1 in this MD&A for additional information on same-store sales growth.
2 Inter-segment revenue within the retail banners of $40.0 million in the fourth quarter (2015 - $29.1 million) and $188.5 million in 2016 (2015 - $133.1 million) has been eliminated at the Retail segment level. Revenue reported for Canadian Tire, FGL Sports, Mark's, and Petroleum includes inter-segment revenue.
3 Retail ROIC is calculated on a rolling 12-month basis. Refer to section 11.3.1 in this MD&A for additional information.
4 EBITDA is a non-GAAP measure. Refer to section 11.3.2 in this MD&A for a reconciliation of EBITDA to income before income taxes and additional information.
5 Retail sales growth includes sales from Canadian Tire stores, PartSource stores, and the labour portion of Canadian Tire's auto service sales.
6 Sales per square foot figures are calculated on a rolling 12-month basis and exclude PartSource stores. Retail space does not include seasonal outdoor garden centres, auto service bays, or warehouse and administrative space.
7 Revenue includes revenue from Canadian Tire, PartSource, and Franchise Trust.
8 Retail sales growth includes sales from both corporate and franchise stores.
9 Sales per square foot figures are calculated on a rolling 12-month basis, include both corporate and franchise stores and warehouse and administrative space.
10 Retail sales growth includes retail sales from Mark's corporate and franchise stores and ancillary revenue relating to embroidery and alteration services.
11 Sales per square foot figures are calculated on a rolling 12-month basis, include sales from both corporate and franchise stores and exclude ancillary revenue. Sales per square foot do not include warehouse and administrative space.
12 Revenue includes sale of goods to Mark's franchise stores, retail sales from Mark's corporate stores, and includes ancillary revenue relating to embroidery and alteration services.

7.2.2 Retail banner network at a glance

Number of stores and retail square footage	**2016**	2015
Consolidated store count		
Canadian Tire stores[1]		
Smart stores	**420**	385
Traditional stores	**31**	35
Updated and expanded stores	**22**	50
Small market stores	**25**	25
Other	**2**	3
Total Canadian Tire stores	**500**	498
PartSource stores	**91**	91
FGL Sports stores		
Sport Chek	**196**	190
Atmosphere	**69**	69
Sports Experts	**68**	74
Other	**100**	100
Total FGL Sports stores	**433**	433
Mark's stores[1]		
Mark's	**330**	323
L'Équipeur	**45**	45
Mark's Work Wearhouse	**7**	12
Total Mark's stores	**382**	380
Canadian Tire gas bar locations	**296**	296
Total stores	**1,702**	1,698
Consolidated retail square footage[2] (in millions)		
Canadian Tire	**21.6**	20.9
FGL Sports	**7.7**	7.3
Mark's	**3.6**	3.5
PartSource	**0.3**	0.3
Total retail square footage[2]	**33.2**	32.0

1 Store count numbers reflect individual selling locations. Both Canadian Tire and Mark's totals include stores that are co-located.
2 The retail square footage excludes Petroleum's convenience store rental space.

7.2.3 Retail segment financial results

(C$ in millions)	**Q4 2016**	Q4 2015	Change	**2016**	2015	Change
Retail sales[1]	**$ 4,383.5**	$ 4,031.0	8.7 %	**$ 14,370.6**	$ 13,762.0	4.4 %
Revenue	**$ 3,332.8**	$ 3,087.0	8.0 %	**$ 11,453.4**	$ 11,075.3	3.4 %
Gross margin dollars	**$ 1,083.1**	$ 985.8	9.9 %	**$ 3,562.5**	$ 3,327.7	7.1 %
Gross margin as a % of revenue	**32.5%**	31.9%	56 bps	**31.1%**	30.0%	106 bps
Other (income)	**$ (28.3)**	$ (31.1)	(9.1)%	**$ (120.5)**	$ (160.7)	(25.0)%
Selling, general and administrative expenses	**852.8**	778.8	9.5 %	**3,099.1**	2,926.0	5.9 %
Net finance (income)	**(7.3)**	(12.1)	(40.0)%	**(37.9)**	(42.5)	(10.9)%
Income before income taxes	**$ 265.9**	$ 250.2	6.3 %	**$ 621.8**	$ 604.9	2.8 %

1 Retail sales is a key operating performance measure. Refer to section 11.3.1 in this MD&A for additional information.

<u>Retail segment fourth quarter 2016 versus fourth quarter 2015</u>

Earnings Summary
Income before income taxes increased $15.7 million, or 6.3 percent. This increase is primarily attributable to strong sales and revenue growth across all banners and improved gross margin contribution at Canadian Tire, Mark's, and Petroleum which more than offset an increase in selling, general and administrative expenses.

Retail sales
Canadian Tire retail sales increased 9.6 percent (same-store sales increased 8.1 percent). The increase in retail sales reflects a renewed product assortment which is resonating with customers and driving strong non-seasonal and seasonal category sales across all divisions and in all regions of the country. While weather-dependent business contributed to sales results, the majority of growth during the quarter came from categories that are not directly impacted by winter weather. Sales growth was led by the Automotive, Seasonal & Gardening, and Living categories.

FGL Sports retail sales increased 6.4 percent (same-store sales increased 5.1 percent). The arrival of winter weather across the country in December helped to drive sales and traffic to the stores which offset the impact of poor November sales due to unseasonably warm temperatures. The sales increase in the fourth quarter was driven largely by key categories including athletic and casual clothing and accessories, as well as by licensed clothing and accessories.

Retail sales at Mark's increased by 10.8 percent (same-store sales increased 10.6 percent). The growth in sales during the quarter was driven by winter weather in December, which more than offset an unseasonably warm November. On a regional basis, all provinces contributed to the results with winter categories contributing approximately 50 percent of the sales growth.

Petroleum retail sales increased 5.9 percent resulting from a year-over-year increase in per litre gas prices, higher gas volume and higher non-gas sales.

Revenue
Revenue increased $245.8 million, or 8.0 percent, compared to prior year. Excluding the impact of Petroleum, which increased 6.3 percent year-over-year, Retail revenue increase 8.2 percent primarily driven by higher year-over-year product shipments to Dealers and retail sales growth at FGL Sports and Mark's.

Gross margin
Gross margin dollars increased $97.3 million, or 9.9 percent, reflecting increased revenue across all banners. The gross margin rate increased 56 basis points. Excluding Petroleum, the gross margin rate increased 55 basis points, reflecting a positive contribution at Canadian Tire and Mark's, which more than offset a decline in gross margin rate at FGL Sports.

Canadian Tire's improvement in gross margin rate during the quarter was primarily due to a focus on optimizing assortments, improving sales mix and sourcing costs, lowering freight costs, and the benefits earned from improved Dealer earnings as part of the Company's cost and margin sharing arrangement, which more than offset the negative impacts of foreign exchange pressure on product costs.

Mark's gross margin rate improvement was driven by continued refinements of their pricing and promotional optimization strategies and improved product assortment which more than offset the negative impacts of foreign exchange pressure on product costs.

FGL Sports gross margin rate declined due to higher freight costs and an increase to the inventory obsolescence provision to align their methodology with the other retail banners.

Other income
Other income decreased $2.8 million, or 9.1 percent, primarily due to an increase in year-over-year asset impairment charges resulting from the Company's annual review of long-lived assets; partially offset by an increase in gains received from the sale of surplus property and an increase in distributions earned on CT REIT units held by the Company.

Selling, general and administrative expenses
Selling, general and administrative expenses increased $74.0 million, or 9.5 percent, primarily due to:

- higher variable compensation expense across all banners;
- higher operating costs to support the Company's continued investment in operational effectiveness initiatives;
- increased occupancy costs relating to new stores at Canadian Tire (largely Target conversions), new and renovated stores at FGL Sports, and timing of environmental and maintenance and repairs expense at Petroleum, as well as higher inter-segment occupancy costs relating to market rent paid on all retail properties sold to CT REIT;
- higher store wages to support increased sales volumes at FGL Sports and Mark's;
- increased depreciation and amortization relating to higher capital spending on IT initiatives and increased investment in the Retail network;
- increased spend to support the Company's information systems; and
- increased marketing and advertising primarily at Canadian Tire retail reflecting increased loyalty charges due to higher sales and increased expenses to support the fall/winter production of The WOW Guide catalogue.

Net finance income
Net finance income decreased $4.8 million primarily due to a lower amount of interest expense capitalized relating to Bolton DC construction costs (recorded in the REIT segment following the sale to CT REIT in Q2 2016) and lower income earned on inter-segment debt due to the redemption of CT REIT Series 2 Class C LP units in May 2016.

<u>Retail segment full year 2016 versus full year 2015</u>

Earnings Summary
Income before income taxes increased $16.9 million, or 2.8 percent, compared to the prior year. Strong year-to-date sales and revenue growth at Canadian Tire, FGL Sports, and Mark's and increased gross margin rates, particularly at Canadian Tire, more than offset decreased other income (due to prior year's inclusion of a $29.2 million gain on the sale of surplus property) and increased selling, general, and administrative expenses.

Retail sales
Canadian Tire retail sales increased 5.6 percent (same-store sales increased 4.2 percent). This increase in retail sales reflects growth across all divisions and in all regions except Alberta, given the down turn in the Alberta economy and its impact in early 2016. Performance was driven by continued strength in non-seasonal assortments, coupled with growth in seasonal categories. Sales growth was led by the Living, Seasonal & Garden, and Fixing categories. The positive performance across all divisions has more than offset the negative year-over-year impact of Management's decision to refocus the Home Services business to products that are sold exclusively within Canadian Tire stores.

FGL Sports retail sales increased 6.9 percent (same-store sales increased 6.0 percent). The sales increase was driven by strong sales performance in key categories including athletic and casual clothing and accessories, footwear (driven by a double digit increase in Kid's shoes), licensed apparel, and winter categories as well as higher year-over-year eCommerce sales.

Mark's sales increased 6.0 percent (same-store sales increased 6.1 percent) with growth across all regions. The growth in sales was achieved primarily due to strong performance in key casual wear categories including denim, casual footwear, and outerwear which benefited from targeted promotional campaigns throughout the year. In addition, winter category sales were up year-over-year, boosted by the arrival of winter weather in December across the country. These positive impacts to sales more than offset the negative impacts to industrial sales due to a slowdown in the oil industry.

Petroleum retail sales decreased 4.2 percent resulting from lower year-over-year per litre gas prices, partially offset by higher non-gas sales and higher gas volumes.

Revenue
Revenue increased $378.1 million, or 3.4 percent, compared to prior year. Excluding the impact of Petroleum, which decreased 5.8 percent year-over-year due to a decline in gas prices, Retail revenue increased 5.1 percent primarily driven by increased product shipments to Dealers at Canadian Tire and increased sales at FGL Sports and Mark's.

Gross margin
Gross margin dollars increased $234.8 million, or 7.1 percent, primarily due to higher shipments at Canadian Tire and increased retail sales at FGL Sports and Mark's during the year. The gross margin rate increase of 106 basis points was impacted by higher per litre gas margins at Petroleum. Excluding Petroleum, the gross margin rate increased 70 basis points in the Retail segment and was primarily attributable to the gross margin rate improvement at Canadian Tire.

Canadian Tire's improvement in gross margin rate during the year was primarily due to a focus on operating efficiency initiatives (which emphasize optimizing assortments, improving sales mix, and reducing freight costs) as well as the benefits earned from improved Dealer earnings as part of the Company's cost and margin sharing arrangement. These benefits more than offset the negative impacts to gross margin of the foreign exchange pressure on product costs.

Gross margin at FGL Sports and Mark's was relatively flat year-over-year.

Other income
Other income decreased $40.2 million, or 25.0 percent, primarily due to a lower value of real estate gains compared to the prior year, which included a $29.2 million gain relating to the sale of a surplus property, and an increase in asset impairments resulting from the Company's annual review of long-lived assets; partially offset by an increase in distributions earned on CT REIT units held by the Company ($115.7 million in the current year compared to $103.9 million in the prior year).

Selling, general and administrative expenses
Selling, general, and administrative expenses increased $173.1 million, or 5.9 percent, compared to the prior year due to:

- higher operating costs to support the Company's continued investment in operational effectiveness initiatives;
- higher variable compensation expenses across all banners;
- increased depreciation and amortization relating to higher capital spending on IT initiatives and increased investment in the Retail network;
- increased spend to support the Company's information systems;
- increased marketing and advertising and Other expenses, in part, driven by costs relating to the Rio Olympics and the World Cup of Hockey sponsorships and to support initiatives such as the Canadian Tire WOW Guide, Mark's Father's Day television campaign, and FGL Sports' digital marketing for the NBA All Star game;
- increased personnel expenses due to severance costs associated with organizational changes that occurred during the year, including a change in the Chief Executive Officer of the Company, and due to higher store wages and benefits to support increased sales volumes at FGL Sports and Mark's;
- higher inter-segment occupancy costs relating to market rent paid on all retail properties sold to CT REIT; and
- increased occupancy costs relating to new stores at Canadian Tire (including Target conversions), new and renovated stores at FGL Sports, partially offset by a larger than typical property tax refund.

Net finance income
Net finance income decreased $4.6 million compared to prior year primarily due to lower income earned on inter-segment debt due to the redemption of CT REIT Series 2 Class C LP units in May 2016; partially offset by lower interest expense due to the repayment of a medium-term note in June 2015.

7.2.4 Retail segment business risks
The Retail segment is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to the Retail segment's operations. Refer to section 12.2 of this MD&A for a discussion of some other industry-wide and company-wide risks affecting the business.

Seasonality risk
Canadian Tire derives a significant amount of its revenue from the sale of seasonal merchandise and, accordingly, derives a degree of sales volatility from abnormal weather patterns. Canadian Tire mitigates this risk, to the extent possible, through the breadth of its product mix as well as effective procurement and inventory management practices.

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

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

Supply chain disruption risk
A substantial portion of the Company's product assortment is sourced from foreign suppliers, lengthening the supply chain and extending the time between order and delivery to its DCs. Accordingly, the Company is exposed to potential supply chain disruptions due to foreign supplier failures, geopolitical risk, labour disruption or insufficient capacity at ports and risk of delays or loss of inventory in transit. The Company mitigates this risk through the use of advanced tracking systems and visibility tools, effective supplier selection and procurement practices and through strong relationships with transportation companies and port and other shipping authorities, supplemented by marine insurance coverage.

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

Environmental risk within Petroleum is primarily associated with the storage and handling of gasoline, oil and propane. Environmental contamination, if not prevented or remediated, could result in fines and/or sanctions and damage the Company's reputation. The Company mitigates its environmental risks through a comprehensive regulatory compliance program, which includes environmental investigations and the remediation of contaminated sites as required. Petroleum also has environmental insurance coverage.

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

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

Global sourcing risk
Canadian Tire, FGL Sports, and Mark's use internal resources and third-party logistics providers to manage supply chain technology and the movement of foreign-sourced goods from suppliers to the Company's Canadian DCs and to their retail stores. Similar to other retailers that source products internationally, there is exposure to risks associated with foreign suppliers which can include, but are not limited to, currency fluctuations, the stability of manufacturing operations in other countries and transportation and port disruptions (see supply chain disruption risk). The Company uses internal resources and third-party quality assurance providers to proactively manage product quality with vendors in the foreign sourcing regions. The Company believes that its business practices are appropriate to mitigate the risks. Further information regarding the Company's exposure to foreign currency risk is provided in section 12.3.

7.3 CT REIT segment performance

7.3.1 CT REIT segment financial results

(C$ in millions)		**Q4 2016**		Q4 2015	Change		**2016**		2015	Change
Property revenue	**$**	**104.3**	$	96.6	7.9 %	**$**	**407.2**	$	378.2	7.7 %
Property expense		**24.5**		21.8	12.6 %		**96.4**		86.9	11.0 %
General and administrative expense		**2.4**		2.7	(6.6)%		**10.3**		9.6	7.0 %
Net finance costs		**20.7**		22.0	(6.5)%		**85.9**		87.1	(1.4)%
Fair value (gain) adjustment		**(8.8)**		(12.7)	(30.3)%		**(44.5)**		(39.9)	11.6 %
Income before income taxes	**$**	**65.5**	$	62.8	4.2 %	**$**	**259.1**	$	234.5	10.5 %

CT REIT segment key operating performance measures

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

(C$ in millions)		**Q4 2016**		Q4 2015	Change		**2016**		2015	Change
Net operating income[1]	**$**	**73.7**	$	68.2	8.1%	**$**	**287.1**	$	265.4	8.2%
Funds from operations[1]		**56.8**		50.0	13.5%		**214.9**		194.7	10.4%
Adjusted funds from operations[1]	**$**	**46.0**	$	39.0	18.0%	**$**	**172.8**	$	151.7	13.9%

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

CT REIT segment fourth quarter 2016 versus fourth quarter 2015

Earnings summary

Income before income taxes increased $2.7 million, or 4.2 percent, primarily due to properties acquired during 2016 and 2015; partially offset by a decrease of $3.9 million in the fair market value adjustment over the prior year.

Property revenue

Property revenue consists of base rent as well as operating cost and property tax recoveries. Property revenue increased by $7.7 million, or 7.9 percent, primarily due to higher base rent relating to properties acquired and intensification activities completed during 2016 and 2015.

Of the $104.3 million in property revenue received, $96.8 million was from CTC. The rent revenue received from CTC is 4.6 percent higher than the prior year of $ 92.5 million.

Property expense

Property expense for the quarter was $24.5 million, an increase of $2.7 million or 12.6 percent over the prior year, largely due to property acquisitions. The majority of the property expense costs are recoverable from tenants, with CT REIT absorbing these expenses for any vacancies. Property expense consists primarily of property taxes and other costs incurred including those pursuant to the Property Management Agreement between CT REIT and CTC.

General and administrative expense

General and administrative expenses are primarily related to personnel costs, ongoing operational costs associated with the public entity, and outsourced costs which are largely related to the services provided by CTC pursuant to the Services Agreement between CT REIT and CTC. General and administrative expenses were relatively flat compared to prior year.

Net operating income

NOI was $73.7 million, an increase of $5.5 million, or 8.1 percent, primarily due to property acquisitions completed in 2016 and 2015. NOI is a non-GAAP measure; refer to section 11.3.2 for additional information.

Funds from operations and adjusted funds from operations

FFO and AFFO for the quarter were $56.8 million and $46.0 million, respectively. FFO and AFFO were higher compared to the prior year by $6.8 million and $7.0 million, respectively, primarily due to property acquisitions completed in 2016 and 2015. FFO and AFFO are non-GAAP measures; refer to section 11.3.2 for additional information.

CT REIT segment full year 2016 versus full year 2015

Earnings summary
Income before income taxes increased $24.6 million, or 10.5 percent , compared to the prior year largely due to an increase in property revenue and a $4.6 million increase in fair value adjustment on investment properties from the prior year.

Property revenue
Property revenue growth of 7.7 percent was attributable to higher base rent relating to properties acquired and intensification activities completed during 2016 and 2015.

Property revenue for the year was $407.2 million, of which $382.3 million, an increase of 5.6 percent over prior year, was received from CTC.

Property expense
Property expense for the year was $96.4 million, the majority of the costs of which are recoverable from tenants, with CT REIT absorbing these expenses for vacant properties. Property expense increased 11.0 percent compared to the prior year largely due to property acquisitions made during the year.

General and administrative expense
General and administrative expenses increased marginally by $0.7 million compared to the prior year primarily due to increased compensation costs, higher transfer agency and filing fees, and higher land transfer tax; partially offset by lower legal expenses.

Net operating income
NOI was $287.1 million, an increase of 8.2 percent from the prior year primarily due to property acquisitions completed in 2016 and 2015. NOI is a non-GAAP measure; refer to section 11.3.2 for additional information.

Funds from operations and adjusted funds from operations
FFO and AFFO were $214.9 million and $172.8 million respectively. FFO and AFFO were higher compared to the prior year by $20.2 million and $21.1 million largely due to property acquisitions completed in 2016 and 2015. FFO and AFFO are non-GAAP measures; refer to section 11.3.2 for additional information.

7.3.2 CT REIT segment business risks
CT REIT is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to the operations of CT REIT. Please refer to section 4 in CT REIT's Annual Information Form and Section 11.0 Enterprise Risk Management in CT REIT's Management's Discussion and Analysis for the period ended December 31, 2016, which are not incorporated herein by reference, for a discussion of risks that affect CT REIT's operations and also to section 12.2 in this MD&A for a discussion of industry-wide and Company-wide risks affecting the business.

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

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

Tax-related risks

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

7.4 Financial Services segment performance

7.4.1 Financial Services segment key operating performance measures

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

(C$ in millions) except where noted	**Q4 2016**	Q4 2015	Change	**2016**	2015	Change
Credit card sales growth[1]	**4.0%**	1.6%		**2.6%**	0.9%	
Gross average accounts receivable (GAAR)	**$ 5,047.4**	$ 4,845.9	4.2%	**$ 4,911.9**	$ 4,838.7	1.5 %
Revenue[2] (as a % of GAAR)	**22.55%**	22.81%		**n/a**	n/a	
Average number of accounts with a balance[3] (thousands)	**1,864**	1,844	1.0%	**1,832**	1,840	(0.5)%
Average account balance[3] (whole $)	**$ 2,706**	$ 2,625	3.1%	**$ 2,679**	$ 2,627	2.0 %
Net credit card write-off rate[2, 3]	**5.94%**	6.18%		**n/a**	n/a	
Past due credit card receivables[3, 4] (PD2+)	**2.60%**	2.95%		**n/a**	n/a	
Allowance rate[5]	**2.05%**	2.25%		**n/a**	n/a	
Operating expenses[2] (as a % of GAAR)	**5.98%**	5.68%		**n/a**	n/a	
Return on receivables[2]	**7.43%**	7.73%		**n/a**	n/a	

1 Credit card sales growth excludes balance transfers.
2 Figures are calculated on a rolling 12-month basis.
3 Credit card portfolio only.
4 Credit card receivables more than 30 days past due as a percentage of total ending credit card receivables.
5 The allowance rate was calculated based on the total-managed portfolio of loans receivable.

7.4.2 Financial Services segment financial results

(C$ in millions)	**Q4 2016**	Q4 2015	Change	**2016**	2015	Change
Revenue	**$ 270.2**	$ 264.5	2.2 %	**$ 1,107.8**	$ 1,101.2	0.6 %
Gross margin dollars	**162.1**	148.9	8.9 %	**658.6**	649.1	1.5 %
Gross margin (% of revenue)	**60.0%**	56.3%	370 bps	**59.5%**	58.9%	51 bps
Other expense	**0.3**	0.6	(28.8)%	**0.4**	1.9	(76.7)%
Selling, general and administrative expenses	**76.6**	68.8	11.2 %	**293.7**	274.7	6.9 %
Net finance (income)	**(0.1)**	(0.3)	(68.3)%	**(0.6)**	(1.5)	(61.5)%
Income before income taxes	**$ 85.3**	$ 79.8	6.8 %	**$ 365.1**	$ 374.0	(2.4)%

Financial Services segment fourth quarter 2016 versus fourth quarter 2015

Earnings summary

Income before income taxes of $85.3 million increased $5.5 million, or 6.8 percent, primarily due to an increase in revenue and gross margin rate year-over-year; partially offset by increased selling, general and administrative expenses.

GAAR increased 4.2 percent driven by increased average account balances and a higher number of average active accounts compared to the prior year. The average number of active accounts has increased in the quarter, compared to prior the year, reflecting positive results from the Company's initiatives to stimulate receivables growth and the continued focus on the integration initiatives with the Retail businesses.

