

CANADIAN TIRE

2010 ANNUAL REPORT



Canadian Tire in brief

UNIQUE BRAND

- 98 per cent** of Canadians identify the red triangle as Canadian Tire®
- 90 per cent** of Canadians visit a Canadian Tire store every year
- One-third** of sales are driven by strong in-house brands
- Leading market share** in many of our key lines of business

REACH AND SCALE

- At least one Canadian Tire store is within **15 minutes of 90 per cent** of Canadians
- One of Canada's **most-shopped** general merchandise retailers
- One in five** Canadians holds a Canadian Tire Options® MasterCard®
- One of Canada's **largest** independent gasoline retailers

INNOVATION

- Focus** on new products, programs and services
- Continued store **concept renewal** makes for one of North America's newest store networks
- Modern** supply chain and continued productivity enhancements
- Improved** customer loyalty program under design

FINANCIAL POSITION

- Strong** free cash flow
- Increased** dividend in 2010
- Reduced** debt
- Substantial** liquidity
- Multiple** funding sources

When stacked up, the number of hockey pucks we sell every year is as tall as 25 CN Towers.





Jumpstart

Since 1922, we have been one of Canada’s most recognized and trusted brands.

More than 250 million times per year, customers turn to Canadian Tire to provide solutions for the jobs and joys of everyday life. We have been a fixture in our communities for almost 90 years, continually introducing new and innovative products at affordable prices. Canadian Tire is always evolving. Our goal is to stay competitive and to continue to be the brand generations of customers have always trusted.

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2010 financial highlights

(\$ in millions, except per share amounts)	2010	2009	% change
CONSOLIDATED			
Retail sales	\$ 10,328.2	\$ 10,020.9	3.1%
Gross operating revenue	8,980.8	8,686.5	3.4%
Earnings before income taxes	597.0	479.2	24.6%
EBITDA ¹	947.6	873.7	8.4%
Net earnings	453.6	335.0	35.4%
Cash generated from operating activities before changes in other working capital components	820.5	694.7	18.1%
Cash generated from operating activities	991.2	418.8	136.7%
Capital expenditures ²	318.4	273.1	16.6%
PER SHARE			
Basic net and diluted earnings	\$ 5.56	\$ 4.10	35.6%
Dividends declared	0.905	0.840	7.7%
Shareholders' equity	49.93	45.19	10.5%
Weighted average number of shares outstanding (thousands)	81,565	81,679	
RATIOS			
Adjusted earnings before income taxes as a percentage of gross operating revenue (%)	6.6%	5.7%	
Financial Services return on average total managed portfolio ³ (%)	5.0%	3.6%	
Retail return on invested capital ⁴ (%)	8.0%	7.7%	

¹ See section 18.0 of the 2010 MD&A for non-GAAP measures.

² Capital expenditures include fixed and software intangible assets, presented on an accrual basis.

³ Calculated as earnings before income taxes as a percentage of Gross Average Receivables and excludes securitization activities, costs associated with the sale of the mortgage portfolio and gain (loss) on disposal of assets.

⁴ Retail return on invested capital excludes Financial Services and capital leases and has been calculated using adjusted earnings which excludes the impact of various non-operating items.

11.6%

10-year EPS basic CAGR¹

8.5%

10-year dividends paid CAGR¹

Canadian Tire has created value for investors through dividend and earnings per share growth over the past 10 years.

¹ Compound Annual Growth Rate.

Message from the Chairman

Maureen J. Sabia



Last year I shared with you my enthusiasm for the future of Canadian Tire as a result of our strategy to exploit the power of the triangle. In terms of shareholder value, I think it has been a positive year.

This past year, we have refined that strategy and focused it on the power of one – One Company, One Customer. I believe that focus, which now permeates everything we do, will significantly enhance our strength as a Company, our ability to successfully meet the ever-increasing competition in the retail world and our ability to take advantage of new opportunities that may come our way.

We have strengthened our balance sheet, increased our dividend and focused on strengthening our automotive business. But, very importantly, we have increased the considerable power of all our lines of business by developing them into an integrated whole and we will harness the power of the whole in ways that will serve all our customers better and in exciting new ways. Canadian Tire is one of Canada's great brands, and by focusing our energy on the brand, and making it even more meaningful and relevant to our customers, we will enhance its power. Everything we do will be about enhancing our brand.

And everything we do will reflect our desire to play an even greater role in the lives of Canadians.