Revenue

Revenue of $270.2 million increased $5.7 million, or 2.2 percent, primarily driven by higher credit card charges (due to higher yield and increased GAAR) and the positive impact related to a change in Management's estimate of the amortization period for loan acquisition costs; partially offset by lower insurance revenue.

Gross margin

Gross margin dollars increased 8.9 percent and the gross margin rate increased 370 basis points during the quarter primarily due to favourable credit card portfolio aging which led to a decrease in the allowance for future write-offs and the positive impact of a change in Management's estimate of future recoveries from insolvency proposals.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $7.8 million, or 11.2 percent, primarily due to increased variable compensation expense and increased operating costs to support the Company's continued investment in GAAR growth and operational effectiveness initiatives.

Financial Services segment full year 2016 versus full year 2015

Earnings summary

Income before income taxes decreased $8.9 million, or 2.4 percent, compared to the prior year primarily due to increased selling, general, and administrative expenses which increased, in part, due to the Company's continued investment in GAAR growth and operational effectiveness initiatives. This increase in selling, general, and administrative expenses more than offset an increase in revenue and an improvement in the gross margin rate.

GAAR increased 1.5 percent driven by increased average account balances; partially offset by a lower number of average active accounts throughout the year compared to the prior year.

Revenue

Revenue increased $6.6 million, or 0.6 percent, compared to the prior year primarily driven by higher credit charges (due to higher yield and increased GAAR) and the positive impact relating to a change in Management's estimate of the amortization period for loan acquisition costs; partially offset by lower insurance revenue and lower interchange revenue resulting from new industry standards adopted in Q2 2015.

Gross margin

Gross margin dollars increased 1.5 percent compared to the prior year as a result of higher revenue. Gross margin rate increased 51 basis points from the prior year primarily due to favourable credit card portfolio aging which led to a decrease in the allowance for future write-offs and the positive impact of a change in Management's estimate of future recoveries from insolvency proposals. These positive impacts to gross margin rate were partially offset by an increase in the volume of regular and insolvency write-offs (in part relating to the economic downturn in Alberta) and higher insurance claim reserves.

Selling, general and administrative expenses

Selling, general, and administrative expenses increased $19.0 million, or 6.9 percent, primarily due to higher promotional acquisition costs to support the Company's continued investment in GAAR growth, increased variable compensation, increased processing fees, higher expenses for credit card operations, and increased operating costs to support the Company's continued investment in operational effectiveness initiatives.

7.4.3 Financial Services segment business risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Financial Services' operations. Please refer to section 12.2 for a discussion of Company-wide risks.

Consumer credit risk

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

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

Liquidity and funding risk

Liquidity and funding risk is the risk that Financial Services will be unable to meet its funding obligations or obtain funding at a reasonable cost. Financial Services mitigates its liquidity and funding risk by maintaining multiple diversified funding sources that include securitization of receivables, broker GIC deposits, retail deposits, and committed bank lines of credit. Further mitigation is provided by maintaining a pool of high-quality marketable securities that can be used as a source of liquidity under a short-term stress scenario. With respect to bank lines, Financial Services has a $2.25 billion committed credit facility with Scotiabank. A number of regulatory metrics are monitored including Liquidity Coverage Ratio, Net Cumulative Cash Flow, and Net Stable Funding Ratio. Further details on financing sources for Financial Services are included in section 8.5.

Interest rate risk

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

Regulatory risk

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

8.0 Balance sheet analysis, liquidity, and capital resources

8.1 Selected balance sheet highlights

Selected line items from the Company's assets, liabilities, and shareholders' equity as at December 31, 2016 and January 2, 2016 are noted below:

(C$ in millions)		**2016**		2015		Change $	Change (%)
Assets							
Cash and cash equivalents	**$**	**829.7**	$	900.6	$	(70.9)	(7.9)%
Trade and other receivables		**690.8**		915.0	$	(224.2)	(24.5)%
Loans receivable		**5,138.4**		4,875.5	$	262.9	5.4 %
Investment property		**266.4**		137.8	$	128.6	93.3 %
Property and equipment		**4,097.2**		3,978.2	$	119.0	3.0 %
Total assets		**15,302.8**		14,987.8	$	315.0	2.1 %
Liabilities							
Deposits	**$**	**950.7**	$	880.7	$	70.0	7.9 %
Trade and other payables		**1,856.9**		1,957.1	$	(100.2)	(5.1)%
Short-term borrowings		**199.4**		88.6	$	110.8	125.1 %
Current portion of long-term debt		**653.4**		24.3	$	629.1	2,588.9 %
Long-term debt		**2,667.1**		2,971.4	$	(304.3)	(10.2)%
Long-term deposits		**1,230.8**		1,372.2	$	(141.4)	(10.3)%
Other long-term liabilities		**836.6**		813.9	$	22.7	2.8 %
Total liabilities		**9,565.5**		9,198.1	$	367.4	4.0 %

For the complete balance sheet, refer to the Consolidated Balance Sheets in the 2016 Report to Shareholders.

The year-over-year increase in total assets of $315.0 million was primarily due to:
- an increase in loans receivable of $262.9 million primarily driven by higher credit card loans at Financial Services;
- an increase in investment property of $128.6 million due to third-party acquisitions by CT REIT, including the Sears DC and two multi-tenanted properties; and
- an increase in property and equipment of $119.0 million as a result of capital expenditures, including continued spending relating to construction of the Bolton DC, capital spending on IT initiatives, and investment in the Retail network, partially offset by higher depreciation and amortization;

partially offset by;
- a decrease in cash and cash equivalents of $70.9 million (for details refer to section 8.2 of this MD&A); and
- a decrease in trade and other receivables of $224.2 million largely due to a decrease in derivative assets arising from less favourable valuation of the foreign exchange hedge portfolio.

The year-over-year increase in total liabilities of $367.4 million was primarily due to:
- an increase in short-term borrowings of $110.8 million primarily due to an increase in CT REITs' drawings on their credit facility;
- a net increase in term debt (current portion of long-term debt and long-term debt) of $324.8 million primarily attributable to CT REIT's $350 million debentures issuance in May 2016; and
- an increase in other long-term liabilities of $22.7 million due to deferred lease inducements and deferred straight line rent on new FGL stores;

partially offset by:
- a decrease in trade and other payables of $100.2 million as a result of lower merchandise payables at both FGL Sports and Mark's, partially offset by an increase of trade and other payables at Financial Services due to timing of the interest payments; and
- a net decrease in deposits (deposits and long-term deposits) of $71.4 million due to a lower volume of high interest savings accounts driven by lower interest rates offered.

8.2 Summary cash flows

The Company's Consolidated Statements of Cash Flows for the quarters and years ended December 31, 2016 and January 2, 2016 are noted below:

(C$ in millions)	**Q4 2016**	Q4 2015	Change	**2016**	2015	Change
Cash generated from operating activities before the undernoted item	**$ 1,033.4**	$ 790.4	$ 243.0	**$ 1,292.5**	$ 1,004.1	$ 288.4
Change in loans receivable	**(259.3)**	(169.4)	(89.9)	**(306.1)**	(25.2)	(280.9)
Cash generated from operating activities	**774.1**	621.0	153.1	**986.4**	978.9	7.5
Change in investments, long-term receivables, and other	**39.1**	51.9	(12.8)	**(34.8)**	210.1	(244.9)
Additions to property and equipment, investment property, and intangibles	**(184.2)**	(199.9)	15.7	**(780.8)**	(610.6)	(170.2)
Proceeds on disposition of property and equipment, investment property and assets held for sale	**14.8**	42.7	(27.9)	**32.8**	101.5	(68.7)
Cash (used for) investing activities	**(130.3)**	(105.3)	(25.0)	**(782.8)**	(299.0)	(483.8)
Change in long-term debt, loans payable, short-term borrowings, deposits and other	**94.4**	(252.3)	346.7	**402.9**	213.5	189.4
Dividends paid and distributions to non-controlling interests	**(59.5)**	(53.9)	(5.6)	**(233.9)**	(206.0)	(27.9)
Repurchase of share capital	**(116.6)**	(116.7)	0.1	**(449.4)**	(434.6)	(14.8)
Cash (used for) financing activities	**(81.7)**	(422.9)	341.2	**(280.4)**	(427.1)	146.7
Cash generated (used) in the period	**$ 562.1**	$ 92.8	$ 469.3	**$ (76.8)**	$ 252.8	$ (329.6)

Consolidated fourth quarter 2016 versus fourth quarter 2015

The Company's cash generated in the quarter increased to $562.1 million from $92.8 million in 2015. The $469.3 million increase in cash generated was primarily due to:

- a $243.0 million improvement in cash from operations before change in loans receivable; and
- an additional $346.7 million of cash generated from the change in long-term debt, loan payable and short-term borrowings, due to the repayment in Q4 2015 of Senior and Subordinated notes which matured in the quarter and drawings by CT REIT on its credit facility in Q4 2016;

partially offset by:

- an increase in loans receivable in response to the Company's initiative to invigorate GAAR growth; and
- a $27.9 million decrease in proceeds on dispositions of property and equipment, investment property, and assets held for sale due to the timing of real estate transactions.

Consolidated full year 2016 versus full year 2015

The Company used cash in the year of $76.8 million compared to cash generated of $252.8 million in 2015. The $329.6 million decrease in cash generated was primarily due to:

- an increase of $280.9 million in loans receivable in response to the Company's initiative to invigorate GAAR growth;
- a $244.9 million reduction in cash generated in investments, long-term receivables, and other driven by a decrease in net investments in 2015;
- a $170.2 million increase in additions to property and equipment, investment property, and intangibles primarily due in part to the timing of payments on the Bolton DC and third-party acquisitions by CT REIT;
- a $68.7 million decrease in proceeds on dispositions of property and equipment, investment property, and assets held for sale; and
- a $27.9 million increase in dividends and distributions;

partially offset by:

- a $189.4 million change in long-term debt, loans payable, short-term borrowings, deposits, and other as a result of drawings by CT REIT on its credit facility and higher long-term debt issuances net of repayments in 2016; and
- a $288.4 million improvement in cash from operations.

8.3 Capital management

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

8.3.1 Capital management objectives

The Company's objectives when managing capital are:

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

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

8.3.2 Capital under management

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

(C$ in millions)		**2016**	**% of total**		2015	% of total
Capital components						
Deposits	**$**	**950.7**	**8.5%**	$	880.7	8.2%
Short-term borrowings		**199.4**	**1.8%**		88.6	0.8%
Current portion of long-term debt		**653.4**	**5.9%**		24.3	0.2%
Long-term debt		**2,667.1**	**24.0%**		2,971.4	27.8%
Long-term deposits		**1,230.8**	**11.1%**		1,372.2	12.8%
Total debt	**$**	**5,701.4**	**51.3%**	$	5,337.2	49.8%
Redeemable financial instrument		**517.0**	**4.7%**		517.0	4.9%
Share capital		**648.1**	**5.8%**		671.2	6.3%
Contributed surplus		**2.9**	**0.0%**		2.9	0.0%
Retained earnings		**4,250.9**	**38.2%**		4,172.0	39.0%
Total capital under management	**$**	**11,120.3**	**100.0%**	$	10,700.3	100.0%

The Company monitors its capital structure through measuring debt-to-earnings ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other coverage ratios, and forecasting cash flows.

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

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

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

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

The Company was in compliance with this key covenant as at December 31, 2016 and January 2, 2016. Under the covenant, the Company currently has sufficient flexibility to fund business growth.

CT REIT is required to comply with financial covenants established under its Trust Indenture, Bank Credit Agreement, and the Declaration of Trust and was in compliance with the key covenants as at December 31, 2016 and 2015.

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

8.3.3 Canadian Tire Bank's regulatory environment

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

The Bank's objectives include:

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

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. As at December 31, 2016, the Bank's fiscal year end, Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings, and Accumulated Other Comprehensive Income ("AOCI"), less regulatory adjustments including items risk-weighted at 0 percent which are deducted from capital. The Bank currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, the Bank's CET1 is equal to its Tier 1 and total regulatory capital. Risk-weighted assets ("RWA") include a credit risk component for all on-balance-sheet assets weighted for the risk inherent in each type of asset, off-balance sheet financial instruments, an operational risk component based on a percentage of average risk-weighted revenues, and a market-risk component for assets held for trade. For the purposes of calculating RWA, securitization transactions are considered off-balance-sheet transactions and, therefore, securitization assets are not included in the RWA calculation. Assets are classified as held for trade when they are held with trading intent.

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

As at December 31, 2016 and 2015, the Bank complied with all regulatory capital guidelines established by OSFI, its internal targets as determined by its ICAAP, and the financial covenants of its credit facility.

8.4 Investing

8.4.1 Capital expenditures

The Company's capital expenditures for the periods ended December 31, 2016 and January 2, 2016 were as follows:

(C$ in millions)	**2016**	2015
Real estate[1]	**$ 232.8**	$ 259.9
Information technology	**181.4**	212.2
Other operating	**41.6**	56.9
Operating capital expenditures	**455.8**	529.0
CT REIT acquisitions and developments excluding vend-ins from CTC[2]	**176.8**	42.4
Distribution capacity	**122.3**	144.7
Total capital expenditures[3]	**$ 754.9**	$ 716.1

[1] Retail capital expenditures include $17.7 million relating to the acquisition of 12 real estate leases, formerly held by Target Canada which were acquired during 2015, and are recorded in long-term receivables and other assets on the Consolidated Balance Sheets.
[2] CT REIT capital expenditures include the construction of stores under Mark's and FGL Sports banners of $2.0 million (2015 – $17.7 million).
[3] Capital expenditures are presented on an accrual basis and include software additions.

Total year-to-date capital expenditures increased by $38.8 million year-over-year primarily due to a greater investment in CT REIT third-party acquisitions, including the acquisition of Sears DC for $83.9 million in Alberta and the acquisition of three multi-tenanted properties. These increased investments were partially offset by decreased real estate, information technology, and distribution capacity spending. The decrease in Real estate spending was primarily driven by decreased spending at Canadian Tire, as the prior year included the acquisition of 12 leases formerly held by Target Canada and a one-time Target lease buyout, as well as decreased spending at Mark's driven by lower spending of fixture and development initiatives and capital spending initially planned for 2016 being deferred to 2017. The decrease in Information technology spending was due to 2015 included spending on showcase stores at Canadian Tire Retail and lower infrastructure spend. Distribution capacity spending decreased due to lower spend on the Bolton DC as the project nears completion.

Total operating capital expenditures for 2016 were $455.8 million and lower than the stated range of $475 million to $500 million primarily due to capital expenditures forecast in the Retail segment, being spent in the REIT segment. Total capital expenditures for distribution capacity were $122.3 million, in line with stated range of $100 million to $125 million.

Capital commitments
The Company had commitments of approximately $54.8 million as at December 31, 2016 (2015 – $120.2 million) for the acquisition of tangible and intangible assets.

Capital expenditure update

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

Operating capital expenditures
The Company previously announced its three-year annual operating capital expenditure investment to be within the range of $600 million to $625 million from 2015 to 2017. The Company now expects this three-year average to be between $450 million to $500 million given the actual spend for 2015 and 2016 and revised forecast for 2017 operating capital expenditures. The revised forecast excludes spending for operational efficiency initiatives that may be identified. The revised range includes continued investment in the Company's store network, capital spending relating to renovations of 12 former Target locations acquired in Q2 2015, and significant new investments in digital technology.

As previously disclosed, for fiscal 2017, the Company expects annual operating capital expenditures to be within the range of $400 million to $425 million.

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

Distribution capacity capital expenditures
As previously disclosed, for fiscal 2017, the Company expects capital expenditures required for distribution capacity to be within the range of $25 million to $50 million and include expenditures required to bring the Bolton DC into active service.

8.4.2 Business acquisition
As part of its growth strategy, the Company actively pursues acquisition candidates that are a strategic fit with its retail businesses and expand the Company's eCommerce and omni-retail capabilities. Major acquisitions are only consummated where the Company expects to strengthen its market position and create long-term value for Shareholders.

8.5 Liquidity and financing
The Company is in a strong liquidity position with the ability to access multiple funding sources. A number of alternative financing sources are available to the Company, CT REIT, and CTB to ensure that the appropriate level of liquidity is available to meet the Company's strategic imperatives.

Summary of Canadian Tire's financing sources as of December 31, 2016:

Committed bank lines of credit
Provided by a syndicate of seven Canadian and four international financial institutions, $1.975 billion in committed bank lines are available to the Company for general corporate purposes expiring in July 2021. The Company had no borrowings under its bank lines as at December 31, 2016.

Provided by a syndicate of seven Canadian financial institutions, $300 million in committed bank lines are available to CT REIT for general business purposes expiring in April 2021. CT REIT had $109.8 million of borrowings under its bank lines as at December 31, 2016.

Scotiabank has provided CTB with a $250 million unsecured revolving credit facility and $2.0 billion in note purchase facilities for the purchase of senior and subordinated notes issued by GCCT, both of which expire in October 2019. CTB had less than $0.1 million of borrowings outstanding under these facilities as at December 31, 2016.

Medium-term notes and debentures

The Company does not currently have a base-shelf prospectus but may choose to file one in the future. In the meantime, the Company could issue notes via a short-term prospectus. The Company had a total of $550 million in medium-term notes outstanding as at December 31, 2016.

On May 31, 2016, CT REIT issued $350 million of senior unsecured debentures under its base-shelf prospectus dated March 5, 2015. CT REIT had a total of $700 million of senior and unsecured debentures outstanding as at December 31, 2016.

Securitization of receivables

Securitization transactions, in the form of a $300 million asset-backed commercial paper program, senior notes, and subordinated notes issued through GCCT, continue to be a cost-effective form of financing for CTB. GCCT had a total of $1.9 billion in senior and subordinated notes and $89.6 million in commercial paper outstanding as at December 31, 2016.

Broker GIC deposits

Funds continue to be readily available to CTB through broker networks. As at December 31, 2016, CTB held $1.5 billion in broker GIC deposits.

Retail deposits

Retail deposits consist of high-interest savings accounts (“HIS”) and retail GIC deposits held by CTB, available both within and outside a TFSA. As at December 31, 2016, CTB held $665.8 million in retail deposits.

Real estate

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

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

Credit rating

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

DBRS and S&P confirmed the Company’s credit ratings in Q3 2016. In Q3 2016, S&P confirmed CT REIT’s credit ratings, while DBRS confirmed CT REIT’s credit ratings in Q1 2016. During Q2 2016, at the request of the Company, Fitch Ratings, Inc. (“Fitch”) began rating GCCT’s commercial paper program.

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

8.5.1 Contractual obligations, guarantees, and commitments

8.5.1.1 Contractual obligations

The Company funds capital expenditures, working capital needs, dividend payments, and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under an NCIB program from a combination of sources. The following table shows the Company's contractual obligations required to be paid over the next five-year period and beyond. The Company believes it has sufficient liquidity available to meet its contractual obligations as at December 31, 2016.

Contractual obligations due by period

(C$ in millions)	Total	2017	2018	2019	2020	2021	2022 & beyond
Current and long-term debt[1, 3]	**$ 1,307.7**	$ 1.7	$ 17.5	$ 38.1	$ 0.4	$ —	$ 1,250.0
Glacier Credit Card Trust debt[2, 3]	**1,899.5**	634.9	264.6	500.0	500.0	—	—
Finance lease obligations[4]	**166.0**	24.8	21.0	18.5	16.6	15.8	69.3
Operating leases	**2,282.0**	354.1	330.5	290.4	258.4	218.4	830.2
Purchase obligations	**1,737.1**	1,593.5	86.5	26.5	23.5	4.7	2.4
Financial Services' deposits[3]	**2,188.8**	957.8	362.9	413.6	281.9	172.6	—
Other obligations	**167.5**	53.2	36.7	29.9	22.6	11.7	13.4
	$ 9,748.6	$ 3,620.0	$ 1,119.7	$ 1,317.0	$ 1,103.4	$ 423.2	$ 2,165.3

1 Excludes senior and subordinated notes at GCCT.
2 Represents senior and subordinated notes.
3 Excludes interest obligations on debt or deposits.
4 Includes interest obligations on finance leases.

8.5.1.2 Guarantees and commitments

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

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

8.6 Funding costs

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

(C$ in millions)		**2016**		2015
Interest expense[1]	**$**	**103.0**	$	99.7
Cost of debt[2]		**3.20%**		3.38%

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

For a discussion of the liquidity and credit risks associated with the Company's ability to generate sufficient resources to meet its financial obligations, refer to section 12.3 and 12.4 in this MD&A.

9.0 Equity

9.1 Shares outstanding

(C$ in millions)		**2016**		2015
Authorized				
3,423,366 Common Shares				
100,000,000 Class A Non-Voting Shares				
Issued				
3,423,366 Common Shares (2015 - 3,423,366)	**$**	**0.2**	$	0.2
67,323,781 Class A Non-Voting Shares (2015 - 70,637,987)		**647.9**		671.0
	$	**648.1**	$	671.2

Each year, the Company files an NCIB with the Toronto Stock Exchange ("TSX") which allows it to purchase shares in the open market.

On February 18, 2016, the TSX accepted the Company's notice of intention to make an NCIB to purchase up to 6.0 million Class A Non-Voting Shares during the period March 2, 2016 through March 1, 2017. On November 12, 2015, the Company announced its intention to repurchase $550 million of its Class A Non-Voting Shares by the end of 2016, in excess of the amount of shares to be purchased for anti-dilutive purposes. The following table summarizes the Company's intentions and purchases made related to this announcement:

(C$ in millions)		
Share buy-back intention announced on November 12, 2015	**$**	**550.0**
Shares repurchased in 2015 under the November 12, 2015 announcement		**110.0**
Shares repurchased in 2016 under the November 12, 2015 announcement		**440.0**
Shares remaining to be repurchased in 2017 under the November 12, 2015 announcement	**$**	**—**

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

On November 10, 2016, the Company announced its intention to repurchase a further $550 million of its Class A Non-Voting Shares, in excess of the amount required for anti-dilutive purposes, by the end of fiscal 2017, subject to regulatory approval. As at December 31, 2016, no share repurchases were made under this announcement.

9.2 Dividends

The Company has declared dividends payable to holders of Class A Non-Voting Shares and Common Shares at a rate of $0.65 per share payable on June 1, 2017 to shareholders of record as of April 30, 2017. The dividend is considered an "eligible dividend" for tax purposes.

9.3 Equity derivative contracts

The Company enters into equity derivative contracts to partially offset its exposure to fluctuations in stock option and performance share unit plan expenses. Equity derivatives commonly used by the Company include floating-rate equity forwards and fixed-rate equity forwards.

During the year, equity forwards that had hedged 145,000 performance share units settled resulting in a payment to the Company of $7.4 million. In addition, equity forwards which had hedged 450,000 stock option settled during the year resulting in a payment to the Company of $24.7 million. Also during the year, the Company entered into a floating rate equity forward to offset its exposure to 150,000 stock option and performance share units at a weighted average purchase price of $142.96.

10. Tax matters

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

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

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

Income taxes for the 13 and 52 weeks ended December 31, 2016 were $93.0 million (2015 - $93.9 million) and $263.5 million (2015 - $265.4 million), respectively. The effective tax rate for the 13 weeks ended December 31, 2016 decreased to 26.0 percent (2015 - 28.0 percent) primarily due favourable adjustments to tax estimates and an increase in tax benefits relating to capital property dispositions in the quarter; partially offset by higher non-deductible stock option expense.

The effective tax rate for the 52 weeks ended December 31, 2016 decreased to 26.1 percent (2015 - 26.5 percent) primarily due favourable adjustments to tax estimates partially offset by higher non-deductible stock option expense, and a reduction in tax benefits relating to capital property dispositions in the year. This effective rate of 26.1 percent is lower than the estimate of 26.5 percent at the end of Q3 2016, primarily due to a reduction in estimates for non-deductible expenses and a reduction in the estimate for tax reserves.