Under Stephen Wetmore's leadership, we have begun to look at Canadian Tire as "One Company" engaged in the business of serving Canadians in the living, playing, fixing, driving, and apparel needs' aspects of their lives, and in their need for financial services.

The Board of Directors whole-heartedly endorses Canadian Tire's focused strategy and management's commitment to explore ever more ways to enhance the Canadian Tire brand.

To assist management in the evolution and execution of our strategy, the Board has increased its efforts to focus more intently on strategic execution at each of our meetings; thus, we have enhanced our commitment to the delegation of

authority to our Committees which I described in the 2007 Annual Report. Moreover, we have devoted considerable time at each meeting last year to becoming even better educated on, and obtaining a better understanding of, every component of our business, its performance and the challenges it faces. We are completing a "deep dive" into each of these components, as it is our opinion that a very thorough knowledge on our part is crucial if we are to be of assistance to management in the implementation of our strategic goals. At each meeting, we also spent time thinking about how we can best maximize the considerable power of our Dealer model to further our strategy.

In my message last year, I discussed Canadian Tire's thinking about the respective roles of the Board and of the shareholders, and I made you a promise. I told you that in order to respond to suggested new initiatives with respect to shareholder involvement in decision-making, in a disciplined and prudent manner, we intended to develop a policy on how we would make our decisions on any such initiatives and that we would publish these findings. I hope you will read this policy, which is set out on page F1 of this year's Information Circular. In the policy, we have highlighted the filters through which any suggested new initiative must pass as we carefully consider our response.

We have demonstrated our long-standing commitment to the best in governance practices over many years, and we retain our commitment to the principle that it is the Board of Directors who must bear the decision-making responsibility as is demanded of them by the current corporate model.

We are always delighted to hear from our shareholders, and we intend to listen carefully to their concerns as we have always done. Our policy was created to ensure that we do not abdicate our responsibilities as directors.

Canadian Tire is fortunate to have so many talented men and women who are committed to the Company. In large part it is through their efforts and their support for the Company's leadership, that the Tire has flourished this past year.

There have been and will be some changes on the Board of Directors. At Canadian Tire, we believe that as the Company evolves, so too should its Board. Our strategic emphasis on brand has been an important factor in some of these changes.

The two Associate Dealer directors who have been on the Board for several years, Keith Gostlin and Brian Domelle, will not stand for re-election. This is in keeping with the periodic turnover of dealers on the Board. In their place, we will welcome Claude L'Heureux and George Vallance. We thank Keith and Brian for the contribution they have made to the Board, and, indeed, to the Company. And we look forward to working with Claude and George.

During the year, the directors appointed James Goodfellow to the Board to fill the vacancy created by the resignation of Daniel Fournier. Mr. Goodfellow has extensive knowledge of the Company and will bring his considerable financial expertise, diligence, and policy acumen to Canadian Tire.

It was with deep regret that the Board accepted the resignation of Daniel Fournier. His resignation was occasioned by his new duties as Executive Vice-President, Real Estate; and President, Real Estate Group; at *La Caisse de dépôt et placement du Québec*. M. Fournier, a respected colleague and valued friend of many years, made a significant contribution to both the Corporation and the Canadian Tire Bank.

We regret that Peter Currie and Robert Franklin will not be standing for election at the Annual Meeting. My colleagues and I have so enjoyed working with Peter and Rob, both of whom have added value to our deliberations. All of us are grateful for the commitment they have shown to the success of Canadian Tire.

We are proposing to welcome two other new directors at our Annual Meeting, both of whom have extensive brand and consumer experience. All of us on the Board are looking forward to the wisdom that will surely be proffered by Alan Rossey, a distinguished member of the Montreal business community who, with his father and cousin, created and expanded Dollarama across Canada, and John Furlong who brilliantly led the Vancouver Olympic Games.

I want to acknowledge the leadership of Stephen Wetmore and the work of the talented people in our management. Through hard work, long hours, and with courage and determination, they are creating a better Canadian Tire, one better equipped to meet the needs of its customers and the challenges posed by the competition. They have challenged assumptions, proffered new thinking and proposed solutions. On behalf of the Board of Directors, I want to thank them most sincerely.

Canadian Tire is fortunate to have so many talented men and women who are committed to the Company. In large part it is through their efforts and their support for the Company's leadership, that the Tire has flourished this past year.

I believe that our shareholders are very well served by their Board of Directors. Once again, my colleagues have demonstrated that hard work and commitment are the characteristics for which they wish to be known. Throughout the year they have shared their time and their wisdom freely and in the service of the shareholders. I am so grateful to all my colleagues for the skill with which they carry out their responsibilities.

The future for Canadian Tire is a bright one. But it is not without its challenges. The future is not a gift, it is an achievement. I believe that under the leadership of management and the Board, we at the Tire can and will do great things for our customers and hence, for our shareholders. And we will do it because we believe that success is the reward of hard work.

Sincerely,



Maureen J. Sabia
Chairman of the Board

Message from the CEO

Stephen G. Wetmore



2010 was a great year for Canadian Tire. We posted strong earnings performance, we strengthened our balance sheet and we increased our dividend by 31 per cent. We advanced all our priority initiatives, which strengthened our ability to meet the expectations of our loyal customers.

Our core automotive business responded well to our new strategy and made great progress throughout 2010. I am proud of our new automotive management team as it has quickly delivered results that have positively impacted our business and improved the customer experience.

Other core businesses like sports, hardware and seasonal goods performed well – an important factor for us given our authoritative status as Canada’s experts in these areas.

We strengthened our petroleum business – and our brand – when we concluded a deal to open 23 new gas stations along Ontario’s busiest highways, which gives us frequent access to millions of motorists every year and provides an opportunity for drivers to earn more Canadian Tire ‘Money’® rewards to spend in their local Canadian Tire stores.

Canadian Tire Financial Services® recovered faster than expected and began to add new accounts near the end of the year as its growth strategy got back on track. The addition of new product and service offerings, such as in-store financing, will help drive growth in 2011 and beyond.

Our performance last year led us into 2011 with strong expectations for our Company, despite the emergence of more competition moving into Canada. We recognize the reality of the landscape before us: consumer confidence is moderate, consumer spending is flat and heavy discounting remains across most retail companies.

But I believe this with absolute confidence: no matter what competition exists today, no matter which companies move into Canada, no one will ever be like Canadian Tire. Single categories or product offerings may face competition, but our concept, innovation and product mix is unique in the industry.

We enjoy the strength of a brand that holds 98 per cent instant recognition with Canadian shoppers. Our heritage businesses and trusted products in automotive, hardware, sports, kitchen, outdoor recreation, yard tools, backyard furniture, and the fact we own seasons like Christmas, are about as core to Canadiana as the maple leaf itself. We simply will not allow anyone to ever take these away from us.

We have made significant strides in building growth categories. We’re carrying the world’s best brands – offering exclusive products – and offering competitive pricing. None of our competitors can match our combination of value, assortment and quality.

From both a brand and a customer perspective, one of our most significant initiatives continues to be our focus on improving our existing store network and the service we provide to customers. During 2010, we renovated four Mark’s™ stores and added 67 Canadian Tire Smart stores, primarily through retrofits. Another 60 Smart store retrofits and approximately nine major projects are planned for 2011. We have provided specialized customer service training to thousands of front-line employees and made improvements to our store systems that customers will find significantly improves their overall experience.

We enjoy the strength of a brand that holds 98 per cent instant recognition with Canadian shoppers. Our heritage businesses and trusted products in automotive, hardware, sports, kitchen, outdoor recreation, yard tools, backyard furniture, and the fact we own seasons like Christmas, are about as core to Canadiana as the maple leaf itself.

At the centre of our customer service experience are our valuable employees, Dealers and agents who run our customer-facing retail businesses. We have a highly engaged Dealer network in our 485 Canadian Tire stores operating in communities across Canada. These local entrepreneurs invest their own time and equity to build a successful community business. They support our children's sports teams, light up Christmas trees at city halls across the country and become boosters of their communities in every imaginable way.

Our brand is part of the fabric of Canadian life and Canadians depend on us to help fulfill the jobs and joys of everyday living in Canada – and that spirit is effectively captured in our new “Bring it On” campaign, launched in the spring of 2011.

This spirit can also be seen in communities from coast-to-coast through the activities of Canadian Tire Jumpstart®, which helps provide children and youth with access to the life benefits of organized sport and recreation.

Canadian Tire has an important year ahead of it. There is a lot of excitement throughout the Company, and execution has never been more crucial. We can't control the economy, nor can we flip a switch to turn on the heat or snow. But, we can do things to ensure our business is ready for whatever challenges or opportunities arise.