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

In Q3 2016, the Company announced the annual effective tax rate, excluding any impact for a potential change in fair value of the redeemable financial instrument, for fiscal 2017, to be approximately 27.0 percent.

11. Accounting policies, estimates, and non-GAAP measures

11.1 Critical accounting estimates

The Company estimates certain amounts reflected in its consolidated financial statements using detailed financial models based on historical experience, current trends, and other assumptions that are believed to be reasonable. Actual results could differ from those estimates. In Management's judgment, the accounting policies and estimates detailed in Note 2 and Note 3 of the consolidated financial statements contained in the Company's 2016 Report to Shareholders do not require Management to make assumptions about matters that are highly uncertain and, accordingly, none of those estimates are considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission except as noted below.

In the Company's view, the allowance for loan impairment in Financial Services is considered to be a "critical accounting estimate". Losses for impaired loans are recognized when there is objective evidence that the impairment of the loan portfolio has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. All individually significant loans receivable are assessed for specific impairment. Loans receivable that are not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics. The Company uses a roll-rate methodology, which employs analysis of historical data, economic indicators, and experience of delinquency and default to estimate the amount of loans that will eventually be written off. Future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes. Default rates, loss rates, and cash recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

11.2 Changes in accounting policies

Standards, amendments, and interpretations issued and adopted

Disclosure initiative (IAS 1)

In December 2014, the International Accounting Standard Board ("IASB") issued *Disclosure Initiative Amendments to IAS 1* as part of the IASB's Disclosure Initiative. These amendments encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements.

These amendments were effective for annual periods beginning on or after January 1, 2016 and were applied prospectively. The implementation of these amendments did not have a significant impact on the Company other than immaterial amendments to current and prior-year note disclosure.

Standards, amendments, and interpretations issued but not yet adopted

The following new standards, amendments, and interpretations have been issued and are expected to impact the Company, but are not effective for the fiscal year ending December 31, 2016 and, accordingly, have not been applied in preparing the consolidated financial statements.

Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment, and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income ("OCI") instead of Net Income, unless this would create an accounting mismatch.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. The impairment requirements of IFRS 9 are expected to have an impact on the Company, particularly with respect to the estimate of allowances on credit card loans receivable. In order to meet the impairment requirements of IFRS 9, a dedicated project team has been established with joint leadership from finance and credit risk. The Company is assessing the potential financial and disclosure impact of this standard.

Revenue from contracts with customers
In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue,* and International Financial Reporting Interpretations Committee 13 – *Customer Loyalty Programmes* ("IFRIC 13"), as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. IFRS 15 also contains enhanced disclosure requirements. IFRS 15 will be applied retrospectively for annual periods beginning on or after January 1, 2018. The Company is assessing the potential impact of this standard.

In April 2016, the IASB published clarifications to IFRS 15 which address three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is assessing the potential impact of these amendments.

Disclosure initiative (IAS 7)
In January 2016, the IASB issued Disclosure Initiative Amendments to IAS 7 – *Statement of Cash Flows* also as part of the IASB's Disclosure Initiative. These amendments require entities to provide additional disclosures that will enable financial statement users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes.

These amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments is not expected to have a significant impact on the Company.

Leases
In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaced IAS 17 – *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been applied. The Company is assessing the potential impact of this standard.

Income taxes
In January 2016, the IASB amended IAS 12 – *Income Taxes* by issuing *Recognition of Deferred Tax Assets for Unrealized Losses*. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments is not expected to have a significant impact on the Company.

Share-based payment
In June 2016, the IASB issued amendments to IFRS 2 – *Share-based Payment,* clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature, and a modification to the terms and conditions that changes the classification of the transactions.

These amendments are effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of these amendments.

Insurance contracts
In September 2016, the IASB issued amendments to IFRS 4 – *Insurance Contracts*, introducing two approaches; an overlay approach and a deferral approach, to address the additional accounting mismatches and volatility that may arise in profit or loss as a result of applying IFRS 9.

The overlay approach can be applied whenever IFRS 9 is applied and the deferral approach permits a company with activities that are predominantly connected with insurance to be exempted from applying IFRS 9 until 2021. The Company is assessing the potential impact of these amendments.

11.3 Key operating performance measures and non-GAAP financial measures
The Company uses certain key operating performance measures and non-GAAP financial measures and believes that they provide useful information to both Management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

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

11.3.1 Key operating performance measures
Retail sales
Retail sales refers to the POS (i.e. cash register) value of all goods and services sold to retail customers at stores operated by Dealers, Mark's and FGL Sports franchisees, and Petroleum retailers, at corporately-owned stores across all retail banners, of services provided as part of the Home Services offering, and of goods sold through the Company's online sales channels, and in aggregate does not form part of the Company's consolidated financial statements. An aspiration with respect to retail sales has been included as one of the Company's financial aspirations. Sales definitions for the Retail banners can be found in the footnotes to the table contained within section 7.2.1 of this MD&A.

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

Revenue, as reported in the Company's consolidated financial statements, comprises primarily the sale of goods to Dealers and to franchisees of Mark's and FGL Sports, the sale of gasoline through Petroleum retailers, the sale of goods to retail customers by stores that are corporately-owned under the Mark's, PartSource, and FGL Sports banners, the sale of services through the Home Services business, the sale of goods to customers through INA, a business-to-business operation of FGL Sports, and through the Company's online sales channels, as well as revenue generated from interest, service charges, interchange and other fees and from insurance products sold to credit card holders in the Financial Services segment, and rent paid by third-party tenants in the CT REIT segment.

Same-store sales
Same-store sales is a metric used by Management and is also commonly used in the retail industry to identify sales growth generated by a Company's existing store network and removes the effect of opening and closing stores in the period. For Canadian Tire stores, the calculation excludes stores that have been retrofitted, replaced, or expanded where the percentage change in square footage exceeds 25 percent of the original store size, and includes sales from all stores that have been open for a minimum of one year and one week as well as eCommerce sales. For Mark's and FGL Sports, same-store sales include sales from all stores that have been open since at least the beginning of the comparative month in the prior year and include eCommerce sales. In Q2 2015, to better reflect how the Company manages operations, the same-store sales definition at Mark's and FGL Sports was refined to reflect stores opening at the beginning of the comparative month versus the beginning of the comparative quarter. Prior period same-store sales growth was not restated as the impact was not material. The Company also reviews consolidated same-store sales which include same-store sales at Canadian Tire (including PartSource), FGL Sports, and Mark's but excludes same-store sales at Petroleum. Additional information on same-store sales and retail sales growth definitions for Canadian Tire, Mark's, and FGL Sports can be found in section 7.2.1 of this MD&A.

Sales per square foot
Management and investors use comparisons of sales per square foot metrics over several periods to help identify whether existing assets are being made more productive by the Company's introduction of new store layouts and merchandising strategies. Sales per square foot definitions for Canadian Tire, Mark's, and FGL Sports can be found in section 7.2.1 of this MD&A and in the glossary contained in the Company's 2016 Report to Shareholders.

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

Return on receivables
ROR is used by Management to assess the profitability of the Financial Services' total portfolio of receivables. ROR is calculated by dividing income before income tax and gains/losses on disposal of property and equipment by the average total-managed portfolio over a 12-month period. A ROR aspiration has been included as one of the Company's financial aspirations, to be achieved on an annual basis over the three-year period from 2015 to 2017.

11.3.2 Non-GAAP financial measures

Adjusted EBITDA
The following table reconciles consolidated income before income taxes, net finance costs, depreciation and amortization, and any change in fair value of redeemable financial instrument, or adjusted EBITDA, to net income attributable to Shareholders of Canadian Tire Corporation which is a GAAP measure reported in the consolidated financial statements for the periods ended December 31, 2016 and January 2, 2016. Management uses adjusted EBITDA as a supplementary measure when assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital expenditures.

(C$ in millions)	**Q4 2016**	Q4 2015	**2016**	2015
Adjusted EBITDA	**$ 506.6**	$ 474.0	**$ 1,561.8**	$ 1,518.8
Change in fair value of redeemable financial instrument	**—**	—	**—**	—
EBITDA	**$ 506.6**	$ 474.0	**$ 1,561.8**	$ 1,518.8
Less:				
Depreciation and amortization[1]	**123.1**	116.3	**456.9**	424.7
Net finance costs	**25.4**	22.3	**93.9**	92.8
Income before income taxes	**$ 358.1**	$ 335.4	**$ 1,011.0**	$ 1,001.3
Income taxes	**93.0**	93.9	**263.5**	265.4
Effective tax rate	**26.0%**	28.0%	**26.1%**	26.5%
Net income	**$ 265.1**	$ 241.5	**$ 747.5**	$ 735.9
Net income attributable to Non-controlling interests	**18.3**	16.3	**78.4**	76.5
Net income attributable to Shareholders of Canadian Tire Corporation	**$ 246.8**	$ 225.2	**$ 669.1**	$ 659.4

[1] Includes $1.9 million reported in cost of producing revenue in the quarter (2015 - $2.3 million) and $8.0 million in 2016 (2015 - $8.9 million).

Retail segment EBITDA
The following table reconciles Retail segment income before income taxes, net finance costs, and depreciation and amortization, or EBITDA, to income before income taxes which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 31, 2016 and January 2, 2016.

(C$ in millions)	**Q4 2016**	Q4 2015	**2016**	2015
EBITDA	**$ 359.9**	$ 334.4	**$ 958.8**	$ 913.0
Less:				
Depreciation and amortization[1]	**101.3**	96.3	**374.9**	350.6
Net finance (income)	**(7.3)**	(12.1)	**(37.9)**	(42.5)
Income before income taxes	**$ 265.9**	$ 250.2	**$ 621.8**	$ 604.9

[1] Includes $1.9 million reported in cost of producing revenue in the quarter (2015 - $2.3 million) and $8.0 million in 2016 (2015 - $8.9 million).

Adjusted net debt

The following tables reconcile adjusted net debt to GAAP measures. The Company believes that adjusted net debt is relevant in assessing the amount of financial leverage employed. The Company calculates debt as the sum of short-term debt, long-term debt, short-term deposits, long-term deposits, and certain other short-term borrowings. The Company calculates adjusted debt as debt less inter-company debt and liquid assets.

As at December 31, 2016 (C$ in millions)	Consolidated	Retail	CT REIT	Financial Services
Consolidated net debt				
Bank indebtedness	**$ 5.9**	**$ 5.9**	**$ —**	**$ —**
Short-term deposits	**950.7**	**—**	**—**	**950.7**
Long-term deposits	**1,230.8**	**—**	**—**	**1,230.8**
Short-term borrowings	**199.4**	**—**	**109.8**	**89.6**
Current portion of long-term debt	**653.4**	**16.8**	**1.3**	**635.3**
Long-term debt	**2,667.1**	**656.2**	**750.1**	**1,260.8**
Debt	**5,707.3**	**678.9**	**861.2**	**4,167.2**
Liquid assets[1]	**(1,122.1)**	**(693.6)**	**(6.4)**	**(422.1)**
Net debt (cash)	**4,585.2**	**(14.7)**	**854.8**	**3,745.1**
Inter-company debt	**—**	**(1,850.2)**	**1,522.0**	**328.2**
Adjusted net debt (cash)	**$ 4,585.2**	**$ (1,864.9)**	**$ 2,376.8**	**$ 4,073.3**

[1] Liquid assets include cash, short-term investments, and long-term investments. Effective Q1 2016, the definition of liquid assets in the Financial Services segment was expanded to consider all forms of required capital for regulatory purposes.

As at January 2, 2016 (C$ in millions)	Consolidated	Retail	CT REIT	Financial Services
Consolidated net debt				
Bank indebtedness	$ —	$ —	$ —	$ —
Short-term deposits	880.7	—	—	880.7
Long-term deposits	1,372.2	—	—	1,372.2
Short-term borrowings	88.6	—	—	88.6
Current portion of long-term debt	24.3	19.7	4.2	0.4
Long-term debt	2,971.4	673.2	404.0	1,894.2
Debt	5,337.2	692.9	408.2	4,236.1
Liquid assets[1]	(1,150.1)	(678.2)	(24.7)	(447.2)
Net debt (cash)	4,187.1	14.7	383.5	3,788.9
Inter-company debt	—	(1,761.1)	1,687.0	74.1
Adjusted net debt (cash)	$ 4,187.1	$ (1,746.4)	$ 2,070.5	$ 3,863.0

[1] Liquid assets include cash, short-term investments, and long-term investments. Effective Q1 2016, the definition of liquid assets in the Financial Services segment was expanded to consider all forms of required capital for regulatory purposes and, as a result, liquid assets in the Financial Services and Retail segments were restated by $172.1 million.

CT REIT Non-GAAP financial measures

Net operating income

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

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

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

(C$ in millions)		Q4 2016		Q4 2015		2016		2015
Property revenue	**$**	**104.3**	$	96.6	**$**	**407.2**	$	378.2
Less:								
Property expense		**24.5**		21.8		**96.4**		86.9
Straight-line rent adjustment		**6.1**		6.7		**23.8**		26.1
Add:								
Straight-line land lease expense adjustment		**—**		0.1		**0.1**		0.2
Net operating income	**$**	**73.7**	$	68.2	**$**	**287.1**	$	265.4

Funds from operations

CT REIT calculates its FFO in accordance with the Real Property Association of Canada White Paper on FFO for IFRS issued in April 2014. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definition of FFO and promote more consistent disclosure from reporting issuers. Management believes that FFO provides an operating performance measure that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and property taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS. FFO adds back to net income items that do not arise from operating activities, such as fair value adjustments. FFO, however, still includes non-cash revenues relating to accounting for straight-line rent and makes no deduction for the recurring capital expenditures necessary to sustain the existing earnings stream.

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

(C$ in millions)		Q4 2016		Q4 2015		2016		2015
Income before income taxes	**$**	**65.5**	$	62.8	**$**	**259.1**	$	234.5
Fair value (gain) adjustment		**(8.8)**		(12.7)		**(44.5)**		(39.9)
Deferred taxes		**(0.1)**		(0.1)		**(0.4)**		0.1
Fair value of equity awards		**0.2**		—		**0.7**		—
Funds from operations		**56.8**		50.0		**214.9**		194.7

Adjusted funds from operations

AFFO is a supplemental measure of operating performance widely used in the real estate industry to assess an entity's ability to pay distributions. Management believes that AFFO is an effective measure of the cash generated from operations, after providing for operating capital requirements which are referred to as "productive capacity maintenance expenditures". CT REIT calculates AFFO by adjusting net income for all adjustments used to calculate FFO as well as adjustments for non-cash income and expense items such as amortization of straight-line rents. Net income is also adjusted for a reserve for maintaining productive capacity required for sustaining property infrastructure and revenue from real estate properties and direct leasing costs. Property capital expenditures do not occur evenly during the fiscal year or from year to year. The property capital reserve in the AFFO calculation is intended to reflect an average annual spending level. The following table reconciles AFFO to GAAP Income before income taxes as reported in CT REIT's Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income:

(C$ in millions)		Q4 2016		Q4 2015		2016		2015
Income before income taxes	**$**	**65.5**	$	62.8	**$**	**259.1**	$	234.5
Fair value (gain) adjustment		**(8.8)**		(12.7)		**(44.5)**		(39.9)
Deferred taxes		**(0.1)**		(0.1)		**(0.4)**		0.1
Fair value of equity awards		**0.2**		—		**0.7**		—
Properties straight-line rent adjustment		**(6.1)**		(6.7)		**(23.8)**		(26.1)
Straight-line land lease expense adjustment		**—**		0.1		**0.1**		0.2
Capital expenditure reserve		**(4.7)**		(4.4)		**(18.4)**		(17.1)
Adjusted funds from operations	**$**	**46.0**	$	39.0	**$**	**172.8**	$	151.7

12.0 Enterprise risk management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its enterprise risk management program ("ERM Program"). The Company's ERM Program supports risk identification, quantification, monitoring and reporting capabilities as well as the integration of these capabilities into management processes.

The Company's strategies and objectives influence the priorities of the ERM Program. The program addresses strategic, financial, and operational risks and their potential impacts across all of the Company's banners and is:

- cross-functional in its perspective;
- intended to provide a consistent and disciplined approach to support the effective management of risks;
- designed to help support and optimize risk/reward related decisions;
- integrated into the strategic planning and reporting processes;
- designed to assess and incorporate risk mitigation strategies including avoidance, control, transfer, and acceptance; and
- developed and implemented by Management with Board oversight.

The Company continues to mature the ERM Program in the normal course of its activities with a focus on key risks to the Company's strategy and the execution of that strategy as well as the underlying processes and tools supporting the program.

12.1 Risk governance

The mandate of the Board of Directors includes overseeing the development and implementation of an ERM Policy and ERM Program, for which the Board has delegated primary responsibility to the Audit Committee. The Audit Committee is responsible for:

- annual review and recommendation to the Board of the Principal Risks of the Corporation; and
- recommend to the Board a comprehensive ERM Policy and report to the Board on the ERM Program.

The officer in charge of each banner and corporate function is accountable for effectively managing risks relevant to their respective areas. The ERM Program enables the Chief Executive Officer ("CEO") to govern the Company's risk profile and oversee the management of Principal Risks and other enterprise-wide risks.

The Company's Internal Audit Services' ("IAS") primary role is to assist the Audit Committee in the discharge of its responsibilities relating to risk and uncertainty, with respect to controls that mitigate strategic, financial, and operational risks, compliance with the Company's Code of Business Conduct and compliance with Board-approved policies. To this end, IAS is responsible for conducting independent and objective assessments of the effectiveness of risk management, control, and governance processes across the Company.

12.2 Principal risks

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

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

Global and domestic marketplace

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

- economic recession, depression, or high inflation, impacting consumer spending;

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

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

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

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

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

The Company's annual operating plans include the key initiatives chosen to advance the successful longer-term execution of its strategic objectives. Further information regarding the key initiatives is included in sections 6.1 and 6.2.

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

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

People

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

Risk management strategy:

The Company manages its people risk through its organizational design, employee recruitment programs, succession planning, compensation structures, ongoing training, and professional development programs and performance management.

The Company's Code of Business Conduct sets out expected ethical behaviour of employees and directors. The Business Conduct Compliance Office offers multiple channels for employees to report breaches, provides interpretations of and training on the Code and monitors investigations and outcomes of potential breaches of the Code.

Technology innovation and investment

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

Risk management strategy:

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

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

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

Key business relationships

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

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

Risk management strategy:

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

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

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

Cyber

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

Risk management strategy:

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

Security protocols, along with corporate information security policies, address compliance with information security standards, including those relating to information belonging to the Company's customers and employees. The Company actively monitors, manages, and continues to enhance its ability to mitigate cyber risk through its enterprise-wide programs.

Information

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

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

Risk management strategy:

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

Operations

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

Operations risk is the risk of potential for loss resulting from inadequate or failed internal processes or systems, human interactions, or external events. Should this risk materialize, CTC's financial position, brand, and/or ability to achieve its strategic objectives could be negatively affected.

Risk management strategy:

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

Financial

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

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

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

Risk management strategy:

The Company has a Board-approved financial risk management policy in place that governs the management of capital, funding, and other financial risks. The Treasurer and Chief Financial Officer ("CFO") provide assurances with respect to policy compliance. Refer to section 8.3 for further details.

In particular, the Company's hedging activities, which are designed to mitigate the Company's exposure to foreign exchange rate volatility and sensitivity to adverse movements in interest rates and the equity markets, are governed by this policy. Hedge transactions are executed with highly rated financial institutions and are monitored against policy limits. Further details are set out in sections 8.5 and 12.3.

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

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

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

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

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

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

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

Risk management strategy:
Various Board-approved policies and processes are employed to manage and mitigate the Company's credit risk exposure and are monitored for compliance with policy limits. Further details are set out in section 12.4.

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

12.3 Financial risks

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

For further disclosure of the Company's financial instruments, their classification, their impact on financial statements, and determination of fair value refer to Note 32 of the consolidated financial statements contained in the Company's 2016 Report to Shareholders.

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

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

Foreign currency risk

The Company sources its merchandise globally. Approximately 40%, 45%, and 6% of the value of the inventory purchased for the Canadian Tire, Mark's, and FGL Sports banners, respectively, is sourced directly from vendors outside North America, primarily denominated in U.S. dollars. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the Company has an established foreign exchange risk management program that governs the proportion of forecast U.S. dollar purchases that must be hedged through the purchase of foreign exchange contracts. The purpose of the program is to provide certainty with respect to a portion of the foreign exchange component of future merchandise purchases.

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

Interest rate risk

The Company may use interest rate derivatives from time to time to manage interest rate risk. The Company has a policy in place whereby a minimum of 75 percent of its long-term debt (term greater than one year) must be at fixed versus floating interest rates.

12.4 Credit risks

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

Financial instrument counterparty credit risk

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

Consumer and Dealer credit risk

The Company's exposure to concentrations of counterparty credit risk is limited. Accounts receivable are primarily from Dealers and FGL Sports franchisees across Canada who, individually, generally comprise less than one percent of the total balance outstanding. Through the granting of Canadian Tire credit cards to its customers, the Company assumes certain risks with respect to the ability and willingness of its customers to repay debt. In addition, the Company may be required to provide credit enhancement for individual Dealer's borrowings in the form of standby letters of credit (the "LCs") or guarantees of third-party bank debt agreements, with respect to the financing programs available to the Dealers.

The Company's maximum exposure to credit risk, over and above amounts recognized in the Consolidated Balance Sheets of the 2016 Annual Report, include the following:

(C$ in millions)	**2016**	2015
Undrawn loan commitments	**$ 9,517.4**	$ 9,514.1
Guarantees	**428.5**	482.1
Total	**$ 9,945.9**	$ 9,996.2

Allowance for credit losses

The Company's allowances for receivables are maintained at levels that are considered adequate to provide for future credit losses. A continuity of the Company's allowances for loans receivable[1] is as follows:

(C$ in millions)		**2016**		2015
Balance, beginning of year	**$**	**111.5**	$	113.2
Impairments for credit losses, net of recoveries		**293.7**		301.9
Recoveries		**69.4**		65.9
Write-offs		**(367.7)**		(369.5)
Balance, end of year	**$**	**106.9**	$	111.5

[1] Loans include credit card loans and line of credit loans. No allowances for credit losses have been made with respect to Franchise Trust and FGL Sports loans receivable.

12.5 Legal risks

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

13.0 Controls and procedures

13.1 Disclosure controls and procedures

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

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

As required by CSA National Instrument 52-109 ("NI 52-109"), Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the adequacy of the design (quarterly) and effective operation (annually) of the Company's disclosure controls and procedures was conducted under the supervision of Management, including the CEO and CFO, as of December 31, 2016. The evaluation included documentation review, enquiries and other procedures considered by Management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2016.

13.2 Internal control over financial reporting

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

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

As also required by NI 52-109, Management, including the CEO and CFO, evaluated the adequacy of the design (quarterly) and the effective operation (annually) of the Company's internal control over financial reporting as defined in NI 52-109, as at December 31, 2016. In making this assessment, Management, including the CEO and CFO, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). This evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls, and a conclusion about this evaluation. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the internal controls over financial reporting were effective as at December 31,

2016 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

13.3 Changes in internal control over financial reporting
During the quarter and year ended December 31, 2016, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

14.0 Social and environmental responsibility

14.1 2016 Sustainability initiatives
The Company's sustainability initiatives aim to enhance its productivity and reduce its environmental footprint relative to its business growth. In 2016, new productivity gains were realized through a number of sustainability initiatives which were completed in 2015.