I have pushed our executives to formulate and execute more aggressive plans to grow our top line, while continuing to conservatively manage expenses across the Company. The centralization of our corporate “shared” services in 2010 will contribute to cost savings and efficiencies while bringing more consistency to operating our businesses under a One Company, One Customer model – effectively ensuring that we marshal our considerable resources to work together to provide solutions for the everyday jobs and joys of our customers.

You have heard me say before that we have to improve our retail return on invested capital (ROIC), and looking at the results, we have work to do in 2011. We are moving in the right direction but I know that our assets can be much more productive and that solid sales growth is achievable within our existing network of stores.

We are committed to the financial aspirations we presented to investors in April 2010, including achieving a 10 per cent retail return on invested capital over the next five years.

Only by keeping our customers happy and exceeding their expectations, can we deliver the sustainable and long-term earnings growth we know this Company is capable of producing. I am confident that we are up to the challenge – 2011 will be another proud year for Canadian Tire's shareholders.

Sincerely,



Stephen G. Wetmore
President and CEO

Business at a glance

Canadian Tire Corporation provides products and services for the jobs and joys of everyday life in Canada. The Company is one of Canada's most shopped general retailers with 485 Canadian Tire stores across the country.

Our core retail and automotive operation is strengthened by PartSource[®], an automotive parts specialty chain; Canadian Tire Petroleum[™], one of the country's largest independent retailers of gasoline; Mark's, under the banner "Clothes That Work[®]", a leading retailer of men's, women's and work apparel; and Canadian Tire Financial Services, which has issued approximately four million Canadian Tire MasterCard credit cards.

Nearly 57,000 people work across Canadian Tire's organization from coast-to-coast in the enterprise's retail, financial services and petroleum businesses.



\$5.05

2010 adjusted EPS

18.5%

adjusted EPS growth over 2009



AUTOMOTIVE

Automotive is our original, heritage business. With the leading market share in tires, accessories and service, we help keep your car safe and in great condition.

- PartSource
- Accessories
- Petroleum
- Service centres
- Hard parts
- Tires
- Canadian Tire Roadside Assistance®

LIVING

Canadian Tire makes managing your household simpler and easier through the wide assortment of brands and innovative products it offers at affordable prices.

- Small appliances
- Pet food
- Barbeques
- Patio furniture
- Christmas lights

FIXING

Canadian Tire is your home repair expert – ensuring that you have the tools and materials needed for everyday jobs as well as the expertise to keep your house in good working order.

- Power tools
- Hardware
- Home repair
- Paint

PLAYING

Canadian Tire is where you will find equipment and products for all your leisure activities, whether you're playing in the yard, going camping or gearing up for a new season of sports.

- Sporting goods
- Fitness
- Camping
- Fishing
- Hunting

APPAREL

At Mark's, you will find a broad selection of innovative brands that suit any workplace environment. We also offer men's and women's lifestyle wear for every casual occasion.

- DH3™
- Ispiri™
- Denver Hayes®
- T-Max®
- WindRiver®

FINANCIAL SERVICES

Boasting one of the largest MasterCard franchises in Canada, Financial Services helps customers save and pay for the jobs and joys of everyday life.

- Four million MasterCards
- Financing programs for Canadian Tire Retail (CTR) purchases
- High-interest savings accounts



Automotive

Our automotive business offers an extensive selection of accessories and car-care products sold in our 485 retail stores. But it is our full suite of automotive assets that gives us our market differentiation, including 5,500 auto service bays, 287 agent-operated gas bars, and 300,000 unique parts available throughout the network, including our specialty PartSource stores.

We cater to “do-it-yourself” customers who shop with us for the best parts and accessories and the “do-it-for-me” customers who visit us for our service expertise. We are improving the speed of accessing parts for our customers through the expansion of a very successful trial where we used the PartSource chain as a distribution hub to move inventory to Canadian Tire stores much more quickly.

In 2011, we are working to significantly improve our automotive service experience. We have implemented new technology to help us better serve our customers at our service desks and have provided specialized customer service training for thousands of automotive staff across the country. We have launched a new online parts and tire look-up service and installed easy-to-use tire-order kiosks in stores. Later in 2011, Canadian Tire will unveil the design and construction of a new Automotive “store of the future” that will provide even more personalized service for customers and will significantly modernize our facilities.

The number of tires we sell every year could connect Toronto to Florida.



Living

Canadian Tire makes managing a household simpler and easier through a wide assortment of brands and innovative products offered at affordable prices. Whether it's cooking, cleaning, organizing the home, or helping you better enjoy your yard, the Company is an established market leader and trusted authority in kitchen products, small appliances, cookware, home organization solutions, cleaning products and barbeques.

2010 saw substantial growth across the Living category, driven by a broader selection of higher-end brands, improved in-store merchandising, and the launch of innovative items exclusive to Canadian Tire. Key initiatives included a pilot of Cuisinart® boutiques, exclusive and new Cuisinart and Coleman® barbeques, and a pilot of major appliances in select markets. We also increased our selection of items that consumers purchase more frequently, such as household cleaning products and pet food, to attract customers to our stores more often.

In 2011, we continue to make our stores more convenient for shopping and browsing. We are strengthening our overall market position through the expansion of exclusive products across our kitchen, cleaning and home organization businesses; national brand development; and in-store initiatives that showcase products in more inspiring ways for customers. Integrated marketing campaigns, such as "Make The Most of Your Backyard", will help build on the success of our branded barbeque offering and create excitement around the launch of new modular patio furniture from La-Z-Boy®.

The work we are doing to improve our product assortment, in-store experience, and consumer marketing is only the beginning of a multi-year effort underway to transform Canadian Tire into the destination of choice for all of Canadians' living needs.





The frying pans we sell each year, laid end-to-end, span the length of nearly 9,000 Canadian football fields.

Fixing

Canadian Tire has the tools Canadians need to complete their everyday home maintenance and repair tasks. Whether customers need to fix a leaky faucet, install a light fixture, or stain a deck, they can count on Canadian Tire to help get the small jobs or more substantial “weekend warrior” projects done well.

We listened to our customers and made changes to our store layout to simplify the shopping experience. In our newly designed Smart stores, we created stand-alone specialty areas to showcase our strength in key heritage businesses, like hardware, where we eliminated locked display cases, incorporated better signage, put logical products beside each other, and moved work boots and work wear out of the Playing section and into the tools area.

Our new hardware department has been well-received, and we intend to strengthen its national brand offerings in 2011 while maintaining a strong emphasis on our own Mastercraft® brand. In the coming year, we will also pay special attention to the paint area, where Canadian Tire will invest in staff training, technology and service. The Company will continue to grow its roster of innovative products and help address the more challenging jobs for customers by producing a series of online instructional videos related to fixing and organizing.