The initiatives were targeted at right-sizing products and packaging, reducing damaged products, reducing fuel used to transport products, increasing energy efficiency in buildings, and increasing sales of products that reduce energy use or waste relative to prior years. The new productivity gains resulted in environmental benefits equivalent to eliminating the waste generation of nearly 59,000 Canadian homes and the energy required to power over 5,700 Canadian homes for a year. The following table summarizes the benefits realized in 2016 from sustainability initiatives completed from 2013 to 2015. Benefits are measured for the current 12-month period following the initiative completion date, and continue to be measured for two subsequent years.

		Economic Benefit[1]	Energy Use Avoidance[2]	Low-Carbon Energy Generation[3]	GHG Emissions Avoidance[2]	Waste Avoidance[2]	Water Diversion[4]	
($C in millions, except where indicated)		($M)	(GJ)	(GJ)	(tonnes CO_2e)	(tonnes)	(tonnes)	(%)
Product & Packaging[5]	$	45.84	263,736	—	11,886	19,478	—	
Product Transport[6]	$	2.42	25,971	—	568	63	—	
Business & Retail Operations[7]	$	13.20	294,985	41,527	14,562	3,576	16,273	68%
Total	**$**	**61.46**	**584,692**	**41,527**	**27,016**	**23,117**	**16,273**	**68%**
% from net new 2015 initiatives		9%	29%	0%	13%	14%	n/a	n/a

1 Economic benefit refers to cost avoidance (e.g. energy costs) and income earned (e.g. from the sale of recyclable materials) associated with sustainability initiatives.
2 Avoidance refers to savings in comparison to the baseline scenario, where the baseline scenario is defined as "what would have most likely occurred in the absence of the sustainability initiative". Improvements are relating to the specific initiatives reported and do not represent total improvements to the value-chain segment.
3 Refers to energy generated from on-site solar installations. To be considered "low-carbon", the GHG emissions associated with the energy generated must be lower than traditional means of power generation. This energy is fed into the Ontario electrical grid for general consumption in the province.
4 Materials diverted from landfill through reuse, recycling or composting.
5 Realized reductions in energy use resulting from the transportation of optimized product and packaging, realized reductions in customer energy use resulting from the sale of energy efficient products, and waste reductions stemming from reduced packaging, damages, and product waste at end-of-life.
6 Realized reductions in energy use from increased fuel efficiency in transportation modes and vehicles (e.g. use of long-combination vehicles).
7 Realized reductions in energy use in buildings and their operations through energy efficiency initiatives (e.g. new construction and retrofits), renewable energy generated from rooftop solar installations, and percentage of waste diverted from landfill as a result of waste management initiatives at stores and DCs.

14.2 Environmental footprint
The following table presents the Company and its extended value-chain's 2015 environmental footprint and the percentage change relative to the 2014 baseline. The data collection and subsequent review for determining the Company's environmental footprint are rigorous processes that are completed after the close of the calendar-year. As such, the Company's most recent environmental footprint is for 2015. An independent third-party provided a limited assurance review on the footprint data.

CTC's absolute emissions decreased 10.2 percent in 2015 compared to 2014. The primary reason was a reduction in the Company's footprint in the area of raw material acquisition and product manufacturing from our retail banners. Product and packaging impacts are calculated using a model based in U.S. dollars. Fluctuations in foreign exchange that reduce the purchasing power of the Canadian dollar translate to a reduction in the product and packaging impact metrics. CTC's Business and Retail Operations footprint also became less emission intensive due to a warmer winter in 2015 resulting in less fuel used to heat buildings.

By segment of the value-chain[1]		Energy Use			GHG emissions		
		Percent of total	Gigajoules	Change[2] (B) / W	Percent of total	tCO_2e	Change[2] (B) / W
Product and Packaging[3]	Raw material acquisition and product manufacturing (Canadian Tire, PartSource, Petroleum, Mark's, FGL Sports)	85.3%	48,300,768	(9.5)%	87.2%	3,387,597	(10.5)%
	Per $1,000 banner revenue		*3.92*	*(16.3)%*		*0.28*	*(17.3)%*
Product Transport[4]	Canadian Tire fleet (Canadian Tire, PartSource) and third-party product transport (Canadian Tire, Petroleum)	6.4%	3,611,173	(2.9)%	6.5%	254,450	(5.4)%
	Per 1,000 tonne-kilometres		*0.34*	*1.4%*		*0.02*	*(1.2)%*
Business and Retail Operations[5]	Corporate and non-corporate stores, offices, and DC's operations (all banners)	8.4%	4,730,973	(4.8)%	6.3%	245,038	(10.9)%
	Per square metre		*0.81*	*(5.9)%*		*0.04*	*(11.9)%*
Total	**Corporation and extended value-chain**	**100.0%**	**56,642,914**	**(8.7)%**	**100.0%**	**3,887,084**	**(10.2)%**
	Per $1,000 consolidated revenue		**4.16**	**(7.3)%**		**0.32**	**(8.9)%**

1 Produced in accordance with principles from the World Business Council on Sustainable Development and World Resource Institute Greenhouse Gas ("GHG") Protocol. The 2014 baseline was restated to reflect changes in methodology and updates of previous calculations, as necessary. Mark's and FGL Sports product transport, customer use, and product end-of-life emissions for all banners are not currently measured due to data unavailability.

2 Percentage change relative to 2014 environmental footprint. A negative change indicates a reduction in energy use and/or GHG emissions which is an improvement and indicated as Better (B), versus a positive change which indicates an increase in energy use and/or GHG emissions and is indicated as Worse (W).

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

4 Values of product transportation from freight-on-board location to stores or from refining sites to gas bars. The 2014 Product Transport footprint was restated to reflect methodological updates. 2015 is a transitional year for the product transportation footprint as Canadian Tire retail transitioned from tracking data (e.g. weight shipped and distance traveled) from planned loads only to actual loads executed. As such, 2014 and 2015 results are not directly comparable, 2015 sets a new methodological baseline. All else equal, year-over-year results in 2016 are expected to be more consistent.

5 Values from corporate and third-party operated sites including offices, DCs and corporate, Dealer, agent, and franchise retail stores. The 2014 Business and Retail Operations footprint was restated to reflect updated energy use figures for certain locations.

For details on Canadian Tire's sustainability strategy, environmental performance, and a 2015 Assurance Statement please refer to our Business Sustainability Performance Reports on the Corporate Citizenship site at: http://corp.canadiantire.ca/EN/CorporateCitizenship/EnvironmentalSustainability/Pages/OurProgressReports.aspx. For information on Canadian Tire's environmental and social initiatives and achievements please refer to our Sustainability Report at: sustainability.canadiantirecorporation.ca.

14.3 Responsible sourcing practices

As one of Canada's most trusted companies, Canadian Tire goes to great lengths to ensure that the practices of employees, Directors, independent contractors and suppliers are completed with honesty, integrity and respect. Details on Canadian Tire's Responsible Sourcing policies and activities are available on the Company's website at: http://corp.canadiantire.ca/EN/CorporateCitizenship/ResponsibleSourcing/Pages/default.aspx.

14.4 Corporate Philanthropy

CTC supports a variety of social causes but the largest single beneficiary is Canadian Tire Jumpstart Charities. This charity is an independent organization committed to assisting financially-challenged families in communities across Canada by funding costs associated with children participating in organized sport and physical activity. Additional information regarding Jumpstart is available on their website at: http://jumpstart.canadiantire.ca.

15.0 Related parties

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

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

16.0 Forward-looking statements and other investor communication

Caution regarding forward-looking statements

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

- the Company's plan to decommission the Brampton DC and open the Bolton DC by 2017 in section 3.0;
- the Company's financial aspirations for fiscal years 2015 to 2017 in section 5.0;
- 2017 strategic imperatives in section 6.0;
- capital expenditures in subsection 8.4.1;
- contractual obligations, guarantees, and commitments in subsection 8.5.1;
- the Company's intention with respect to the purchase of its Class A Non-Voting Shares in section 9.1; and
- tax matters in section 10.0.

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

Certain statements other than statements of historical facts included in this document may constitute forward-looking statements, including, but not limited to, statements concerning Management's current expectations relating to possible or assumed future prospects and results, the Company's strategic goals and priorities, its actions and the results of those actions and the economic and business outlook for the Company. Often, but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "believe", "estimate", "plan", "can", "could", "should", "would", "outlook", "forecast", "anticipate", "aspire", "foresee", "continue", "ongoing" or the negative of these terms or variations of them or similar terminology. Forward-looking statements are based on the reasonable assumptions, estimates, analyses, beliefs and opinions of Management, made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that Management believes to be relevant and reasonable at the date that such statements are made.

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

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please refer to sections 7.2.4 (Retail segment business risks), 7.3.2 (CT REIT segment business risks), 7.4.3 (Financial Services segment business risks) and 12.0 (Enterprise risk management) and all subsections thereunder of this MD&A. Please also refer to section 2.10 (Risk Factors) of the Company's Annual Information Form for fiscal 2016, as well as the Company's other public filings, available on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com and at www.corp.canadiantire.ca.

The forward-looking information contained herein is based on certain factors and assumptions as of the date hereof and does not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. The Company does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by it or on its behalf, to reflect new information, future events or otherwise, except as required by applicable securities laws.

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

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

Commitment to disclosure and investor communication

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

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

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

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

February 15, 2017

Management's Responsibility for Financial Statements

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

Management is responsible for establishing and maintaining adequate systems of internal control over financial reporting. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Management has assessed the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company's internal controls over financial reporting were effective as at the date of these consolidated financial statements.

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

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

"Stephen G. Wetmore"

Stephen G. Wetmore
President and
Chief Executive Officer

"Dean McCann"

Dean McCann
Executive Vice-President
and Chief Financial Officer

February 15, 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Canadian Tire Corporation, Limited

We have audited the accompanying consolidated financial statements of Canadian Tire Corporation, Limited, which comprise the consolidated balance sheets as at December 31, 2016 and January 2, 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity for the years ended December 31, 2016 and January 2, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Tire Corporation, Limited as at December 31, 2016 and January 2, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants
Licensed Public Accountants

February 15, 2017
Toronto, Ontario

Consolidated Balance Sheets

As at (C$ in millions)		December 31, 2016		January 2, 2016
ASSETS				
Cash and cash equivalents (Note 7)	**$**	**829.7**	$	900.6
Short-term investments		**117.2**		96.1
Trade and other receivables (Note 8)		**690.8**		915.0
Loans receivable (Note 9)		**5,138.4**		4,875.5
Merchandise inventories		**1,710.7**		1,764.5
Income taxes recoverable		**42.5**		42.2
Prepaid expenses and deposits		**103.8**		96.1
Assets classified as held for sale		**4.6**		2.3
Total current assets		**8,637.7**		8,692.3
Long-term receivables and other assets (Note 10)		**763.7**		731.2
Long-term investments		**175.2**		153.4
Goodwill and intangible assets (Note 11)		**1,280.3**		1,246.8
Investment property (Note 12)		**266.4**		137.8
Property and equipment (Note 13)		**4,097.2**		3,978.2
Deferred income taxes (Note 15)		**82.3**		48.1
Total assets	**$**	**15,302.8**	$	14,987.8
LIABILITIES				
Bank indebtedness (Note 7)	**$**	**5.9**	$	—
Deposits (Note 16)		**950.7**		880.7
Trade and other payables (Note 17)		**1,856.9**		1,957.1
Provisions (Note 18)		**253.2**		216.1
Short-term borrowings (Note 20)		**199.4**		88.6
Loans payable (Note 21)		**700.3**		655.5
Income taxes payable		**61.1**		61.5
Current portion of long-term debt (Note 22)		**653.4**		24.3
Total current liabilities		**4,680.9**		3,883.8
Long-term provisions (Note 18)		**45.9**		45.7
Long-term debt (Note 22)		**2,667.1**		2,971.4
Long-term deposits (Note 16)		**1,230.8**		1,372.2
Deferred income taxes (Note 15)		**104.2**		111.1
Other long-term liabilities (Note 23)		**836.6**		813.9
Total liabilities		**9,565.5**		9,198.1
EQUITY				
Share capital (Note 25)		**648.1**		671.2
Contributed surplus		**2.9**		2.9
Accumulated other comprehensive income		**36.7**		148.1
Retained earnings		**4,250.9**		4,172.0
Equity attributable to shareholders of Canadian Tire Corporation		**4,938.6**		4,994.2
Non-controlling interests (Note 14)		**798.7**		795.5
Total equity		**5,737.3**		5,789.7
Total liabilities and equity	**$**	**15,302.8**	$	14,987.8

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

"Maureen J. Sabia"

Maureen J. Sabia
Director

"Diana L. Chant"

Diana L. Chant
Director

Consolidated Statements of Income

For the years ended (C$ in millions, except per share amounts)		December 31, 2016		January 2, 2016
Revenue (Note 27)	**$**	**12,681.0**	$	12,279.6
Cost of producing revenue (Note 28)		**8,288.5**		8,144.3
Gross margin		**4,392.5**		4,135.3
Other (income)		**(4.3)**		(54.9)
Selling, general and administrative expenses (Note 29)		**3,291.9**		3,096.1
Net finance costs (Note 30)		**93.9**		92.8
Income before income taxes		**1,011.0**		1,001.3
Income taxes (Note 15)		**263.5**		265.4
Net income	**$**	**747.5**	$	735.9
Net income attributable to:				
Shareholders of Canadian Tire Corporation	**$**	**669.1**	$	659.4
Non-controlling interests (Note 14)		**78.4**		76.5
	$	**747.5**	$	735.9
Basic EPS	**$**	**9.25**	$	8.66
Diluted EPS	**$**	**9.22**	$	8.61
Weighted average number of Common and Class A Non-Voting Shares outstanding:				
Basic		**72,360,303**		76,151,321
Diluted		**72,555,732**		76,581,602

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

Consolidated Statements of Comprehensive Income

For the years ended (C$ in millions)	December 31, 2016	January 2, 2016
Net income	**$ 747.5**	$ 735.9
Other comprehensive (loss) income, net of taxes		
Items that may be reclassified subsequently to net income:		
Cash flow hedges and available-for-sale financial assets:		
(Losses) gains	**(40.5)**	275.1
Reclassification of gains to non-financial assets	**(67.9)**	(207.4)
Reclassification of gains to income	**(1.7)**	(3.0)
Item that will not be reclassified subsequently to net income:		
Actuarial (losses) gains	**(3.0)**	0.8
Other comprehensive (loss) income	**(113.1)**	65.5
Other comprehensive (loss) income attributable to:		
Shareholders of Canadian Tire Corporation	**$ (114.3)**	$ 68.0
Non-controlling interests	**1.2**	(2.5)
	$ (113.1)	$ 65.5
Comprehensive income	**$ 634.4**	$ 801.4
Comprehensive income attributable to:		
Shareholders of Canadian Tire Corporation	**$ 554.8**	$ 727.4
Non-controlling interests	**79.6**	74.0
	$ 634.4	$ 801.4

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

Consolidated Statements of Cash Flows

For the years ended (C$ in millions)	December 31, 2016	January 2, 2016
Cash (used for) generated from:		
Operating activities		
Net income	$ 747.5	$ 735.9
Adjustments for:		
Depreciation of property and equipment and investment property (Notes 28 and 29)	330.8	312.8
Income tax expense	263.5	265.4
Net finance costs (Note 30)	93.9	92.8
Amortization of intangible assets (Note 29)	126.1	111.9
Changes in fair value of derivative instruments	(15.8)	6.9
(Gain) on disposal of property and equipment, investment property, assets held for sale, intangible assets, and lease terminations	(14.9)	(43.9)
Interest paid	(114.0)	(101.4)
Interest received	6.5	8.4
Income taxes paid	(262.8)	(284.0)
Other	5.6	14.6
Total adjustments, except as noted below	1,166.4	1,119.4
Change in operating working capital and other (Note 31)	126.1	(115.3)
Change in loans receivable	(306.1)	(25.2)
Cash generated from operating activities	986.4	978.9
Investing activities		
Additions to property and equipment and investment property	(617.3)	(515.9)
Additions to intangible assets	(163.5)	(94.7)
Total additions	(780.8)	(610.6)
Acquisition of short-term investments	(422.3)	(177.4)
Proceeds from the maturity and disposition of short-term investments	441.4	426.6
Acquisition of long-term investments	(61.4)	(35.0)
Proceeds on disposition of property and equipment, investment property, and assets held for sale	32.8	101.5
Other	7.5	(4.1)
Cash (used for) investing activities	(782.8)	(299.0)
Financing activities		
Dividends paid	(157.5)	(152.2)
Distributions paid to non-controlling interests	(76.4)	(53.8)
Total dividends and distributions paid	(233.9)	(206.0)
Net issuance (repayment) of short-term borrowings	110.7	(111.2)
Issuance of loans payable	288.3	270.1
Repayment of loans payable	(243.5)	(219.0)
Issuance of long-term debt (Note 22)	350.0	856.1
Repayment of long-term debt and finance lease liabilities (Note 22)	(24.5)	(588.5)
Payment of transaction costs related to long-term debt	(3.2)	(6.5)
Repurchase of share capital (Note 25)	(449.4)	(434.6)
Change in deposits	(74.9)	12.5
Cash (used for) financing activities	(280.4)	(427.1)
Cash (used) generated in the period	(76.8)	252.8
Cash and cash equivalents, net of bank indebtedness, beginning of period	900.6	647.8
Cash and cash equivalents, net of bank indebtedness, end of period (Note 7)	$ 823.8	$ 900.6

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

Consolidated Statements of Changes in Equity

(C$ in millions)	Share capital	Contributed surplus	Total accumulated other comprehensive income	Retained earnings	Equity attributable to shareholders of Canadian Tire Corporation	Equity attributable to non-controlling interests	Total equity
Balance at January 2, 2016	**$ 671.2**	**$ 2.9**	**$ 148.1**	**$ 4,172.0**	**$ 4,994.2**	**$ 795.5**	**$ 5,789.7**
Net income	**—**	**—**	**—**	**669.1**	**669.1**	**78.4**	**747.5**
Other comprehensive (loss) income	**—**	**—**	**(111.4)**	**(2.9)**	**(114.3)**	**1.2**	**(113.1)**
Total comprehensive (loss) income	**—**	**—**	**(111.4)**	**666.2**	**554.8**	**79.6**	**634.4**
Contributions and distributions to shareholders of Canadian Tire Corporation							
Issuance of Class A Non-Voting Shares (Note 25)	**9.3**	**—**	**—**	**—**	**9.3**	**—**	**9.3**
Repurchase of Class A Non-Voting Shares (Note 25)	**(449.4)**	**—**	**—**	**—**	**(449.4)**	**—**	**(449.4)**
Excess of purchase price over average cost (Note 25)	**417.0**	**—**	**—**	**(417.0)**	**—**	**—**	**—**
Dividends	**—**	**—**	**—**	**(170.3)**	**(170.3)**	**—**	**(170.3)**
Contributions and distributions to non-controlling interests							
Issuance of trust units to non-controlling interests, net of transaction costs	**—**	**—**	**—**	**—**	**—**	**2.0**	**2.0**
Distributions and dividends to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(78.4)**	**(78.4)**
Total contributions and distributions	**(23.1)**	**—**	**—**	**(587.3)**	**(610.4)**	**(76.4)**	**(686.8)**
Balance at December 31, 2016	**$ 648.1**	**$ 2.9**	**$ 36.7**	**$ 4,250.9**	**$ 4,938.6**	**$ 798.7**	**$ 5,737.3**

(C$ in millions)	Share capital	Contributed surplus	Total accumulated other comprehensive income	Retained earnings	Equity attributable to shareholders of Canadian Tire Corporation	Equity attributable to non-controlling interests	Total equity
Balance at January 3, 2015	$ 695.5	$ 2.9	$ 82.0	$ 4,075.1	$ 4,855.5	$ 775.3	$ 5,630.8
Net income	—	—	—	659.4	$ 659.4	76.5	735.9
Other comprehensive income (loss)	—	—	66.1	1.9	68.0	(2.5)	65.5
Total comprehensive income	—	—	66.1	661.3	727.4	74.0	801.4
Contributions and distributions to shareholders of Canadian Tire Corporation							
Issuance of Class A Non-Voting Shares (Note 25)	8.3	—	—	—	8.3	—	8.3
Repurchase of Class A Non-Voting Shares (Note 25)	(434.6)	—	—	—	(434.6)	—	(434.6)
Excess of purchase price over average cost (Note 25)	402.0	—	—	(402.0)	—	—	—
Dividends	—	—	—	(162.4)	(162.4)	—	(162.4)
Contributions and distributions to non-controlling interests							
Issuance of trust units to non-controlling interests, net of transaction costs	—	—	—	—	—	1.8	1.8
Distributions and dividends to non-controlling interests	—	—	—	—	—	(55.6)	(55.6)
Total contributions and distributions	(24.3)	—	—	(564.4)	(588.7)	(53.8)	(642.5)
Balance at January 2, 2016	$ 671.2	$ 2.9	$ 148.1	$ 4,172.0	$ 4,994.2	$ 795.5	$ 5,789.7

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

1. The Company and its operations

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

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

2. Basis of preparation

Fiscal year
The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to December 31. The fiscal years for the consolidated financial statements and notes presented for 2016 and 2015 are the 52-week periods ended December 31, 2016 and January 2, 2016, respectively.

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

These consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 15, 2017.

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

- financial instruments at fair value through profit or loss ("FVTPL");
- derivative financial instruments;
- available-for-sale financial assets;
- liabilities for share-based payment plans; and
- initial recognition of assets acquired and liabilities assumed in a business combination.

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

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

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

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

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

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

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

Impairment of assets

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

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

Fair value measurement of redeemable financial instrument

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

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

Merchandise inventories

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

Income and other taxes

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

Consolidation

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

Loans receivable

Estimation - The Company's estimate of allowances on credit card loans receivable is based on a roll-rate methodology that employs analysis of historical data and experience of delinquency and default, to estimate the amount of loans that will eventually be written off as a result of events occurring before the reporting date, with certain adjustments for other relevant circumstances influencing the recoverability of these loans receivable. Default rates, loss rates, and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes.

Post-employment benefits

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

Other

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

Standards, amendments, and interpretations issued and adopted

Disclosure initiative (IAS 1)

In December 2014, the International Accounting Standard Board ("IASB") issued *Disclosure Initiative Amendments to IAS 1* as part of the IASB's Disclosure Initiative. These amendments encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements.

These amendments were effective for annual periods beginning on or after January 1, 2016 and were applied prospectively. The implementation of these amendments did not have a significant impact on the Company other than immaterial amendments to current and prior-year note disclosure.

Standards, amendments, and interpretations issued but not yet adopted

The following new standards, amendments, and interpretations have been issued and are expected to impact the Company, but are not effective for the fiscal year ending December 31, 2016 and, accordingly, have not been applied in preparing the consolidated financial statements.

Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment, and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income ("OCI") instead of Net Income, unless this would create an accounting mismatch.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. The impairment requirements of IFRS 9 are expected to have an impact on the Company, particularly with respect to the estimate of allowances on credit card loans receivable. In order to meet the impairment requirements of IFRS 9, a dedicated project team has been established with joint leadership from finance and credit risk. The Company is assessing the potential financial and disclosure impact of this standard.

Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue,* and International Financial Reporting Interpretations Committee 13 – *Customer*

Loyalty Programmes ("IFRIC 13"), as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. IFRS 15 also contains enhanced disclosure requirements. IFRS 15 will be applied retrospectively for annual periods beginning on or after January 1, 2018. The Company is assessing the potential impact of this standard.