**The tool sockets we sell yearly
stack up to 226 times the height of
Mount Logan, Canada’s highest peak.**



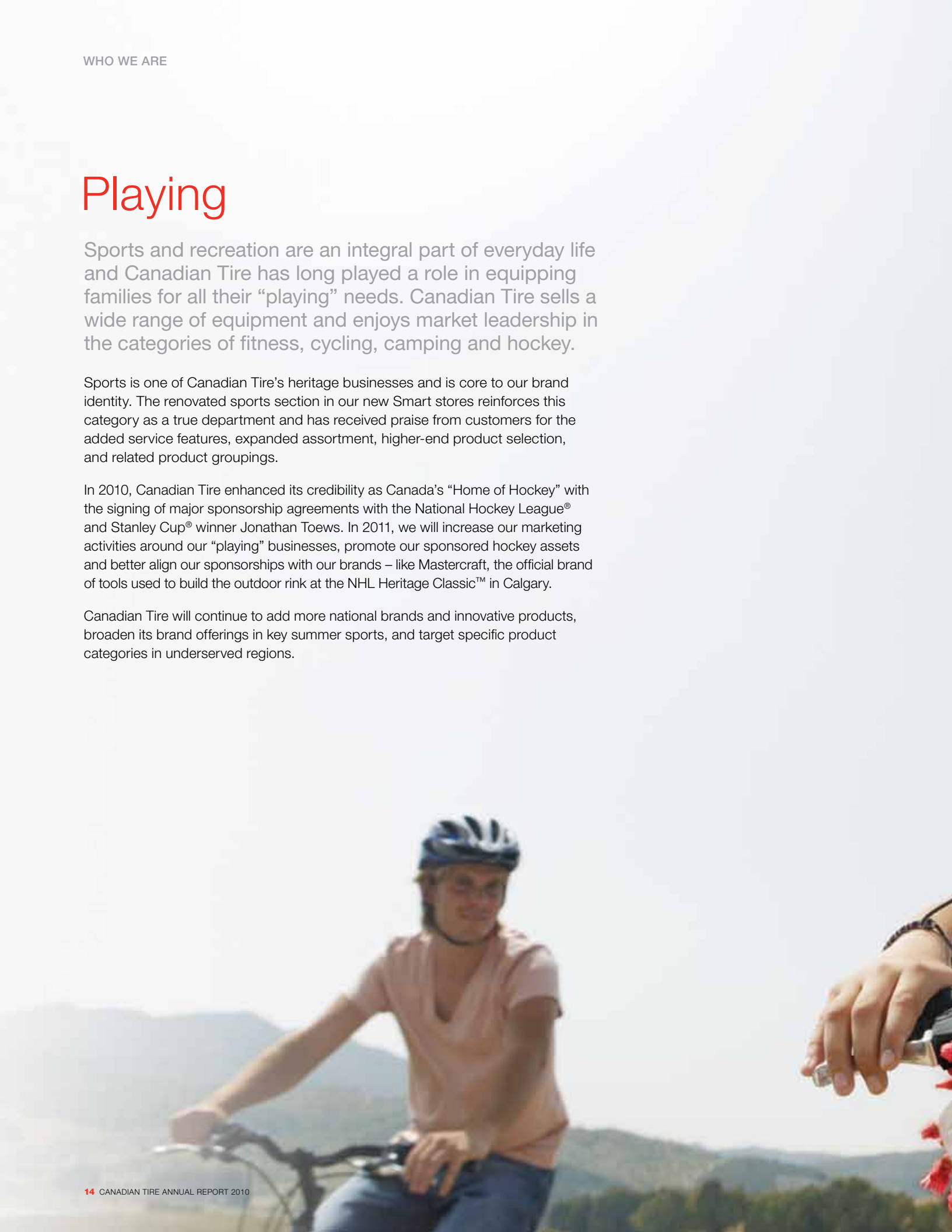
Playing

Sports and recreation are an integral part of everyday life and Canadian Tire has long played a role in equipping families for all their “playing” needs. Canadian Tire sells a wide range of equipment and enjoys market leadership in the categories of fitness, cycling, camping and hockey.

Sports is one of Canadian Tire’s heritage businesses and is core to our brand identity. The renovated sports section in our new Smart stores reinforces this category as a true department and has received praise from customers for the added service features, expanded assortment, higher-end product selection, and related product groupings.

In 2010, Canadian Tire enhanced its credibility as Canada’s “Home of Hockey” with the signing of major sponsorship agreements with the National Hockey League® and Stanley Cup® winner Jonathan Toews. In 2011, we will increase our marketing activities around our “playing” businesses, promote our sponsored hockey assets and better align our sponsorships with our brands – like Mastercraft, the official brand of tools used to build the outdoor rink at the NHL Heritage Classic™ in Calgary.

Canadian Tire will continue to add more national brands and innovative products, broaden its brand offerings in key summer sports, and target specific product categories in underserved regions.



The bikes we sell each year span more than 633 kilometres, or the length of 15 marathons.



Apparel

Mark's makes smart clothes for everyday living and for customers who demand quality, easy-to-care-for fashions that can be worn at work or play.

Mark's, known as L'Équipieur® in Quebec, is one of Canada's leading apparel retailers and sells men's and women's work, work-related, casual and active-wear clothing and footwear. ImageWear™, a division of Mark's, is well known for its custom apparel, embroidered clothing and work uniforms.

Mark's stands apart from other retailers because of its commitment to innovation. In 2010, we introduced new products that combined style and comfort, including Thermolectric™ rechargeable heated boots, X-TOE™ exterior safety boot caps, Duraguard™ anti-salt stain footwear, and Hyper-Dry® waterproof and breathable cotton hoodies.

We continue to add business-casual and casual clothing lines that appeal to active and stylish men and women. Product innovations are highlighted through in-store demonstrations and television advertising, which have broadened awareness of our brand and clothing lines. In 2011, Mark's will continue to test new store concept renewals that refresh the brand from "Mark's Work Wearhouse®," to "Mark's." The initial reaction of customers in markets where we've tested the new Mark's branding has been positive, as customers appreciate the stores' brighter and cleaner look, inviting layout, interactive displays, and test areas for clothing and footwear.

Mark's is Canada's number one menswear retailer and has 99 per cent brand awareness among Canadians between the ages of 30 and 55.



Financial Services

Canadian Tire has more than four million Canadian Tire Options MasterCards in circulation – making it one of the largest MasterCard franchises in the country. Since 1961, Canadian Tire Financial Services has offered credit cards that help drive in-store sales and is evolving its offering to include new financing products, warranties, insurance and high-interest savings accounts.

Financial Services managed its portfolio well through the recession, which has reinforced our belief that continued investments and innovations in our risk and collections management processes are vital to remaining a leader in the Canadian financial services sector.

Over the last 15 years, we have built the eighth-largest credit card portfolio in Canada, which also ranks 50th worldwide. We process over four transactions every second from around the world. And, every year, we award \$100 million in Canadian Tire 'Money' On the Card® to loyal Canadian Tire customers. Going forward, we will continue to look for opportunities to raise the number of active cardholders and cross-promote the value of our financial options within our retail environments.

In 2011, we will focus on acquiring more customers and increasing in-store financing activities through promotional financing programs, in-store instant credit, and advertising and store promotion plans. We will pilot a refreshed loyalty program that will offer new opportunities to help us maximize the value of our credit cards to customers.

Canadian Tire Financial Services manages one of the largest MasterCard franchises in Canada.





Canadian Tire Jumpstart

Canadian Tire Jumpstart helps children participate in organized sports and recreation. Community matters to Canadian Tire, and Canadian Tire Jumpstart has helped to give more than 315,000 kids a sporting chance since its launch in 2005.

Since 1922, Canadian Tire has been a strong supporter of charitable causes and community efforts. In 1992, the Company amalgamated its charitable activities into a registered charitable foundation, and in 2009, it was renamed Canadian Tire Jumpstart Charities.

The foundation's signature program, Canadian Tire Jumpstart, aims to provide children and youth with better access to the life benefits of organized sports and recreation. The program helps to cover registration, equipment and/or transportation costs in order to give a sporting chance to kids ages four to 18 who would otherwise not be able to afford to participate.

But not all communities have programs in place, nor do they have the equipment required to support organized activities. In response to this need, the Canadian Tire Jumpstart Kids Activity Kit was created. This program was launched as a pilot project in 2009 in Manitoba, and qualifying organizations were given free equipment and a resource guide to help local children participate in individual and team activities for the first time. The pilot project was a success and helped more than 1,000 kids in Manitoba. The program is being expanded into remote and underprivileged communities across the country and will help to get even more kids "in the game".

One in three Canadian families cannot afford to enrol their children in organized sports and recreation activities¹. Each year, Canadian Tire lends its support to Canadian Tire Jumpstart because, through its work and the work of its community partners from coast to coast, children can participate in activities that help them to develop healthy lifestyle habits, and leadership and interpersonal skills.

Our people – employees, vendors, Dealers and Canadian Tire Corporation itself, together with our volunteers and partners – are passionate about Canadian Tire Jumpstart and dedicated to its cause.