In April 2016, the IASB published clarifications to IFRS 15 which address three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is assessing the potential impact of these amendments.

Disclosure initiative (IAS 7)

In January 2016, the IASB issued Disclosure Initiative Amendments to IAS 7 – *Statement of Cash Flows* also as part of the IASB's Disclosure Initiative. These amendments require entities to provide additional disclosures that will enable financial statement users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes.

These amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments is not expected to have a significant impact on the Company.

Leases

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaced IAS 17 – *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been applied. The Company is assessing the potential impact of this standard.

Income taxes

In January 2016, the IASB amended IAS 12 – *Income Taxes* by issuing *Recognition of Deferred Tax Assets for Unrealized Losses*. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments is not expected to have a significant impact on the Company.

Share-based payment

In June 2016, the IASB issued amendments to IFRS 2 – *Share-based Payment,* clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature, and a modification to the terms and conditions that changes the classification of the transactions.

These amendments are effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of these amendments.

Insurance contracts

In September 2016, the IASB issued amendments to IFRS 4 – *Insurance Contracts*, introducing two approaches; an overlay approach and a deferral approach, to address the additional accounting mismatches and volatility that may arise in profit or loss as a result of applying IFRS 9.

The overlay approach can be applied whenever IFRS 9 is applied and the deferral approach permits a company with activities that are predominantly connected with insurance to be exempted from applying IFRS 9 until 2021. The Company is assessing the potential impact of these amendments.

3. Significant accounting policies

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

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

The results of certain subsidiaries that have different year ends have been included in these consolidated financial statements for the 52-week periods ended December 31, 2016 and January 2, 2016. The year end of CTFS Holdings Limited and its subsidiaries, Franchise Trust, and CT Real Estate Investment Trust ("CT REIT") is December 31.

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

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

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

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

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

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

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

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

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

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

Joint arrangement

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

Foreign currency translation

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

Financial instruments

Recognition and measurement

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

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

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

The Company's financial assets and financial liabilities are generally classified and measured as follows:

Asset/Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments[1]	Available for sale	Fair value
Trade and other receivables[2]	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Deposits (recorded in prepaid expenses and deposits)	Loans and receivables	Amortized cost
Long-term receivables and other assets[2]	Loans and receivables	Amortized cost
Long-term investments	Available for sale	Fair value
Bank indebtedness	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Trade and other payables[2]	Other liabilities	Amortized cost
Short-term borrowings	Other liabilities	Amortized cost
Loans payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Redeemable financial instrument (recorded in other long-term liabilities)	FVTPL	Fair value

1 Certain short-term investments are classified as FVTPL and measured at fair value.
2 Includes derivatives that are classified as FVTPL or are effective hedging instruments, and measured at fair value.

Financial instruments at fair value through profit or loss

Financial instruments are classified as FVTPL when the financial instrument is either held for trading or designated as such upon initial recognition. Financial instruments are classified as held for trading if acquired principally for the purpose of selling in the near future or if part of an identified portfolio of financial instruments that the Company manages together

and has a recent actual pattern of short-term profit-making. Derivatives are classified as FVTPL unless they are designated as effective hedging instruments.

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

Available-for-sale

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

Loans and receivables

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

Other liabilities

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method, with gains and losses recognized in net income in the period that the liability is derecognized.

Derecognition of financial instruments

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

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

Derivative financial instruments

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

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

Hedge accounting

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

Cash flow hedges

For cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recognized in OCI, while the ineffective and unhedged portions are recognized immediately in net income. Amounts recorded in Accumulated Other Comprehensive Income ("AOCI") are reclassified to net income in the periods when the hedged item affects net income. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in AOCI are reclassified from AOCI and included in the initial measurement of the cost of the non-financial asset or liability.

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

The Company enters into foreign currency contracts to hedge the exposure against foreign currency risk on the future payment of foreign-currency-denominated inventory purchases and certain expenses. The changes in fair value of these contracts are included in OCI to the extent the hedges continue to be effective. Once the inventory is received, the Company reclassifies the related AOCI amount to merchandise inventories and subsequent changes in the fair value of the foreign currency contracts are recorded in net income as they occur. When the expenses are incurred, the Company reclassifies the related AOCI amount to the expense.

The Company enters into interest rate-swap contracts to hedge the exposure against interest rate risk on the future interest payments of debt issuances. The changes in fair value of these contracts are included in OCI to the extent that the hedges continue to be effective. When the interest expense is incurred, the Company reclassifies the related AOCI amount to finance costs.

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

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

Trade and other receivables
The allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in Selling, general and administrative expenses in the Consolidated Statements of Income. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in Selling, general and administrative expenses in the Consolidated Statements of Income.

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

Losses for impaired loans are recognized when there is objective evidence that impairment of the loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded in Cost of producing revenue in the Consolidated Statements of Income. The carrying amount of impaired loans in the Consolidated Balance Sheets is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognized.

All individually significant loans receivable are assessed for specific impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans receivable not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

The Company uses a roll-rate methodology to calculate allowances for credit card loans. This methodology employs analysis of historical data, economic indicators, and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the reporting date, with certain adjustments for other relevant circumstances influencing the recoverability of the loans receivable. Default rates, loss rates, and cash recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

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

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

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

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

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

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

Expenditures on research activities are expensed as incurred.

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

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

Buildings, fixtures, and equipment are depreciated using a declining balance method to their estimated residual value over their estimated useful lives. The estimated useful lives, amortization method, and residual values are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis.

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

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

Depreciation and amortization rates are as follows:

Asset Category	Depreciation rate/term
Buildings	4-20%
Fixtures and equipment	5-40%
Leasehold improvements	Shorter of term of lease or useful life
Assets under finance lease	Shorter of term of lease or useful life

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

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

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

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

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

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

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

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

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

Determining the recoverable amount
An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount. The recoverable amount of an asset or CGU is defined as the higher of its fair value less costs to sell (“FVLCS”) and its VIU.

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

Recording impairments and reversals of impairments

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

Assets classified as held for sale

Non-current assets and disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets (and disposal groups) classified as held for sale are measured at the lower of the carrying amount or FVLCS and are not depreciated. The fair value measurement of assets held for sale is categorized within Level 2 of fair value hierarchy (refer to Note 32.4 for definition of levels).

Borrowing costs

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

Employee benefits

Short-term benefits

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

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

Post-employment benefits

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

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

Termination benefits

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

Share-based payments

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

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

Insurance reserve

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

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

Provisions

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

Sales and warranty returns

The provision for sales and warranty returns relates to the Company's obligation for defective goods in current store inventories and defective goods sold to customers that have yet to be returned, after sales service for replacement parts, and future corporate store sales returns. Accruals for sales and warranty returns are estimated on the basis of historical returns and are recorded so as to allocate them to the same period the corresponding revenue is recognized. These accruals are reviewed regularly and updated to reflect Management's best estimate; however, actual returns could vary from these estimates.

Site restoration and decommissioning

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

Onerous contracts

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

Customer loyalty

An obligation arises from the "My Canadian Tire 'Money'™" customer loyalty program when the Company issues electronic Canadian Tire 'Money'® and when the Dealers pay the Company to acquire paper-based Canadian Tire 'Money', as the Dealers retain the right to return paper-based Canadian Tire Money to the Company for refund in cash. These obligations are measured at fair value by reference to the fair value of the awards for which they could be redeemed and based on

the estimated probability of their redemption. The expense is recorded in Selling, general and administrative expenses in the Consolidated Statements of Income.

Debt

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

Share capital

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

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

Dividends

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

Distributions

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

Revenue

The Company recognizes revenue when the amount can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Company's activities described below.

Sale of goods

Revenue from the sale of goods includes merchandise sold to Dealers and Mark's Work Wearhouse Ltd. ("Mark's") and FGL Sports Ltd. ("FGL Sports") franchisees, the sale of gasoline through agents, and the sale of goods by Mark's, PartSource, and FGL Sports corporately-owned stores to the general public. This revenue is recognized when the goods are delivered, less an estimate for the sales and warranty returns. Revenue from the sale of goods is measured at the fair value of the consideration received less an appropriate deduction for actual and expected returns, discounts, rebates, and warranty and loyalty program costs, net of sales taxes.

If there is any uncertainty regarding the right of a customer to return goods, no revenue is recognized until the uncertainty is resolved. However, in the case of warranties, if warranty claims can be reasonably estimated, revenue is recorded for the net amount.

Customer loyalty programs

Loyalty award credits issued as part of a sales transaction relating to the Company's Gas Advantage, Cash Advantage, and Sport Chek MasterCard Rewards credit card programs result in revenue being deferred until the loyalty award is redeemed by the customer. The portion of the revenue that is deferred is the fair value of the award. The fair value of the award takes into account the amount for which the award credits could be sold separately, less the proportion of the award credits that are not expected to be redeemed by customers.

Interest income on loans receivable

Interest income includes interest charged on loans receivable and fees that are an integral part of the effective interest rate on financial instruments. Interest income on financial assets that are classified as loans and receivables is determined using the effective interest method.

Services rendered

Service revenue includes Roadside Assistance Club membership revenue; insurance premiums and reinsurance revenue; extended warranty contract fees; merchant, interchange, and processing fees; cash advance fees; foreign exchange fees; and service charges on the loans receivable of the Financial Services operating segment, as well as Mark's clothing

alteration revenue. Service revenue is recognized according to the contractual provisions of the arrangement, which is generally when the service is provided or over the contractual period.

Merchant, interchange, and processing fees, cash advance fees, and foreign exchange fees on credit card transactions are recognized as revenue at the time transactions are completed. Revenue from separately priced extended warranty contracts is recorded on a straight-line basis over the term of the contracts.

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

Royalties and licence fees
Royalties and licence fees include licence fees from petroleum agents and Dealers, and royalties from Mark's and FGL Sports franchisees. Royalties and licence fee revenues are recognized as they are earned in accordance with the substance of the relevant agreement and are measured on an accrual basis.

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

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

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

Net finance costs
Finance income comprises interest income on funds invested (including available-for-sale financial assets). Interest income is recognized as it accrues using the effective interest method.

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

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

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

Deferred income tax is recognized using the liability method for unused tax losses, unused tax benefits, and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these consolidated financial statements. However, deferred income tax is not accounted for if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the date of the Consolidated Balance Sheets and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

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

4. Capital management

The Company's objectives when managing capital are:

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

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

(C$ in millions)	**2016**	**% of total**	2015	% of total
Capital components				
Deposits	**$ 950.7**	**8.5%**	$ 880.7	8.2%
Short-term borrowings	**199.4**	**1.8%**	88.6	0.8%
Current portion of long-term debt	**653.4**	**5.9%**	24.3	0.2%
Long-term debt	**2,667.1**	**24.0%**	2,971.4	27.8%
Long-term deposits	**1,230.8**	**11.1%**	1,372.2	12.8%
Total debt	**$ 5,701.4**	**51.3%**	$ 5,337.2	49.8%
Redeemable financial instrument	**517.0**	**4.7%**	517.0	4.9%
Share capital	**648.1**	**5.8%**	671.2	6.3%
Contributed surplus	**2.9**	**0.0%**	2.9	0.0%
Retained earnings	**4,250.9**	**38.2%**	4,172.0	39.0%
Total capital under management	**$ 11,120.3**	**100.0%**	$ 10,700.3	100.0%

The Company monitors its capital structure through measuring debt-to-earnings ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other coverage ratios, and forecasting cash flows.

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

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

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

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

The Company was in compliance with this key covenant as at December 31, 2016 and January 2, 2016. Under the covenant, the Company currently has sufficient flexibility to fund business growth.

CT REIT is required to comply with financial covenants established under its Trust Indenture, Bank Credit Agreement, and the Declaration of Trust and was in compliance with the key covenants as at December 31, 2016 and 2015.

In addition, the Company is required to comply with regulatory requirements for capital associated with the operations of Canadian Tire Bank ("CTB" or "the Bank"), a federally chartered bank, and other regulatory requirements that have an impact on its business operations and certain financial covenants established under its unsecured revolving credit facility.

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

The Bank's objectives include:

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

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. As at December 31, 2016, the Bank's fiscal year end, Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings, and AOCI, less regulatory adjustments including items risk-weighted at 0 percent which are deducted from capital. The Bank currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, the Bank's CET1 is equal to its Tier 1 and total regulatory capital. Risk-weighted assets ("RWA") include a credit risk component for all on-balance-sheet assets weighted for the risk inherent in each type of asset, off-balance sheet financial instruments, an operational risk component based on a percentage of average risk-weighted revenues, and a market-risk component for assets held for trade. For the purposes of calculating RWA, securitization transactions are considered off-balance-sheet transactions and, therefore, securitization assets are not included in the RWA calculation. Assets are classified as held for trade when they are held with trading intent.

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

As at December 31, 2016 and 2015, the Bank complied with all regulatory capital guidelines established by OSFI, its internal targets as determined by its ICAAP, and the financial covenants of its credit facility.

5. Financial risk management

5.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including foreign currency and interest rate risk).

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policy, and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements and notes thereto.

5.2 Risk management framework

The Company's financial risk management policy serves to identify and analyze the risks faced by the Company, to set acceptable risk tolerance limits and controls, and to monitor risks and adherence to limits. The financial risk management strategies and systems are reviewed regularly to ensure they remain consistent with the objectives and risk tolerance acceptable to the Company and current market trends and conditions. The Company, through its training and management standards and procedures, aims to uphold a disciplined and constructive control environment in which all employees understand their roles and obligations.

5.3 Credit risk

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

5.3.1 Financial instrument counterparty credit risk

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

5.3.2 Consumer and Dealer credit risk

Through the granting of Canadian Tire credit cards to its customers, the Company assumes certain risks with respect to the ability and willingness of its customers to repay debt. In addition, the Company may be required to provide credit enhancement for individual Dealer's borrowings in the form of standby letters of credit (the "LCs") or guarantees of third-party bank debt agreements, with respect to the financing programs available to the Dealers (Note 34).

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

(C$ in millions)	**2016**	2015
Undrawn loan commitments	**$ 9,517.4**	$ 9,514.1
Guarantees	**428.5**	482.1
Total	**$ 9,945.9**	$ 9,996.2

Refer to Note 9 for information on the credit quality and performance of loans receivables.

5.4 Liquidity risk

Liquidity risk is the risk that the Company might encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and reasonably stressed conditions. The Company's financial risk management policy serves to manage its exposure to liquidity risk. The Company uses a detailed consolidated cash flow forecast model to regularly monitor its near-term and longer-term cash flow requirements, which assists in optimizing its short-term cash and indebtedness position while evaluating longer-term funding strategies.

In addition, CTB has in place an Asset Liability Management policy. It is CTB's objective to ensure the availability of adequate funds by maintaining a strong liquidity management framework and to satisfy all applicable regulatory and statutory requirements.

As at December 31, 2016, the Company had $4.525 billion in committed bank lines of credit of which $1.975 billion is available to Canadian Tire Corporation under a syndicated credit facility expiring in July 2021, $300.0 million is available to CT REIT under a syndicated credit facility expiring in April 2021, and $2.25 billion is available to CTB expiring October 2019.

In addition to the bank lines of credit, the Company has access to additional funding sources including internal cash generation, access to public and private financial markets, and strategic real estate transactions. Assets of CTB are funded through the securitization of credit card receivables using GCCT, broker guaranteed investment certificate ("GICs") deposits,

retail GIC deposits, and high-interest savings ("HIS") account deposits. CTB also holds high quality liquid assets, as required by regulators, which are available to address funding disruptions.

CT REIT filed a base-shelf prospectus on March 5, 2015, under which it may raise up to $1.5 billion of debt and equity capital for the subsequent 25-month period (and under which the Company can sell some of the equity units it owns of CT REIT). On March 31, 2015, GCCT filed a base shelf prospectus permitting it to issue up to $1.5 billion of term notes for the subsequent 25-month period.

Due to the diversification of its funding sources, the Company is not exposed to any concentration risk regarding liquidity.

The following table summarizes the Company's contractual maturity for its financial liabilities, including both principal and interest payments:

(C$ in millions)	2017	2018	2019	2020	2021	Thereafter	Total
Non-derivative financial liabilities							
Deposits[1]	957.8	362.9	413.5	281.9	172.5	—	2,188.6
Trade and other payables	1,626.3	—	—	—	—	—	1,626.3
Short-term borrowings	199.4	—	—	—	—	—	199.4
Loans payable	700.3	—	—	—	—	—	700.3
Long-term debt	636.7	264.6	500.0	500.0	150.0	1,100.0	3,151.3
Finance lease obligations	16.7	14.5	12.7	11.5	11.4	59.0	125.8
Mortgages	1.2	17.1	37.6	—	—	—	55.9
Interest payments[2]	146.0	125.1	103.3	78.7	61.4	437.7	952.2
Total	$ 4,284.4	$ 784.2	$ 1,067.1	$ 872.1	$ 395.3	$ 1,596.7	$ 8,999.8

[1] Deposits exclude the GIC broker fee discount of $7.1 million.
[2] Includes interest payments on deposits, short-term borrowings, loans payable, long-term debt, and finance lease obligations.

It is not expected that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

5.5 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risk exposures within acceptable parameters while optimizing the return. The Company's financial risk management policy establishes guidelines on how the Company is to manage the market risk inherent to the business and provides mechanisms to ensure business transactions are executed in accordance with established limits, processes, and procedures.

All such transactions are carried out within the established guidelines and, generally, the Company seeks to apply hedge accounting in order to manage volatility in its net income.

5.5.1 Foreign currency risk

The Company sources its merchandise globally. Approximately 40%, 45%, and 6% of the value of the inventory purchased for the Canadian Tire, Mark's, and FGL Sports banners, respectively, is sourced directly from vendors outside North America, primarily denominated in U.S. dollars. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the Company has an established foreign exchange risk management program that governs the proportion of forecast U.S. dollar purchases that must be hedged through the purchase of foreign exchange contracts. The purpose of the program is to provide certainty with respect to a portion of the foreign exchange component of future merchandise purchases.

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

mitigate that risk. While the Company may be able to pass on changes in foreign currency exchange rates through pricing, any decision to do so will be subject to market conditions.

5.5.2 Interest rate risk

The Company may enter into interest rate swap contracts to manage its current and anticipated exposure to interest rate price risk. The Company's financial risk management policy requires that a minimum of 75 percent of its long-term debt (term greater than one year) and lease obligations must be at fixed interest rates.

A one percent change in interest rates would not materially affect the Company's net income or equity as the Company has minimal floating interest rate exposure given the indebtedness of the Company is predominantly at fixed rates.

The Company's exposure to interest rate changes is predominantly driven by the Financial Services business to the extent that the interest rates on future GIC deposits, HIS account deposits, tax free savings account ("TFSA") deposits, and securitization transactions are market-dependent. Partially offsetting this will be rates charged on credit cards and future liquidity pool investment rates available to the Bank. In addition, the Company has entered into delayed start interest rate swaps to hedge a portion of its planned GCCT term debt issuances in 2017 to 2020.

6. Operating segments

The Company has three reportable operating segments: Retail, CT REIT, and Financial Services. The reportable operating segments are strategic business units offering different products and services. They are separately managed due to their distinct nature. The following summary describes the operations in each of the Company's reportable segments:

- The retail business is conducted under a number of banners including Canadian Tire, Canadian Tire Gas ("Petroleum"), Mark's, PartSource, and various FGL Sports banners. Retail also includes the Dealer Loan Program (the portion [silo] of Franchise Trust that issues loans to Dealers). Non-CT REIT real estate is included in Retail.

- CT REIT is an unincorporated, closed-end real estate investment trust. CT REIT holds a geographically-diversified portfolio of properties comprised largely of Canadian Tire banner stores, Canadian Tire anchored retail developments, mixed-use commercial property, and distribution centres.

- Financial Services markets a range of Canadian Tire branded credit cards including Canadian Tire Options MasterCard, Cash Advantage MasterCard, Gas Advantage MasterCard, and Sport Chek MasterCard and also participates in the Canadian Tire loyalty program. Certain costs associated with these activities were allocated to Financial Services for segment reporting purposes. Financial Services also markets insurance and warranty products and provides settlement services to Canadian Tire affiliates. Financial Services includes CTB, a federally regulated financial institution that manages and finances the Company's consumer MasterCard, Visa, and retail credit card portfolios, as well as an existing block of Canadian Tire-branded line of credit portfolios. CTB also offers high-interest savings deposit accounts, tax free savings accounts, and GIC deposits, both directly and through third-party brokers. Financial Services also includes GCCT, a structured entity established to purchase co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases.

Performance is measured based on segment income before income taxes, as included in the internal management reports. Management has determined that this measure is the most relevant in evaluating segment results and allocating resources. Information regarding the results of each reportable operating segment is as follows:

	2016					2015				
(C$ in millions)	**Retail**	**CT REIT**	**Financial Services**	**Eliminations and adjustments**	**Total**	Retail	CT REIT	Financial Services	Eliminations and adjustments	Total
External revenue	**$11,447.6**	**$ 24.9**	**$ 1,091.9**	**$ 116.6**	**$ 12,681.0**	$11,069.8	$ 16.3	$ 1,087.6	$ 105.9	$ 12,279.6
Intercompany revenue	**5.8**	**382.3**	**15.9**	**(404.0)**	**—**	5.5	361.9	13.6	(381.0)	—
Total revenue	**11,453.4**	**407.2**	**1,107.8**	**(287.4)**	**12,681.0**	11,075.3	378.2	1,101.2	(275.1)	12,279.6
Cost of producing revenue	**7,890.9**	**—**	**449.2**	**(51.6)**	**8,288.5**	7,747.6	—	452.1	(55.4)	8,144.3
Gross margin	**3,562.5**	**407.2**	**658.6**	**(235.8)**	**4,392.5**	3,327.7	378.2	649.1	(219.7)	4,135.3
Other (income) expense	**(120.5)**	**—**	**0.4**	**115.8**	**(4.3)**	(160.7)	—	1.9	103.9	(54.9)
Selling, general and administrative expenses	**3,099.1**	**106.7**	**293.7**	**(207.6)**	**3,291.9**	2,926.0	96.5	274.7	(201.1)	3,096.1
Net finance (income) costs	**(37.9)**	**85.9**	**(0.6)**	**46.5**	**93.9**	(42.5)	87.1	(1.5)	49.7	92.8
Fair value (gain) loss on investment properties	**—**	**(44.5)**	**—**	**44.5**	**—**	—	(39.9)	—	39.9	—
Income before income taxes	**$ 621.8**	**$ 259.1**	**$ 365.1**	**$ (235.0)**	**$ 1,011.0**	$ 604.9	$ 234.5	$ 374.0	$ (212.1)	$ 1,001.3
Items included in the above:										
Depreciation and amortization	**$ 374.9**	**$ —**	**$ 9.3**	**$ 72.7**	**$ 456.9**	$ 350.6	$ —	$ 7.0	$ 67.1	$ 424.7
Interest income	**91.4**	**0.2**	**871.7**	**(72.9)**	**890.4**	101.1	0.3	845.4	(80.6)	866.2
Interest expense	**39.3**	**86.1**	**103.9**	**(73.2)**	**156.1**	45.5	87.4	109.7	(81.2)	161.4

The eliminations and adjustments include the following items:

- reclassifications of certain revenues and costs in the Financial Services segment to net finance costs;
- reclassifications of revenues and operating expenses to reflect loyalty program accounting in accordance with IFRIC 13 for the Company's Loyalty program;
- conversion from CT REIT's fair value investment property valuation policy to the Company's cost model, including the recording of depreciation; and
- inter-segment eliminations and adjustments including intercompany rent, property management fees, and credit card processing fees.

Capital expenditures by reportable operating segment are as follows:

	2016				2015			
(C$ in millions)	**Retail**	**CT REIT[1]**	**Financial Services**	**Total**	Retail[2]	CT REIT[1]	Financial Services	Total
Capital expenditures[3]	**$ 568.7**	**$ 176.8**	**$ 9.4**	**$ 754.9**	$ 655.9	$ 42.4	$ 17.8	$ 716.1

1 CT REIT capital expenditures include the construction of stores under Mark's and FGL Sports banners of $2.0 million (2015 – $17.7 million).
2 Retail capital expenditures include $17.7 million relating to the acquisition of 12 real estate leases, formerly held by Target Canada which were acquired during 2015, and are recorded in long-term receivables and other assets on the Consolidated Balance Sheets.
3 Capital expenditures are presented on an accrual basis and include software additions.

Total assets by reporting operating segment are as follows:

(C$ in millions)	**2016**	2015
Retail	**$ 11,024.4**	$ 11,128.0
CT REIT	**5,014.6**	4,350.9
Financial Services	**5,773.5**	5,520.3
Eliminations and adjustments	**(6,509.7)**	(6,011.4)
Total assets[1]	**$ 15,302.8**	$ 14,987.8

1 The Company employs a shared-services model for several of its back-office functions, including finance, information technology, human resources, and legal. As a result, expenses relating to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated among segments in the presented measures of segmented assets and liabilities.

Total liabilities by reporting operating segment are as follows:

(C$ in millions)		2016		2015
Retail	$	**3,943.9**	$	3,899.1
CT REIT		**2,424.0**		2,137.5
Financial Services		**4,731.6**		4,588.4
Eliminations and adjustments		**(1,534.0)**		(1,426.9)
Total liabilities[1]	$	**9,565.5**	$	9,198.1

[1] The Company employs a shared-services model for several of its back-office functions, including finance, information technology, human resources, and legal. As a result, expenses relating to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated among segments in the presented measures of segmented assets and liabilities.

The eliminations and adjustments include the following items:

- conversion from CT REIT's fair value investment property valuation policy to the Company's cost model, including the recording of depreciation; and
- inter-segment eliminations.

7. Cash and cash equivalents

Cash and cash equivalents comprise the following:

(C$ in millions)		2016		2015
Cash	$	**81.0**	$	192.2
Cash equivalents		**738.2**		698.6
Restricted cash[1]		**10.5**		9.8
Total cash and cash equivalents[2]		**829.7**		900.6
Bank indebtedness		**(5.9)**		—
Cash and cash equivalents, net of bank indebtedness	$	**823.8**	$	900.6

[1] Relates to GCCT and is restricted for the purpose of paying out note holders and additional funding costs.
[2] Included in cash and cash equivalents are amounts held in reserve in support of Financial Services' liquidity and regulatory requirements. Refer to Note 31.1.

8. Trade and other receivables

Trade and other receivables include the following:

(C$ in millions)		2016		2015
Trade and other receivables	$	**614.2**	$	673.6
Derivatives (Note 32)		**76.6**		241.4
Total financial assets	$	**690.8**	$	915.0

Trade receivables are primarily from Dealers and franchisees, a large and geographically-dispersed group whose receivables, individually, generally comprise less than one percent of the total balance outstanding.

Receivables from Dealers are in the normal course of business, and include cost-sharing and financing arrangements. The net average credit period on sale of goods is between 14 and 120 days.

9. Loans receivable

Quantitative information about the Company's loans receivable portfolio is as follows:

	Total principal amount of receivables[1]	
(C$ in millions)	**2016**	2015
Credit card loans[2]	**$ 5,104.6**	$ 4,844.3
Dealer loans[3]	**705.4**	659.6
Total loans receivable	**5,810.0**	5,503.9
Less: long-term portion[4]	**671.6**	628.4
Current portion of loans receivable	**$ 5,138.4**	$ 4,875.5

[1] Amounts shown are net of allowance for loan impairment.
[2] Includes line of credit loans.
[3] Dealer loans primarily relate to loans issued by Franchise Trust (refer to Note 21).
[4] The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer loans of $668.9 million (2015 – $624.9 million).

For the year ended December 31, 2016, cash received from interest earned on credit cards and loans was $820.2 million (2015 – $789.6 million).

The carrying amount of loans includes loans to Dealers that are secured by the assets of the respective Dealer corporations. The Company's exposure to loans receivable credit risk resides at Franchise Trust and at the Bank. Credit risk at the Bank is influenced mainly by the individual characteristics of each credit card customer. The Bank uses sophisticated credit scoring models, monitoring technology, and collection modelling techniques to implement and manage strategies, policies, and limits that are designed to control risk. Loans receivable are generated by a large and geographically-dispersed group of customers. Current credit exposure is limited to the loss that would be incurred if all of the Bank's counterparties were to default at the same time.

A continuity schedule of the Company's allowances for loans receivable[1] is as follows:

(C$ in millions)	**2016**	2015
Balance, beginning of year	**$ 111.5**	$ 113.2
Impairments for credit losses, net of recoveries	**293.7**	301.9
Recoveries	**69.4**	65.9
Write-offs	**(367.7)**	(369.5)
Balance, end of year	**$ 106.9**	$ 111.5

[1] Loans include credit card loans and line of credit loans. No allowances for credit losses have been made with respect to Franchise Trust and FGL Sports loans receivable.

The Company's allowances for credit losses are maintained at levels that are considered adequate to absorb future credit losses.

The Company's aging of the loans receivable that are past due, but not impaired, is as follows:

			2016			2015
(C$ in millions)	**1-90 days**	**> 90 days**	**Total**	1-90 days	> 90 days	Total
Loans receivable	**$ 308.6**	**$ 58.3**	**$ 366.9**	$ 306.3	$ 62.8	$ 369.1

Credit card loans are considered impaired and written off when a payment is 180 days in arrears. Line of credit loans are considered impaired when a payment is over 90 days in arrears and are written off when a payment is 180 days in arrears. No collateral is held against loans receivable, except for loans to Dealers, as discussed above.

Transfers of financial assets

Glacier Credit Card Trust

GCCT is a structured entity that was created to securitize credit card loans receivable. As at December 31, 2016, the Bank has transferred co-ownership interest in credit card loans receivable to GCCT but has retained substantially all the credit risk associated with the transferred assets. Due to the retention of substantially all of the risks and rewards on these assets, the Bank continues to recognize these assets within loans receivable and the transfers are accounted for as secured financing transactions. The associated liability as at December 31, 2016, secured by these assets, includes the commercial paper and term notes on the Consolidated Balance Sheets and is carried at amortized cost. The Bank is exposed to the

majority of ownership risks and rewards of GCCT and, hence, it is consolidated. The carrying amount of the assets approximates their fair value. The difference between the credit card loans receivable transferred and the associated liabilities is shown below:

	2016		2015	
(C$ in millions)	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Credit card loans receivable transferred[1]	**$ 1,989.0**	**$ 1,989.0**	$ 1,988.0	$ 1,988.0
Associated liabilities	**1,985.0**	**2,017.0**	1,982.3	2,021.4
Net position	**$ 4.0**	**$ (28.0)**	$ 5.7	$ (33.4)

[1] The fair value measurement of credit card loans receivable is categorized within Level 2 of the fair value hierarchy. For a definitions of the levels refer to Note 32.4.

For legal purposes, the co-ownership interests in the Bank's receivables owned by GCCT have been sold at law to GCCT and are not available to the creditors of the Bank. Furthermore GCCT's liabilities are not legal liabilities of the Company.

The Bank has not identified any factors arising from current market circumstances that could lead to a need for the Bank to extend liquidity and/or credit support to GCCT over and above the existing arrangements or that could otherwise change the substance of the Bank's relationship with GCCT. There have been no relevant changes in the capital structure of GCCT since the Bank's assessment for consolidation.

Franchise Trust

The consolidated financial statements include a portion (silo) of Franchise Trust, a legal entity sponsored by a third-party bank that originates and services loans to Dealers for their purchases of inventory and fixed assets (the "Dealer loans"). The Company has arranged for several major Canadian banks to provide standby LCs to Franchise Trust as credit support for the Dealer loans. Franchise Trust has sold all of its rights in the LCs and outstanding Dealer loans to other independent trusts set up by major Canadian banks (the "Co-owner Trusts") that raise funds in the capital markets to finance their purchase of these undivided co-ownership interests. Due to the retention of substantially all of the risks and rewards relating to these Dealer loans, the transfers are accounted for as secured financing transactions. Accordingly, the Company continues to recognize the current portion of these assets in loans receivable and the long-term portion in long-term receivables and other assets, and records the associated liability secured by these assets as loans payable, being the loans that Franchise Trust has incurred to fund the Dealer loans. The Dealer loans and loans payable are initially recorded at fair value and subsequently carried at amortized cost.

	2016		2015	
(C$ in millions)	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Dealer loans[1]	**$ 700.3**	**$ 700.3**	$ 655.5	$ 655.5
Associated liabilities	**700.3**	**700.3**	655.5	655.5
Net position	**$ —**	**$ —**	$ —	$ —

[1] The fair value measurement of Dealer loans is categorized within Level 2 of the fair value hierarchy. For a definitions of the levels refer to Note 32.4.

The Dealer loans have been sold at law and are not available to the creditors of the Company. Loans payable are not legal liabilities of the Company.

In the event that a Dealer defaults on a loan, the Company has the right to purchase such loan from the Co-owner Trusts, at which time the Co-owner Trusts will assign such Dealer's debt instrument and related security documentation to the Company. The assignment of this documentation provides the Company with first-priority security rights over all of such Dealer's assets, subject to certain prior ranking statutory claims.

In most cases, the Company would expect to recover any payments made to purchase a defaulted loan, including any associated expenses. In the event the Company does not choose to purchase a defaulted Dealer loan, the Co-owner Trusts may draw against the LCs.

The Co-owner Trusts may also draw against the LCs to cover any shortfalls in certain related fees owing to them. In any case, where a draw is made against the LCs, the Company has agreed to reimburse the bank issuing the LCs for the amount so drawn. Refer to Note 34 for further information.

10. Long-term receivables and other assets

Long-term receivables and other assets include the following:

(C$ in millions)	**2016**	2015
Loans receivable (Note 9)	**$ 671.6**	$ 628.4
Derivatives (Note 32)	**46.2**	50.2
Mortgages receivable	**17.1**	28.0
Other receivables	**3.6**	5.1
Total long-term receivables	**738.5**	711.7
Other	**25.2**	19.5
	$ 763.7	$ 731.2

11. Goodwill and intangible assets

The following table presents the changes in cost and accumulated amortization and impairment of the Company's intangible assets:

						2016
	Indefinite-life intangible assets and goodwill			**Finite-life intangible assets**		
(C$ in millions)	**Goodwill**	**Banners and trademarks**	**Franchise agreements and other intangibles**	**Software**	**Other intangibles[1]**	**Total**
Cost						
Balance, beginning of year	**$ 438.9**	**$ 267.4**	**$ 158.9**	**$ 1,267.7**	**$ 23.1**	**$ 2,156.0**
Additions[2]	**7.7**	**—**	**—**	**153.8**	**—**	**161.5**
Disposals/retirements	**—**	**—**	**—**	**(10.7)**	**—**	**(10.7)**
Reclassifications and transfers	**—**	**2.9**	**(2.9)**	**—**	**—**	**—**
Balance, end of year	**$ 446.6**	**$ 270.3**	**$ 156.0**	**$ 1,410.8**	**$ 23.1**	**$ 2,306.8**
Accumulated amortization and impairment						
Balance, beginning of year	**$ (1.9)**	**$ —**	**$ —**	**$ (889.6)**	**$ (17.7)**	**$ (909.2)**
Amortization for the year	**—**	**—**	**—**	**(124.6)**	**(1.5)**	**(126.1)**
Impairment	**—**	**(0.6)**	**—**	**—**	**—**	**(0.6)**
Disposals/retirements	**—**	**—**	**—**	**10.7**	**—**	**10.7**
Reclassifications and transfers	**—**	**—**	**—**	**—**	**(1.3)**	**(1.3)**
Balance, end of year	**$ (1.9)**	**$ (0.6)**	**$ —**	**$ (1,003.5)**	**$ (20.5)**	**$ (1,026.5)**
Net carrying amount, end of year	**$ 444.7**	**$ 269.7**	**$ 156.0**	**$ 407.3**	**$ 2.6**	**$ 1,280.3**

[1] Includes FGL Sports customer relationships, certain private-label brands, and off-market leases.
[2] Additions primarily relate to internally developed intangible assets.

						2015
	Indefinite-life intangible assets and goodwill			Finite-life intangible assets		
(C$ in millions)	Goodwill	Banners and trademarks	Franchise agreements and other intangibles	Software	Other intangibles[1]	Total
Cost						
Balance, beginning of year	$ 438.5	$ 266.6	$ 156.9	$ 1,158.1	$ 23.1	$ 2,043.2
Additions[2]	0.4	0.8	2.0	109.1	—	112.3
Disposals/retirements	—	—	—	0.9	—	0.9
Reclassifications and transfers	—	—	—	(0.4)	—	(0.4)
Balance, end of year	$ 438.9	$ 267.4	$ 158.9	$ 1,267.7	$ 23.1	$ 2,156.0
Accumulated amortization and impairment						
Balance, beginning of year	$ (1.9)	$ —	$ —	$ (775.3)	$ (14.3)	$ (791.5)
Amortization for the year	—	—	—	(109.8)	(2.1)	(111.9)
Disposals/retirements	—	—	—	(4.5)	—	(4.5)
Reclassifications and transfers	—	—	—	—	(1.3)	(1.3)
Balance, end of year	$ (1.9)	$ —	$ —	$ (889.6)	$ (17.7)	$ (909.2)
Net carrying amount, end of year	$ 437.0	$ 267.4	$ 158.9	$ 378.1	$ 5.4	$ 1,246.8

1 Includes FGL Sports customer relationships, certain private-label brands, and off-market leases.
2 Additions primarily relate to internally developed intangible assets.

The following table presents the details of the Company's goodwill:

(C$ in millions)	**2016**	2015
FGL Sports	**$ 364.6**	$ 356.9
Mark's	**56.7**	56.7
Canadian Tire	**23.4**	23.4
Total	**$ 444.7**	$ 437.0

Banners and trademarks includes FGL Sports and Mark's store banners, which represent legal trademarks of the Company with expiry dates ranging from 2017 to 2030. In addition, banners and trademarks include FGL Sports and Mark's private-label brands that have legal expiry dates. As the Company currently has no approved plans to change its store banners and intends to continue to renew all trademarks and private-label brands at each expiry date for the foreseeable future, there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows. Therefore, these intangible assets are considered to have indefinite useful lives.

Franchise agreements have expiry dates with options to renew, or have indefinite lives. As the Company intends to renew these agreements at each renewal date for the foreseeable future, there is no foreseeable limit to the period over which the franchise agreements and franchise locations will generate net cash inflows. Therefore, these assets are considered to have indefinite useful lives.

Finite-life intangible assets are amortized over a term of two to ten years. Off-market leases are amortized over the term of the lease to which they relate.

The amount of borrowing costs capitalized in 2016 was $5.4 million (2015 - $3.4 million). The capitalization rate used to determine the amount of borrowing costs capitalized during the year was 6.1 percent (2015 - 6.0 percent).

Amortization expense of software and other finite-life intangible assets is included in Selling, general and administrative expenses in the Consolidated Statements of Income.

Impairment of intangible assets and subsequent reversal

The Company performed its annual impairment test on goodwill and indefinite-life intangible assets for all CGUs based on VIU using after-tax discount rates ranging from 7.3 to 10.5 percent and growth rates ranging from 1.1 to 10.7 percent per annum.

The amount of impairment of intangible assets in 2016 was $0.6 million (2015 - $nil). There was no reversal of impairments in 2016 or 2015. The impairment on goodwill in 2016 pertains to the Company's Retail operating segment and is reported in Other Income in the Consolidated Statements of Income.

For all goodwill and intangible assets, the estimated recoverable amount is based on VIU exceeding the carrying amount. There is no reasonably possible change in assumptions that would cause the carrying amount to exceed the estimated recoverable amount.

12. Investment property

The following table presents changes in the cost and the accumulated depreciation and impairment on the Company's investment property:

(C$ in millions)		**2016**		2015
Cost				
Balance, beginning of year	**$**	**172.4**	$	178.8
Additions		**135.1**		11.0
Disposals/retirements		**(0.9)**		(3.8)
Reclassifications and transfers		**(0.3)**		(13.6)
Balance, end of year	**$**	**306.3**	$	172.4
Accumulated depreciation and impairment				
Balance, beginning of year	**$**	**(34.6)**	$	(30.2)
Depreciation for the year		**(6.1)**		(4.0)
Reversal of impairment		**0.1**		—
Disposal/retirements		**0.7**		1.1
Reclassifications and transfers		**—**		(1.5)
Balance, end of year	**$**	**(39.9)**	$	(34.6)
Net carrying amount, end of year	**$**	**266.4**	$	137.8

The investment properties generated rental income of $29.7 million (2015 - $19.2 million).

Direct operating expenses (including repairs and maintenance) arising from investment property recognized in net income were $13.0 million (2015 - $9.7 million).

The estimated fair value of investment property was $357.2 million (2015 - $228.2 million). This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (refer to Note 32.4 for definition of levels). The Company determines the fair value of investment property by applying a pre-tax capitalization rate to the annual rental income for the current leases. The capitalization rate ranged from 4.9 percent to 11.0 percent (2015 - 5.3 percent to 11.0 percent). The cash flows are for a term of five years, including a terminal value. The Company has real estate management expertise that is used to perform the valuation of investment property and has also completed independent appraisals on certain investment property owned by CT REIT.

Impairment of investment property and subsequent reversal
Any impairment or reversals of impairment are reported in Other income in the Consolidated Statements of Income.

13. Property and equipment

The following table presents changes in the cost and the accumulated depreciation and impairment on the Company's property and equipment:

							2016
(C$ in millions)	**Land**	**Buildings**	**Fixtures and equipment**	**Leasehold improvements**	**Assets under finance lease**	**Construction in progress**	**Total**
Cost							
Balance, beginning of year	**$ 874.4**	**$ 2,915.9**	**$ 1,216.6**	**$ 1,140.7**	**$ 262.8**	**$ 359.4**	**$ 6,769.8**
Additions	**41.8**	**44.2**	**156.4**	**152.7**	**0.5**	**72.7**	**468.3**
Disposals/retirements	**(2.5)**	**(5.3)**	**(19.0)**	**(8.2)**	**(4.0)**	**(6.2)**	**(45.2)**
Reclassifications and transfers	**(2.5)**	**(10.9)**	**28.0**	**21.2**	**(36.3)**	**—**	**(0.5)**
Balance, end of year	**$ 911.2**	**$ 2,943.9**	**$ 1,382.0**	**$ 1,306.4**	**$ 223.0**	**$ 425.9**	**$ 7,192.4**
Accumulated depreciation and impairment							
Balance, beginning of year	**$ (6.6)**	**$ (1,385.8)**	**$ (794.8)**	**$ (436.2)**	**$ (168.2)**	**$ —**	**$ (2,791.6)**
Depreciation for the year	**—**	**(108.5)**	**(116.9)**	**(84.0)**	**(15.5)**	**—**	**(324.9)**
Impairment	**—**	**—**	**(3.3)**	**(0.2)**	**—**	**—**	**(3.5)**
Disposals/retirements	**—**	**3.8**	**17.8**	**7.3**	**4.1**	**—**	**33.0**
Reclassifications and transfers	**—**	**8.9**	**(21.9)**	**(21.9)**	**26.7**	**—**	**(8.2)**
Balance, end of year	**$ (6.6)**	**$ (1,481.6)**	**$ (919.1)**	**$ (535.0)**	**$ (152.9)**	**$ —**	**$ (3,095.2)**
Net carrying amount, end of year	**$ 904.6**	**$ 1,462.3**	**$ 462.9**	**$ 771.4**	**$ 70.1**	**$ 425.9**	**$ 4,097.2**

							2015
(C$ in millions)	Land	Buildings	Fixtures and equipment	Leasehold improvements	Assets under finance lease	Construction in progress	Total
Cost							
Balance, beginning of year	$ 861.0	$ 2,857.7	$ 1,071.9	$ 1,001.1	$ 256.5	$ 224.3	$ 6,272.5
Additions	9.1	63.3	165.8	155.6	14.0	163.2	571.0
Disposals/retirements	(4.2)	(10.5)	(21.4)	(6.7)	(8.0)	(26.3)	(77.1)
Reclassifications and transfers	8.5	5.4	0.3	(9.3)	0.3	(1.8)	3.4
Balance, end of year	$ 874.4	$ 2,915.9	$ 1,216.6	$ 1,140.7	$ 262.8	$ 359.4	$ 6,769.8
Accumulated depreciation and impairment							
Balance, beginning of year	$ (4.4)	$ (1,289.8)	$ (712.0)	$ (365.7)	$ (157.5)	$ —	$ (2,529.4)
Depreciation for the year	—	(108.4)	(103.8)	(80.0)	(16.5)	—	(308.7)
Impairment	—	(0.2)	(0.2)	—	—	—	(0.4)
Reversal of impairment losses	—	—	0.1	0.1	—	—	0.2
Disposals/retirements	0.1	4.8	18.6	7.1	7.4	—	38.0
Reclassifications and transfers	(2.3)	7.8	2.5	2.3	(1.6)	—	8.7
Balance, end of year	$ (6.6)	$ (1,385.8)	$ (794.8)	$ (436.2)	$ (168.2)	$ —	$ (2,791.6)
Net carrying amount, end of year	$ 867.8	$ 1,530.1	$ 421.8	$ 704.5	$ 94.6	$ 359.4	$ 3,978.2

The Company capitalized borrowing costs of $18.0 million (2015 - $11.8 million) on indebtedness relating to property and equipment under construction. The rate used to determine the amount of borrowing costs capitalized during the year was 6.1 percent (2015 - 6.0 percent).

The carrying amount of assets under finance leases at December 31, 2016, comprises $33.4 million (2015 - $39.3 million) in buildings and $36.7 million (2015 - $55.3 million) in fixtures and equipment.

Impairment of property and equipment and subsequent reversal

The amount of impairment of property and equipment in 2016 was $3.5 million (2015 - $0.4 million). There was no reversal of impairment in 2016 (2015 - $0.2 million). The impairment of property and equipment pertain to the Company's Retail operating segment. Any impairment or reversal of impairment is reported in Other income in the Consolidated Statements of Income.

14. Subsidiaries

14.1 Control of subsidiaries and composition of the Company

These consolidated financial statements include entities controlled by Canadian Tire Corporation. Control exists when Canadian Tire Corporation has the ability to direct the relevant activities and the returns of an entity. The financial statements of these entities are included in these consolidated financial statements from the date that control commences until the date that control ceases. Details of the Company's significant entities are as follows:

			Ownership Interest	
Name of subsidiary	Principal activity	Country of incorporation and operation	2016	2015
CTFS Holdings Limited[1]	Marketing of insurance products, processing credit card transactions at Canadian Tire stores, banking, and reinsurance	Canada	80.0%	80.0%
Canadian Tire Real Estate Limited	Real estate	Canada	100.0%	100.0%
CT Real Estate Investment Trust	Real estate	Canada	85.1%	83.8%
FGL Sports Ltd.	Retailer of sporting equipment, apparel and footwear	Canada	100.0%	100.0%
Franchise Trust[2]	Canadian Tire Dealer Loan Program	Canada	0.0%	0.0%
Glacier Credit Card Trust[3]	Financing program to purchase co-ownership interests in Canadian Tire Bank's credit card loans	Canada	0.0%	0.0%
Mark's Work Wearhouse Ltd.	Retailer of clothing and footwear	Canada	100.0%	100.0%

[1] Legal entity CTFS Holdings Limited, incorporated in 2014, is the parent company of CTB and CTFS Bermuda Ltd. CTB's principal activity is banking, marketing of insurance products, and the processing credit card transactions at Canadian Tire stores. CTFS Bermuda Ltd.'s principal activity is reinsurance.

[2] Franchise Trust is a legal entity sponsored by a third-party bank that originates loans to Dealers under the Dealer Loan Program. The Company does not have any share ownership in Franchise Trust. However, the Company has determined that it has the ability to direct the relevant activities and returns on the silo of assets and liabilities of Franchise Trust that relate to the Canadian Tire Dealer Loan Program. As the Company has control over this silo of assets and liabilities, it is consolidated in these financial statements.

[3] GCCT was formed to meet specific business needs of the Company, namely to buy co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases. The Company does not have any share ownership in GCCT. However, the Company has determined that it has the ability to direct the relevant activities and returns of GCCT. As the Company has control over GCCT, it is consolidated in these financial statements.

14.2 Details of non-wholly owned subsidiaries that have non-controlling interests

The portion of net assets and income attributable to third parties is reported as non-controlling interests and net income attributable to non-controlling interests in the Consolidated Balance Sheets and Consolidated Statements of Income, respectively. The non-controlling interests of CT REIT and CTFS Holdings Limited were initially measured at fair value on the date of acquisition.

The following table summarizes the information relating to non-controlling interests:

				2016
(C$ in millions)	CT REIT[1]	CTFS Holdings Limited[2]	Other[3]	Total
Non-controlling interests	14.9%	20.0%	50.0%	
Current assets	$ 11.1	$ 5,539.4	$ 13.6	$ 5,564.1
Non-current assets	5,003.5	234.1	33.0	5,270.6
Current liabilities	219.3	2,201.9	4.3	2,425.5
Non-current liabilities	2,204.8	2,527.2	23.4	4,755.4
Net assets	2,590.5	1,044.4	18.9	3,653.8
Revenue	$ 407.2	$ 1,180.7	$ 184.9	$ 1,772.8
Net income attributable to non-controlling interests	$ 21.4	$ 52.4	$ 4.6	$ 78.4
Equity attributable to non-controlling interests	288.6	504.1	6.0	798.7
Distributions to non-controlling interests	(20.9)	(53.8)	(3.7)	(78.4)

[1] Net income attributable to non-controlling interests is based on net income of CT REIT adjusted to convert to the Company's cost method, including recording of depreciation.

[2] Net income attributable to non-controlling interests is based on the net income of CTFS Holdings Limited adjusted for contractual requirements as stipulated in the Universal Shareholder agreement.

[3] Net income attributable to non-controlling interests is based on net income of the subsidiary adjusted for contractual requirements as stipulated in the ownership agreement.

				2015
(C$ in millions)	CT REIT[1]	CTFS Holdings Limited[2]	Other[3]	Total
Non-controlling interests	16.2%	20.0%	50.0%	
Current assets	$ 29.3	$ 5,364.2	$ 13.2	$ 5,406.7
Non-current assets	4,321.6	209.9	32.2	4,563.7
Current liabilities	245.2	1,226.3	4.3	1,475.8
Non-current liabilities	1,892.4	3,305.8	25.6	5,223.8
Net assets	2,213.3	1,042.0	15.5	3,270.8
Revenue	$ 378.2	$ 1,165.2	$ 181.4	$ 1,724.8
Net income attributable to non-controlling interests	$ 20.6	$ 53.0	$ 2.9	$ 76.5
Equity attributable to non-controlling interests	286.5	504.3	4.7	795.5
Distributions to non-controlling interests	(20.3)	(33.6)	(1.7)	(55.6)

1 Net income attributable to non-controlling interests is based on net income of CT REIT adjusted to convert to the Company's cost method, including recording of depreciation.
2 Net income attributable to non-controlling interests is based on the net income of CTFS Holdings Limited adjusted for contractual requirements as stipulated in the Universal Shareholder agreement.
3 Net income attributable to non-controlling interests is based on net income of the subsidiary adjusted for contractual requirements as stipulated in the ownership agreement.

14.3 Continuity of non-controlling interests

(C$ in millions)	2016	2015
Balance at beginning of year	$ 795.5	$ 775.3
Comprehensive income attributable to non-controlling interests for the year[1]	79.6	74.0
Issuance of trust units to non-controlling interests, net of transaction costs	2.0	1.8
Distributions	(78.4)	(55.6)
Balance at end of year	$ 798.7	$ 795.5

1 Includes $1.2 million [2015 - $(2.5) million] from the Consolidated Statements of Comprehensive Income.

15. Income taxes

15.1 Deferred income tax assets and liabilities

The amount of deferred tax assets or liabilities recognized in the Consolidated Balance Sheets and the corresponding movement recognized in the Consolidated Statements of Income, Consolidated Statements of Changes in Equity, or resulting from a business combination is as follows:

					2016
(C$ in millions)	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Other adjustments	Balance, end of year
Provisions, deferred revenue and reserves	$ 143.8	$ 8.8	$ —	$ 0.2	$ 152.8
Property and equipment	(43.8)	5.9	—	—	(37.9)
Intangible assets	(153.5)	(17.1)	—	—	(170.6)
Employee benefits	37.5	1.1	1.1	—	39.7
Cash flow hedges	(53.3)	—	40.1	—	(13.2)
Other	6.3	1.0	—	—	7.3
Net deferred tax asset (liability)[1]	$ (63.0)	$ (0.3)	$ 41.2	$ 0.2	$ (21.9)

1 Includes the net amount of deferred tax assets of $82.3 million and deferred tax liabilities of $104.2 million.

2015					
(C$ in millions)	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Other adjustments	Balance, end of year
Provisions, deferred revenue and reserves	$ 139.3	$ 4.5	$ —	$ —	$ 143.8
Property and equipment	(56.7)	12.9	—	—	(43.8)
Intangible assets	(147.5)	(5.7)	—	(0.3)	(153.5)
Employee benefits	36.4	1.3	(0.2)	—	37.5
Cash flow hedges	(29.5)	—	(23.8)	—	(53.3)
Other	3.5	2.1	—	0.7	6.3
Net deferred tax asset (liability)[1]	$ (54.5)	$ 15.1	$ (24.0)	$ 0.4	$ (63.0)

[1] Includes the net amount of deferred tax assets of $48.1 million and deferred tax liabilities of $111.1 million.

No deferred tax is recognized on the amount of temporary differences arising from the difference between the carrying amount of the investment in subsidiaries, branches and associates, and interests in joint arrangements accounted for in the financial statements and the cost amount for tax purposes of the investment. The Company is able to control the timing of the reversal of these temporary differences and believes it is probable that they will not reverse in the foreseeable future. The amount of these taxable temporary differences was approximately $2.3 billion at December 31, 2016 (2015 - $2.6 billion).

15.2 Income tax expense

The following are the major components of income tax expense:

(C$ in millions)	**2016**	2015
Current tax expense		
Current period	**$ 261.9**	$ 258.9
Adjustments with respect to prior years	**1.3**	21.6
	$ 263.2	$ 280.5
Deferred tax expense (benefit)		
Deferred income tax expense (benefit) relating to the origination and reversal of temporary differences	**$ 2.9**	$ (0.3)
Deferred income tax (benefit) adjustments with respect to prior years	**(2.6)**	(16.6)
Deferred income tax expense resulting from change in tax rate	**—**	1.8
	0.3	(15.1)
Total income tax expense	**$ 263.5**	$ 265.4

Income tax (benefit) expense recognized in Other Comprehensive Income was as follows:

(C$ in millions)	**2016**	2015
(Losses) gains on derivatives designated as cash flow hedges and available-for-sale financial assets	**$ (14.7)**	$ 99.8
Reclassification of gains to non-financial assets on derivatives designated as cash flow hedges	**(24.8)**	(74.9)
Reclassification of gains to income on derivatives designated as cash flow hedges and available-for-sale financial assets	**(0.6)**	(1.1)
Actuarial (losses) gains	**(1.1)**	0.2
Total income tax (benefit) expense	**$ (41.2)**	$ 24.0

Reconciliation of income tax expense

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

(C$ in millions)	**2016**	2015
Income before income taxes	**$ 1,011.0**	$ 1,001.3
Income taxes based on the applicable statutory tax rate of 26.67% (2015 - 26.56%)	**$ 269.6**	$ 266.0
Adjustment to income taxes resulting from:		
Non-deductibility of stock option expense	**5.0**	2.5
Non-taxable portion of capital gains	**(2.0)**	(6.8)
Income attributable to non-controlling interest in flow-through entities	**(7.0)**	(6.3)
Other	**(2.1)**	10.0
Income tax expense	**$ 263.5**	$ 265.4

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2015 - 15.0 percent) and the Canadian provincial income tax rate of 11.67 percent (2015 - 11.56 percent). The increase in the applicable rate from 2015 is primarily due to changes in the provincial tax rates in the year.

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

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

16. Deposits

Deposits consist of broker deposits and retail deposits.

Cash from broker deposits is raised through sales of GICs through brokers rather than directly to the retail customer. Broker deposits are offered for varying terms ranging from 30 days to five years and issued broker GICs are non-redeemable prior to maturity (except in certain rare circumstances). Total short-term and long-term broker deposits outstanding at December 31, 2016, were $1,515.7 million (2015 - $1,548.5 million).

Retail deposits consist of HIS deposits, retail GICs, and TFSA deposits. Total retail deposits outstanding at December 31, 2016, were $665.8 million (2015 - $704.4 million).

For repayment requirements of deposits refer to Note 5.4. The following are the effective rates of interest:

	2016	2015
GIC deposits	**2.78%**	2.84%
HIS account deposits	**1.39%**	1.52%

17. Trade and other payables

Trade and other payables include the following:

(C$ in millions)	**2016**	2015
Trade payables and accrued liabilities	**$ 1,626.3**	$ 1,761.2
Derivatives (Note 32)	**13.4**	0.7
Total financial liabilities	**1,639.7**	1,761.9
Deferred revenue	**39.5**	38.4
Insurance reserve	**18.4**	16.9
Other	**159.3**	139.9
	$ 1,856.9	$ 1,957.1

Deferred revenue consists mainly of unearned insurance premiums, unearned roadside assistance revenue, and unearned revenue relating to gift cards.

Other consists primarily of the short-term portion of share based payment transactions and sales taxes payable.

The credit range period on trade payables is three to 270 days (2015 - three to 180 days).

18. Provisions

The following table presents the changes to the Company's provisions:

					2016
(C$ in millions)	**Sales and warranty returns**	**Site restoration and decommissioning**	**Customer loyalty**	**Other**	**Total**
Balance, beginning of year	**$ 120.5**	**$ 38.3**	**$ 86.2**	**$ 16.8**	**$ 261.8**
Charges, net of reversals	**301.9**	**3.9**	**176.6**	**6.0**	**488.4**
Utilizations	**(279.5)**	**(1.3)**	**(161.5)**	**(8.0)**	**(450.3)**
Discount adjustments	**0.6**	**(1.6)**	**—**	**0.2**	**(0.8)**
Balance, end of year	**$ 143.5**	**$ 39.3**	**$ 101.3**	**$ 15.0**	**$ 299.1**
Current provisions	**137.1**	**6.5**	**101.3**	**8.3**	**253.2**
Long-term provisions	**6.4**	**32.8**	**—**	**6.7**	**45.9**

19. Contingencies

Legal and regulatory matters

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

20. Short-term borrowings

Short-term borrowings include commercial paper notes issued by GCCT and bank line of credit borrowings. Short-term borrowings may bear interest payable at maturity or be sold at a discount and mature at face value.

The commercial paper notes are short-term notes issued with varying original maturities of one year or fewer, typically 90 days or fewer, at interest rates fixed at the time of each renewal, and are recorded at amortized cost. As at December 31, 2016, $89.6 million (2015 - $88.6 million) of commercial paper notes were issued.

As at December 31, 2016, $109.8 million (2015 - $nil) of bank line of credit borrowings had been drawn on CT REIT's Bank Credit Facility.

21. Loans payable

Franchise Trust, a special purpose entity, is a legal entity sponsored by a third-party bank that originates loans to Dealers. Loans payable are the loans that Franchise Trust incurs to fund loans to Dealers. These loans are not direct legal liabilities of the Company but have been consolidated in the accounts of the Company as the Company effectively controls the silo of Franchise Trust containing the Dealer Loan Program.

Loans payable, which are initially recognized at fair value and are subsequently measured at amortized cost, are due within one year.

22. Long-term debt

Long-term debt includes the following:

		2016		2015
(C$ in millions)	**Face value**	**Carrying amount**	Face value	Carrying amount
Senior notes[1]				
Series 2012-1, 2.807%, May 20, 2017	**$ 200.0**	**$ 199.9**	$ 200.0	$ 199.7
Series 2012-2, 2.394%, October 20, 2017	**400.0**	**399.6**	400.0	399.2
Series 2013-1, 2.755%, November 20, 2018	**250.0**	**249.4**	250.0	249.1
Series 2014-1, 2.568%, September 20, 2019	**472.5**	**471.2**	472.5	470.7
Series 2015-1, 2.237%, September 20, 2020	**465.0**	**463.3**	465.0	462.9
Subordinated notes[1]				
Series 2012-1, 3.827%, May 20, 2017	**11.6**	**11.6**	11.6	11.6
Series 2012-2, 3.174%, October 20, 2017	**23.3**	**23.3**	23.3	23.3
Series 2013-1, 3.275%, November 20, 2018	**14.6**	**14.6**	14.6	14.6
Series 2014-1, 3.068%, September 20, 2019	**27.5**	**27.5**	27.5	27.5
Series 2015-1, 3.237%, September 20, 2020	**35.0**	**35.0**	35.0	35.0
Medium-term notes and debentures				
2.159% due June 1, 2021	**150.0**	**149.1**	—	—
2.85% due June 9, 2022	**150.0**	**149.1**	150.0	149.2
3.53% due June 9, 2025	**200.0**	**198.6**	200.0	198.8
3.289% due June 1, 2026	**200.0**	**198.6**	—	—
6.375% due April 13, 2028	**150.0**	**148.6**	150.0	148.5
6.445% due February 24, 2034	**200.0**	**198.1**	200.0	198.0
5.61% due September 4, 2035	**200.0**	**199.4**	200.0	199.3
Finance lease obligations	**125.8**	**125.8**	145.9	145.9
Mortgages	**55.9**	**56.0**	60.0	60.1
Promissory note	**1.8**	**1.8**	2.3	2.3
Total debt	**$ 3,333.0**	**$ 3,320.5**	$ 3,007.7	$ 2,995.7
Current	**653.4**	**653.4**	24.3	24.3
Non-current	**2,679.6**	**2,667.1**	2,983.4	2,971.4

[1] Senior and subordinated notes are those of GCCT.

The carrying amount of long-term debt is net of debt issuance costs of $12.6 million (2015 - $12.0 million).

Senior and subordinated notes

Asset-backed senior and subordinated notes issued by GCCT are recorded at amortized cost using the effective interest method.

Subject to the payment of certain priority amounts, the senior notes have recourse on a priority basis to the related series ownership interest. The subordinated notes have recourse to the related series ownership interests on a subordinated basis to the senior notes in terms of the priority of payment of principal and, in some circumstances, interest. The asset-backed notes, together with certain other permitted obligations of GCCT, are secured by the assets of GCCT. The entitlement

of note holders and other parties to such assets is governed by the priority and payment provisions set forth in the GCCT Indenture and the related series supplements under which these series of notes were issued.

Repayment of the principal of the series 2012-1, 2012-2, 2013-1, 2014-1, and 2015-1 notes is scheduled for the expected repayment dates indicated in the preceding table. Subsequent to the expected repayment date, collections distributed to GCCT with respect to the related ownership interest will be applied to pay any remaining amount owing.

Principal repayments may commence earlier than these scheduled commencement dates if certain events occur including:

- the Bank failing to make required payments to GCCT or failing to meet covenant or other contractual terms;
- the performance of the receivables failing to achieve set criteria; and
- insufficient receivables in the pool.

None of these events occurred in the year ended December 31, 2016.

Medium-term notes and debentures

Medium-term notes and debentures are unsecured and are redeemable by the Company, in whole or in part, at any time, at the greater of par or a formula price based upon interest rates at the time of redemption.

Finance lease obligations

Finance leases relate to DCs, fixtures, and equipment. The Company generally has the option to renew such leases or purchase the leased assets at the conclusion of the lease term. During 2016, interest rates on finance leases ranged from 1.09 percent to 11.35 percent. Remaining terms at December 31, 2016, were one to 120 months.

Finance lease obligations are payable as follows:

			2016			2015
(C$ in millions)	**Future minimum lease payments**	**Interest**	**Present value of future minimum lease payments**	Future minimum lease payments	Interest	Present value of future minimum lease payments
Due in less than one year	**$ 24.2**	**$ 7.5**	**$ 16.7**	$ 27.8	$ 8.2	$ 19.6
Due between one year and two years	**21.0**	**6.5**	**14.5**	24.5	7.2	17.3
Due between two years and three years	**18.5**	**5.8**	**12.7**	21.0	6.5	14.5
Due between three years and four years	**16.6**	**5.1**	**11.5**	18.5	5.8	12.7
Due between four years and five years	**15.7**	**4.3**	**11.4**	16.7	5.1	11.6
Due in more than five years	**69.2**	**10.2**	**59.0**	85.0	14.8	70.2
	$ 165.2	**$ 39.4**	**$ 125.8**	$ 193.5	$ 47.6	$ 145.9

Mortgages

Mortgages bear interest rates ranging from 2.93 percent to 3.60 percent and have maturity dates ranging from January 1, 2018 to December 8, 2019.

Promissory notes

Promissory notes were issued as part of franchise acquisitions in 2015. These notes are non-interest bearing.

Debt covenants

The Company has provided covenants to certain of its lenders. The Company was in compliance with all of its covenants as at December 31, 2016. Refer to Note 4 for details on the Company’s debt covenants.

23. Other long-term liabilities

Other long-term liabilities include the following:

(C$ in millions)	2016	2015
Redeemable financial instrument[1]	**$ 517.0**	$ 517.0
Employee benefits (Note 24)	**149.3**	141.2
Deferred gains	**15.2**	16.8
Derivatives (Note 32)	**8.3**	12.9
Deferred revenue	**6.1**	8.8
Other	**140.7**	117.2
	$ 836.6	$ 813.9

[1] A financial liability; refer to Note 32 for further information on the redeemable financial instrument.

Deferred gains relate to the sale and leaseback of certain distribution centres. The deferred gains are amortized over the terms of the leases.

Other includes the long-term portion of share-based payment transactions, deferred lease inducements, and straight-line rent liabilities.

24. Employment benefits

Profit-sharing program

The Company has a profit-sharing program for certain employees. The amount awarded to employees is contingent on the Company's profitability but shall be equal to at least one percent of the Company's previous year's net profits after income tax. A portion of the award ("Base Award") is contributed to a DPSP for the benefit of the employees. The maximum amount of the Company's Base Award contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 percent of the Base Award in a Company share fund of the DPSP. The share fund holds both Common Shares and Class A Non-Voting Shares. The Company's contributions to the DPSP with respect to each employee vest 20 percent after one year of continuous service and 100 percent after two years of continuous service.

In 2016, the Company contributed $22.4 million (2015 - $22.1 million) under the terms of the DPSP.

Defined benefit plan

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

(C$ in millions)	2016	2015
Change in the present value of defined benefit obligation		
Defined benefit obligation, beginning of year	**$ 141.2**	$ 137.5
Current service cost	**1.7**	2.3
Interest cost	**5.7**	5.4
Actuarial (gain) arising from changes in demographic assumptions	**—**	(0.2)
Actuarial loss (gain) arising from changes in financial assumptions	**4.8**	(4.6)
Actuarial (gain) loss arising from changes in experience assumptions	**(1.0)**	3.8
Benefits paid	**(3.1)**	(3.0)
Defined benefit obligation, end of year[1]	**$ 149.3**	$ 141.2

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

Significant actuarial assumptions used:

	2016	2015
Defined benefit obligation, end of year:		
Discount rate	**3.90%**	4.10%
Net benefit plan expense for the year:		
Discount rate	**4.10%**	4.00%

For measurement purposes, a 4.80 percent weighted average health care cost trend rate is assumed for 2016 (2015 - 4.91 percent). The rate is assumed to decrease gradually to 2.96 percent for 2032 and remain at that level thereafter.

The most recent actuarial valuation of the obligation was performed as of January 2, 2016. The next required valuation will be as of December 29, 2018.

The cumulative amount of actuarial losses before tax recognized in equity at December 31, 2016, was $47.8 million (2015 - $44.1 million).

Sensitivity analysis:

The Company's defined benefit plan is exposed to actuarial risks such as the health care cost trend rate, the discount rate, and the life expectancy assumptions. The following tables provide the sensitivity of the defined benefit obligation to these assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged.

(C$ in millions)		**2016**
Sensitivity analysis	**Accrued benefit obligation**	
	Increase	***Decrease***
A fifty basis point change in assumed discount rates	**$ (11.5)**	**$ 13.1**
A one-percentage-point change in assumed health care cost trend rates	**14.2**	**(11.9)**
A one-year change in assumed life expectancy	**(3.4)**	**3.4**

The weighted-average duration of the defined benefit plan obligation at December 31, 2016 is 16.4 years (2015 - 16.5 years).

25. Share capital

Share capital consists of the following:

(C$ in millions)	**2016**	2015
Authorized		
3,423,366 Common Shares		
100,000,000 Class A Non-Voting Shares		
Issued		
3,423,366 Common Shares (2015 - 3,423,366)	**$ 0.2**	$ 0.2
67,323,781 Class A Non-Voting Shares (2015 - 70,637,987)	**647.9**	671.0
	$ 648.1	$ 671.2

All issued shares are fully paid. The Company does not hold any of its Common or Class A Non-Voting Shares. Neither the Common nor Class A Non-Voting Shares have a par value.

During 2016 and 2015, the Company issued and repurchased Class A Non-Voting Shares. The Company's share repurchases were made pursuant to its NCIB program.

The following transactions occurred with respect to Class A Non-Voting Shares during 2016 and 2015:

	2016		2015	
(C$ in millions)	**Number**	**$**	Number	$
Shares outstanding at beginning of the year	**70,637,987**	**$ 671.0**	74,023,208	$ 695.3
Issued under the dividend reinvestment plan	**68,069**	**9.3**	65,760	8.3
Repurchased[1]	**(3,382,275)**	**(449.4)**	(3,450,981)	(434.6)
Excess of purchase price over average cost	**—**	**417.0**	—	402.0
Shares outstanding at end of the period	**67,323,781**	**$ 647.9**	70,637,987	$ 671.0

[1] Repurchased shares, pursuant to the Company's NCIB program, have been restored to the status of authorized but unissued shares. The Company records shares repurchased on a transaction date basis.

Conditions of Class A Non-Voting Shares and Common Shares

The holders of Class A Non-Voting Shares are entitled to receive a fixed cumulative preferential dividend at the rate of $0.01 per share per annum. After payment of fixed cumulative preferential dividends at the rate of $0.01 per share per annum on each of the Class A Non-Voting Shares with respect to the current year and each preceding year, and payment of a non-cumulative dividend on each of the Common Shares with respect to the current year at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in equal amounts per share without preference or distinction or priority of one share over another.

In the event of the liquidation, dissolution, or winding up of the Company, all of the property of the Company available for distribution to the holders of the Class A Non-Voting Shares and the Common Shares shall be paid or distributed equally, share for share, to the holders of the Class A Non-Voting Shares, and to the holders of the Common Shares without preference or distinction or priority of one share over another.

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

The holders of Common Shares are entitled to receive notice of, to attend, and to have one vote for each Common Share held at all meetings of holders of Common Shares, subject only to the restriction on the right to elect those directors who are elected by the holders of Class A Non-Voting Shares as set out above.

Common Shares can be converted, at any time and at the option of each holder of Common Shares, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of shares of either class cannot be increased without the approval of the holders of at least two-thirds of the shares of each class represented and voted at a meeting of the shareholders called for the purpose of considering such an increase. Neither the Class A Non-Voting Shares nor the Common Shares can be changed in any manner whatsoever whether by way of subdivision, consolidation, reclassification, exchange, or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all, or substantially all of the holders of Common Shares, or be required by applicable securities legislation or by the Toronto Stock Exchange to be made to all holders of Common Shares in Ontario and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon and thereafter be entitled to one vote per share at all meetings of the shareholders and thereafter the Class A Non-Voting Shares shall be designated as Class A Shares. The foregoing voting entitlement applicable to Class A Non-Voting Shares would not apply in the case where an offer is made to purchase both Class A Non-Voting Shares and Common Shares at the same price per share and on the same terms and conditions.

The foregoing is a summary of certain conditions attached to the Class A Non-Voting Shares of the Company and reference should be made to the Company's articles of amendment dated December 15, 1983 for a full statement of such conditions, which are available on SEDAR at www.sedar.com.

As of December 31, 2016, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of $45.9 million (2015 - $42.6 million) at a rate of $0.650 per share (2015 - $0.575 per share).

On February 15, 2017 the Company's Board of Directors declared a dividend of $0.650 per share payable on June 1, 2017 to shareholders of record as of April 30, 2017.

Dividends per share declared were $2.3750 in 2016 (2015 - $2.1500).

Dilutive effect of employee stock options is 195,429 (2015 - 430,281).

26. Share-based payments

The Company's share-based payment plans are described below.

Stock options

The Company has granted stock options to certain employees that enable such employees to exercise their stock options and subscribe for Class A Non-Voting Shares or surrender their options and receive a cash payment. Such cash payment is calculated as the difference between the fair market value of Class A Non-Voting Shares as at the surrender date and the exercise price of the option. Stock options granted prior to 2012 vested on the third anniversary of their grant. Stock options that were granted in 2012 and later vest over a three-year period. All outstanding stock options have a term of seven years. At December 31, 2016, the aggregate number of Class A Non-Voting Shares that were authorized for issuance under the stock option plan was 3.4 million.

Stock option transactions during 2016 and 2015 were as follows:

	2016		2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**1,010,243**	**$ 97.75**	1,526,343	$ 72.21
Granted	**404,439**	**129.92**	387,234	129.14
Exercised and surrendered[1]	**(337,338)**	**75.12**	(823,888)	65.69
Forfeited	**(115,995)**	**121.13**	(79,446)	92.53
Expired	**—**	**—**	—	—
Outstanding at end of year	**961,349**	**$ 116.41**	1,010,243	$ 97.75
Stock options exercisable at end of year	**395,042**		243,240	

[1] The weighted average market price of the Company's shares when the options were exercised in 2016 was $131.27 (2015 - $127.12).

The following table summarizes information about stock options outstanding and exercisable at December 31, 2016:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life[1]**	**Weighted average exercise price**	**Number of exercisable options**	**Weighted average exercise price**
$ 129.14 to 129.92	**658,599**	**5.72**	**$ 129.56**	**166,925**	**$ 129.34**
99.72	**192,241**	**4.19**	**99.72**	**117,608**	**99.72**
53.49 to 69.01	**110,509**	**2.78**	**67.06**	**110,509**	**67.06**
$ 53.49 to 129.92	**961,349**	**5.08**	**$ 116.41**	**395,042**	**$ 103.10**

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

Performance share units and performance units

The Company grants Performance Share Units ("PSUs") to certain of its employees that generally vest after three years. Each PSU entitles the participant to receive a cash payment equal to the fair market value of the Company's Class A Non-Voting Shares on the date set out in the Performance Share Unit Plan, multiplied by a factor determined by specific performance-based criteria and, in the case of PSUs granted in 2016, a relative total shareholder return modifier.

CT REIT grants Performance Units ("PUs") to certain of its employees that generally vest after three years. Each PU entitles the participant to receive a cash payment equal to the fair market value of Units of CT REIT on the date set out in the Performance Unit Plan, multiplied by a factor determined by specific performance-based criteria.

Deferred share units and deferred units

The Company offers Deferred Share Unit ("DSU") Plans to certain of its Executives and to members of its Board of Directors. Under the Executives' DSU Plan, eligible Executives may elect to receive all or a portion of their annual bonus in DSUs. The Executives' DSU Plan also provides for the granting of discretionary DSUs. Under the Directors' DSU Plan, eligible directors may defer all or a portion of their annual director fees into DSUs. DSUs received under both the Executives' and Directors' DSU Plans are settled in cash following termination of service with the Company and/or the Board based on the fair market value of the Company's Class A Non-Voting Shares on the settlement date.

CT REIT also offers a Deferred Unit Plan for members of its Board of Trustees. Under this plan, eligible trustees may elect to receive all or a portion of their annual trustee fees in Deferred Units ("DUs"). DUs are settled through the issuance of an equivalent number of Units of CT REIT or, at the election of the trustee, in cash, following termination of service with the Board.

Restricted Unit Plan

CT REIT offers a Restricted Unit Plan for its Executives. Restricted Units ("RUs") may be issued as discretionary grants or, Executives may elect to receive all or a portion of their annual bonus in RUs. At the end of the vesting period, which is generally three years from the date of grant (in the case of discretionary grants) and five years from the annual bonus payment date (in the case of deferred bonus), an Executive receives an equivalent number of Units issued by CT REIT or, at the Executive's election, the cash equivalent thereof.

The fair value of stock options and PSUs at the end of the year was determined using the Black-Scholes option pricing model with the following inputs:

	2016		2015	
	Stock options	**PSUs**	Stock options	PSUs
Share price at end of year (C$)	**$ 139.27**	**$ 139.27**	$ 118.16	$ 118.16
Weighted average exercise price[1] (C$)	**$ 116.23**	**N/A**	$ 97.17	N/A
Expected remaining life (years)	**4.1**	**1.1**	4.0	0.9
Expected dividends	**1.8%**	**2.6%**	1.8%	2.6%
Expected volatility[2]	**20.4%**	**19.2%**	22.3%	21.1%
Risk-free interest rate	**1.4%**	**1.0%**	1.1%	0.9%

1 Reflects expected forfeitures.
2 Reflects historical volatility over a period of time similar to the remaining life of the stock options, which may not necessarily be the actual outcome.

Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The Company enters into equity derivative transactions to hedge share-based payments and does not apply hedge accounting. The expense recognized for share-based compensation is summarized as follows:

(C$ in millions)	**2016**	2015
Expense arising from share-based payment transactions	**$ 64.6**	$ 35.6
Effect of hedging arrangements	**(32.0)**	4.1
Total expense included in net income	**$ 32.6**	$ 39.7

The total carrying amount of liabilities for share-based payment transactions at December 31, 2016, was $101.1 million (2015 - $100.0 million).

The intrinsic value of the liability for vested benefits at December 31, 2016, was $30.7 million (2015 - $23.4 million).

27. Revenue

Revenue consists of the following:

(C$ in millions)	2016	2015
Sale of goods	$ 11,002.7	$ 10,649.9
Interest income on loans receivable	881.0	852.1
Royalties and licence fees	400.0	375.6
Services rendered	329.9	342.6
Rental income	67.4	59.4
	$ 12,681.0	$ 12,279.6

Major customers
The Company does not rely on any one customer.

28. Cost of producing revenue

Cost of producing revenue consists of the following:

(C$ in millions)	2016	2015
Inventory cost of sales[1]	$ 7,898.4	$ 7,747.1
Net impairment loss on loans receivable	287.0	297.1
Finance costs on deposits	52.8	54.5
Other	50.3	45.6
	$ 8,288.5	$ 8,144.3

[1] Inventory cost of sales includes depreciation for the year ended December 31, 2016 of $8.0 million (2015 - $8.9 million).

Inventory writedowns, as a result of net realizable value being lower than cost, recognized in the year ended December 31, 2016 were $61.5 million (2015 - $52.3 million).

Inventory writedowns recognized in prior periods and reversed in the year ended December 31, 2016 were $5.5 million (2015 - $5.7 million). The reversal of writedowns was the result of actual losses being lower than previously estimated.

The writedowns and reversals are included in inventory cost of sales.

29. Selling, general and administrative expenses

Selling, general and administrative expenses consist of the following:

(C$ in millions)	2016	2015
Personnel expenses[1]	$ 1,169.8	$ 1,127.9
Occupancy[1]	659.6	648.6
Marketing and advertising	400.3	365.3
Depreciation of property and equipment and investment property[2]	322.8	303.9
Information Systems	153.3	133.4
Amortization of intangible assets	126.1	111.9
Other[1]	460.0	405.1
	$ 3,291.9	$ 3,096.1

[1] As a result of certain changes to business processes, costs previously recorded in “Personnel expenses” and “Occupancy” are presented as “Other” in the current year. $9.9 million of Personnel expenses and $2.0 million of Occupancy recorded in 2015 would have been classified as Other under the current year presentation.
[2] Refer to Note 28 for depreciation included in cost of producing revenue.

30. Net finance costs

Net finance costs consists of the following:

(C$ in millions)		**2016**		2015
Finance (income)[1]	**$**	**(9.4)**	$	(14.1)
Finance costs				
Subordinated and senior notes	**$**	**48.3**	$	50.2
Medium-term notes		**51.3**		45.9
Loans payable		**12.0**		11.1
Finance leases		**8.3**		9.0
Other[2]		**7.2**		8.6
		127.1		124.8
Less: Capitalized borrowing costs		**23.8**		17.9
Total finance costs	**$**	**103.3**	$	106.9
Net finance costs	**$**	**93.9**	$	92.8

[1] Primarily includes short and long-term investments, mortgages, and tax installments.
[2] Includes $1.2 million of amortization of debt issuance costs (2015 - $1.8 million).

31. Notes to the consolidated statements of cash flows

Change in operating working capital and other comprise the following:

(C$ in millions)		**2016**		2015
Change in operating working capital				
Trade and other receivables	**$**	**85.0**	$	83.1
Merchandise inventories		**70.8**		(147.3)
Income taxes		**(1.6)**		(0.6)
Prepaid expenses and deposits		**(7.6)**		8.3
Trade and other payables		**(82.0)**		(80.9)
Total		**64.6**		(137.4)
Change in other				
Provisions		**36.2**		12.7
Long-term provisions		**2.4**		(0.4)
Other long term liabilities		**22.9**		9.8
Total		**61.5**		22.1
Change in operating working capital and other	**$**	**126.1**	$	(115.3)

31.1 Cash and marketable investments held in reserve

Cash and marketable investments includes reserves held by the Financial Services segment in support of its liquidity and regulatory requirements. As at December 31, 2016, reserves held by Financial Services totalled $422.1 million (2015 - $275.1 million) and includes restricted cash disclosed in Note 7 as well as short-term investments.

31.2 Supplementary information

During the year ended December 31, 2016, the Company acquired property and equipment and investment property at an aggregate cost of $601.1 million (2015 - $582.0 million). During the year ended December 31, 2016, intangible assets were internally developed or acquired at an aggregate cost of $153.8 million (2015 - $109.9 million).

The amount relating to property and equipment and investment property acquired that is included in trade and other payables at December 31, 2016, is $63.5 million (2015 - $104.1 million). The amount relating to intangible assets that is included in trade and other payables at December 31, 2016, is $28.4 million (2015 - $38.0 million).

During the year ended December 31, 2016, the Company also included in the property and equipment, investment property, and intangible assets acquired non-cash items relating to finance leases, asset retirement obligations, and capitalized interest in the amount of $24.3 million (2015 - $33.7 million).

32. Financial instruments

32.1 Fair value of financial instruments
Fair values have been determined for measurement and/or disclosure purposes based on the following:

The carrying amount of the Company's cash and cash equivalents, trade and other receivables, loans receivable, bank indebtedness, trade and other payables, short-term borrowings, and loans payable approximate their fair value either due to their short-term nature or because they are derivatives, which are carried at fair value.

The carrying amount of the Company's long-term receivables and other assets approximate their fair value either because the interest rates applied to measure their carrying amount approximate current market interest or because they are derivatives, which are carried at fair value.

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Investments in equity and debt securities
The fair values of financial assets at FVTPL, held-to-maturity investments, and available-for-sale financial assets that are traded in active markets are determined by reference to their quoted closing bid price or dealer price quotations at the reporting date. For investments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models, comparison to similar instruments for which market-observable prices exist, and other valuation models.

Derivatives
The fair value of a foreign exchange forward contract is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract, using market interest rates for a similar instrument at the measurement date.

The fair value of equity derivatives is determined by reference to share price movement adjusted for interest using market interest rates specific to the terms of the underlying derivative contracts.

Redeemable financial instrument
On October 1, 2014, The Bank of Nova Scotia ("Scotiabank") acquired a 20.0 percent interest in the Financial Services business from the Company for proceeds of $476.8 million, net of $23.2 million in transaction costs. In conjunction with the transaction, Scotiabank was provided an option to sell and require the Company to purchase all of the interest owned by Scotiabank at any time during the six-month period following the tenth anniversary of the transaction. This obligation gives rise to a liability for the Company (the "redeemable financial instrument") and is recorded on the Company's Consolidated Balance Sheets in Other long-term liabilities. The purchase price will be based on the fair value of the Financial Services business and Scotiabank's proportionate interest in the Financial Services business, at that time.

The redeemable financial instrument was initially recorded at $500.0 million and is subsequently measured at fair value with changes in fair value recorded in net income for the period in which they arise. The subsequent fair value measurements of the redeemable financial instrument are calculated based on a discounted cash flow analysis using normalized earnings attributable to the Financial Services business, adjusted for any undistributed earnings and Scotiabank's proportionate interest in the business. The Company estimates future normalized earnings based on the most recent actual results. The earnings are then forecast over a period of five years, taking into account a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on an industry-based estimate of the Financial Services business. The discount rate reflects the cost of equity of the Financial Services business and is based on expected market rates adjusted to reflect the risk profile of the Business. The fair value measurement is performed quarterly using

internal estimates and judgment supplemented by periodic input from a third party. This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (refer to Note 32.4).

32.2 Fair value measurement of debt and deposits

The fair value measurement of debt and deposits is categorized within Level 2 of the fair value hierarchy (refer to Note 32.4). The fair values of the Company's debt and deposits compared to the carrying amounts are as follows:

As at	December 31, 2016		January 2, 2016	
(C$ in millions)	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Liabilities carried at amortized cost				
Debt	**$ 3,320.5**	**$ 3,476.9**	$ 2,995.7	$ 3,161.1
Deposits	**$ 2,181.5**	**$ 2,197.9**	$ 2,252.9	$ 2,276.1

The difference between the fair values and the carrying amounts (excluding transaction costs, which are included in the carrying amount of debt) is due to decreases in market interest rates for similar instruments. The fair values are determined by discounting the associated future cash flows using current market interest rates for items of similar risk.

32.3 Items of income, expense, gains or losses

The following table presents certain amounts of income, expense, gains, or losses, arising from financial instruments that were recognized in net income or equity:

(C$ in millions)	**2016**	2015
Net gain (loss) on:		
Financial instruments designated and/or classified as FVTPL[1]	**$ 29.1**	$ (7.5)
Interest income (expense):		
Total interest income calculated using effective interest method for financial instruments that are not at FVTPL	**888.6**	863.0
Total interest expense calculated using effective interest method for financial instruments that are not at FVTPL	**(169.5)**	(167.4)
Fee expense arising from financial instruments that are not at FVTPL:		
Other fee expense	**(13.9)**	(11.6)

[1] Excludes gains (losses) on cash flow hedges, which are effective hedging relationships and gains (losses) on available for sale investments that are both reflected in the Consolidated Statements of Comprehensive Income.

32.4 Fair value of financial assets and financial liabilities classified using the fair value hierarchy

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are:

Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets;
Level 2 - Inputs are other than quoted prices included in Level 1 but are observable for the asset or liability, either directly or indirectly; and
Level 3 - Inputs are not based on observable market data.

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

(C$ in million)		**2016**		2015	
Balance sheet line	**Category**	**Level**		Level	
Short-term investments	FVTPL	**2**	**$ 38.6**	2	$ —
Short-term investments	Available for sale	**2**	**78.6**	2	96.1
Long-term investments	Available for sale	**2**	**175.2**	2	153.4
Trade and other receivables	FVTPL[1]	**2**	**26.7**	2	27.3
Trade and other receivables	Effective hedging instruments	**2**	**49.9**	2	214.1
Long-term receivables and other assets	FVTPL[1]	**2**	**26.0**	2	25.4
Long-term receivables and other assets	Effective hedging instruments	**2**	**20.2**	2	24.8
Trade and other payables	FVTPL[1]	**2**	**1.1**	2	0.7
Trade and other payables	Effective hedging instruments	**2**	**12.3**	2	—
Redeemable financial instrument	FVTPL	**3**	**517.0**	3	517.0
Other long-term liabilities	Effective hedging instruments	**2**	**8.3**	2	12.9

[1] Includes derivatives that are classified as held for trading.

There were no transfers in either direction between categories in 2016 or 2015.

Changes in fair value measurement for instruments categorized in Level 3
Level 3 financial instruments include a redeemable financial instrument.

As of December 31, 2016, the fair value of the redeemable financial instrument was estimated to be $517.0 million (2015 - $517.0 million). The determination of the fair value of the redeemable financial instrument requires significant judgment on the part of Management. Refer to Note 2 of these consolidated financial statements for further information.

33. Operating leases

The Company as lessee
The Company leases a number of retail stores, distribution centres, petroleum sites, facilities, and office equipment, under operating leases with termination dates extending to March 25, 2060. Generally, the leases have renewal options, primarily at the Company's option.

The annual lease payments for property and equipment under operating leases are as follows:

(C$ in millions)	2016	2015
Less than one year	$ 354.1	$ 343.4
Between one and five years	1,097.7	1,055.5
More than five years	830.2	884.6
	$ 2,282.0	$ 2,283.5

The amounts recognized as an expense are as follows:

(C$ in millions)	2016	2015
Minimum lease payments[1]	$ 369.6	$ 347.0
Sublease payments received	(38.5)	(39.7)
	$ 331.1	$ 307.3

[1] Minimum lease payments includes contingent rent.

Due to the redevelopment or replacement of existing properties, certain leased properties are no longer needed for business operations. Where possible, the Company subleases these properties to third parties, receiving sublease payments to reduce costs. In addition, the Company has certain premises where it is on the head lease and subleases the property to franchisees. The total future minimum sublease payments expected under these non-cancellable subleases were $82.6 million as at December 31, 2016 (2015 - $94.9 million).

The Company as lessor
The Company leases out a number of its investment properties, and has certain sublease arrangements, under operating leases (refer to Note 12), with lease terms between one to 20 years with the majority having an option to renew after the expiry date.

The lessee does not have an option to purchase the property at the expiry of the lease period.

The future annual lease payments receivable from lessees under non-cancellable leases are as follows:

(C$ in millions)	2016	2015
Less than one year	$ 35.9	$ 34.4
Between one and five years	90.0	92.3
More than five years	66.5	55.9
	$ 192.4	$ 182.6

34. Guarantees and commitments

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

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

Standby letters of credit
Franchise Trust, a legal entity sponsored by a third-party bank, originates loans to Dealers for their purchase of inventory and fixed assets. While Franchise Trust is consolidated as part of these financial statements, the Company has arranged for several major Canadian banks to provide standby LCs to Franchise Trust to support the credit quality of the Dealer loan portfolio. The banks may also draw against the LCs to cover any shortfalls in certain related fees owing to it. In any case where a draw is made against the LCs, the Company has agreed to reimburse the banks issuing the standby LCs for the amount so drawn. The Company has not recorded any liability for these amounts due to the credit quality of the Dealer loans and to the nature of the underlying collateral represented by the inventory and fixed assets of the borrowing Dealers. In the unlikely event that all the LCs have been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $141.2 million at December 31, 2016 (2015 - $151.0 million).

The Company has obtained documentary and standby letters of credit aggregating $40.4 million (2015 - $32.3 million) relating to the importation of merchandise inventories and to facilitate various real estate activities.

Business and property dispositions
In connection with agreements for the sale of all or part of a business or property and in addition to indemnifications relating to failure to perform covenants and breach of representations and warranties, the Company has agreed to indemnify the purchasers against claims from its past conduct, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the parties in the agreements. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements, and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

Lease agreements guarantees
The Company has guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. These lease agreements have expiration dates through November 2023. The maximum amount that the Company may be required to pay under these agreements was $4.6 million (2015 - $5.3 million). In addition, the Company could be required to make payments for percentage rents, realty taxes, and common area costs. No amount has been accrued in the consolidated financial statements with respect to these lease agreements.

Third-party financial guarantees
The Company has guaranteed the debts of certain Dealers. These third-party financial guarantees require the Company to make payments if the Dealer fails to make scheduled debt payments. The majority of these third-party financial guarantees have expiration dates extending up to and including July 2017. The maximum amount that the Company may be required to pay under these debt agreements was $50.0 million (2015 - $50.0 million), of which $23.4 million (2015 - $32.3 million) was issued at December 31, 2016. No amount has been accrued in the consolidated financial statements with respect to these debt agreements.

The Company has entered into agreements to buy back franchise-owned merchandise inventory should the banks foreclose on any of the franchisees. The terms of the guarantees range from less than a year to the lifetime of the particular underlying franchise agreement. The Company's maximum exposure as at December 31, 2016, was $70.4 million (2015 - $88.0 million).

Indemnification of lenders and agents under credit facilities
In the ordinary course of business, the Company has agreed to indemnify its lenders under various credit facilities against costs or losses resulting from changes in laws and regulations that would increase the lenders' costs and from any legal

action brought against the lenders related to the use of the loan proceeds. These indemnifications generally extend for the term of the credit facilities and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant indemnification payments under such agreements, and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

Other indemnification agreements

In the ordinary course of business, the Company provides other additional indemnification agreements to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above), and the arrangements with Franchise Trust discussed above. These additional indemnification agreements require the Company to compensate the counterparties for certain amounts and costs incurred, including costs resulting from changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction.

The terms of these additional indemnification agreements vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such additional indemnifications, and no amount has been accrued in the consolidated financial statements with respect to these additional indemnification commitments.

The Company's exposure to credit risks related to the above-noted guarantees are disclosed in Note 5.

Capital commitments

As at December 31, 2016, the Company had capital commitments for the acquisition of property and equipment, investment property, and intangible assets for an aggregate cost of approximately $54.8 million (2015 - $120.2 million).

35. Related parties

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

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

The following outlines the compensation of the Company's Board of Directors and key Management personnel (the Company's Chief Executive Officer, Chief Financial Officer, and certain other Senior Officers):

(C$ in millions)	**2016**	2015
Salaries and short-term employee benefits	**$ 11.0**	$ 12.3
Share-based payments and other	**17.9**	11.7
	$ 28.9	$ 24.0

36. Comparative figures

Certain of the prior period figures have been restated to align with Management's current view of the Company's operations.