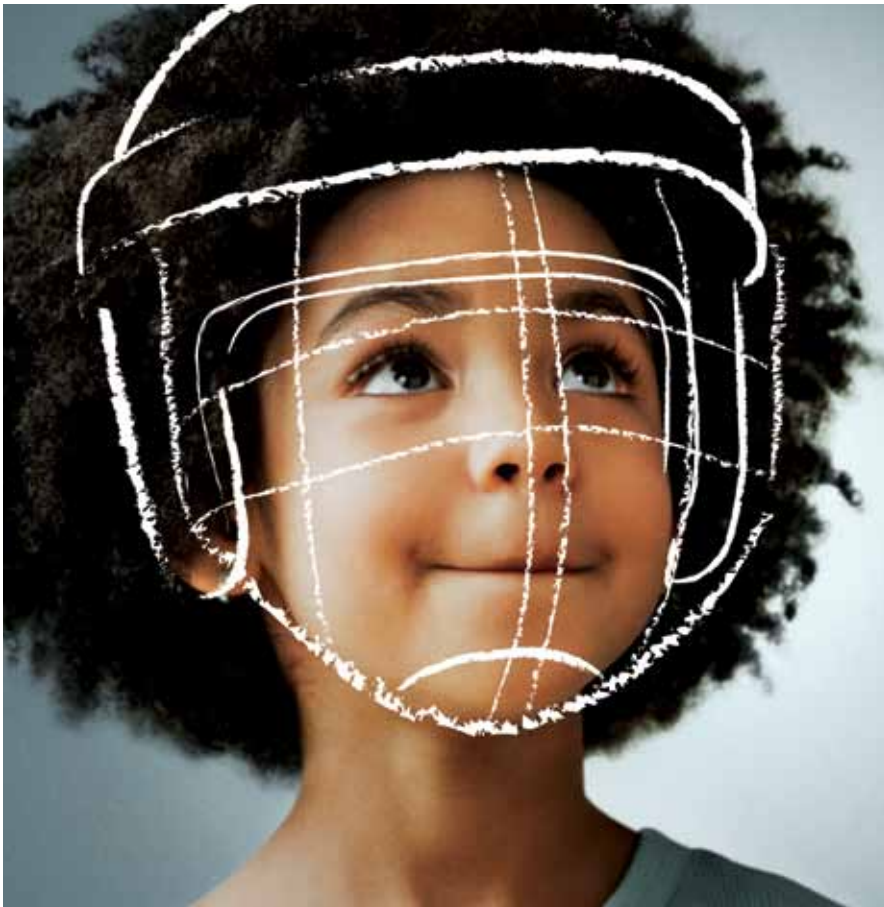


Canadian Tire Jumpstart has helped over 300,000 kids since 2005

100%
of customer donations goes to kids²

¹IPSOS 2009.

²Canadian Tire Corporation helps to fund the program delivery expenses for the Canadian Tire Jumpstart program in order to ensure that 100 per cent of all customer donations goes directly to helping kids.



Our growth strategy

Canadian Tire has 89 years of proven experience growing its business and introducing new services to meet our customers' expectations.

In a world of malls, shopping centres and "boutique" stores specializing in single lines of business, Canadian Tire is a unique shopping experience where you can buy leading brands in diverse categories from spark plugs to kitchen appliances, and from garden plants to power tools.

Canadian Tire is Canada's leading authority in automotive, sports, hardware and seasonal goods. Mark's is recognized as Canada's industrial and cold-weather specialists and our Financial Services division is relied on by four million Options MasterCard holders every day. We will always keep our business categories refreshed with new, innovative products while striving to offer the best service possible to our customers.

The Company has built tremendous credibility as the solution centre for Canadians who want to keep their home in order. This includes our market leadership in kitchen appliances and cookware, home organization solutions, and barbecues. Mark's has expanded from its leading market position in industrial and men's wear to now offer fashionable clothing for women.

Underpinning these businesses is the power of our brand – the triangle. Recognized instantly by 98 per cent of Canadians, the triangle represents quality products, a familiar shopping experience and a trusted community partner.

We have work to do to improve our customer experience. Major investments are underway in front-line staff training, new technology, upgrading nearly 100 stores per year, new operating processes and customer opinion tracking to ensure we're putting the customer first in all of our day-to-day execution.

Internally, we have centralized all our corporate services and eliminated duplication between business units. We are capitalizing on every efficiency in the billions of dollars of purchasing we make every year in merchandise and vendor services.

Our business units no longer act as "five, inter-related businesses" but now act as one integrated retail network supported by our Financial Services division offering new financing solutions for our customers such as instant credit in-store or the option to defer payments on larger purchases.

Canadian Tire is well-positioned for strong growth in the coming years across all our business lines. We managed our business well during the recession and have strong cash flow, have paid down debt and increased the dividend. We will grow our business through continued innovation in products and services, using traffic-driving categories to increase sales and renovate older store designs to improve our customer service and enhance the shopping experience.





Mastercraft

Mastercraft
HAWKETE
Circular Saw
with Laser Line
7 1/8" 14 A
3 YEAR

Mastercraft
HAWKETE
Universal
Circular Saw
3 YEAR

Mastercraft
Cordless Drill
Powerworks

FINANCIAL MEASURE

**ASPIRATIONS
OVER 5 YEARS**

CTR retail sales (POS) growth	3% to 5%
Consolidated adjusted EPS growth	8% to 10%
Retail return on invested capital (ROIC)	10%+
Financial Services return on receivables (ROR)	4.5% to 5.0%
Total return to shareholders (TRS), including dividends	10% to 12%

Improving the customer experience

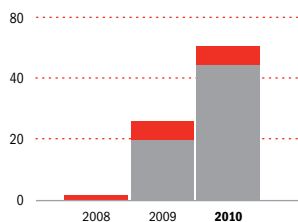
Canadian Tire is making progress in its effort to serve customers better, which is a key element of the growth strategy. From training to technology, from store design to service, the Company is executing numerous initiatives aimed at driving sales and revenue growth and improving the shopping experience.





INCREASED NUMBER OF SMART STORES

■ Smart stores built ■ Smart store retrofits

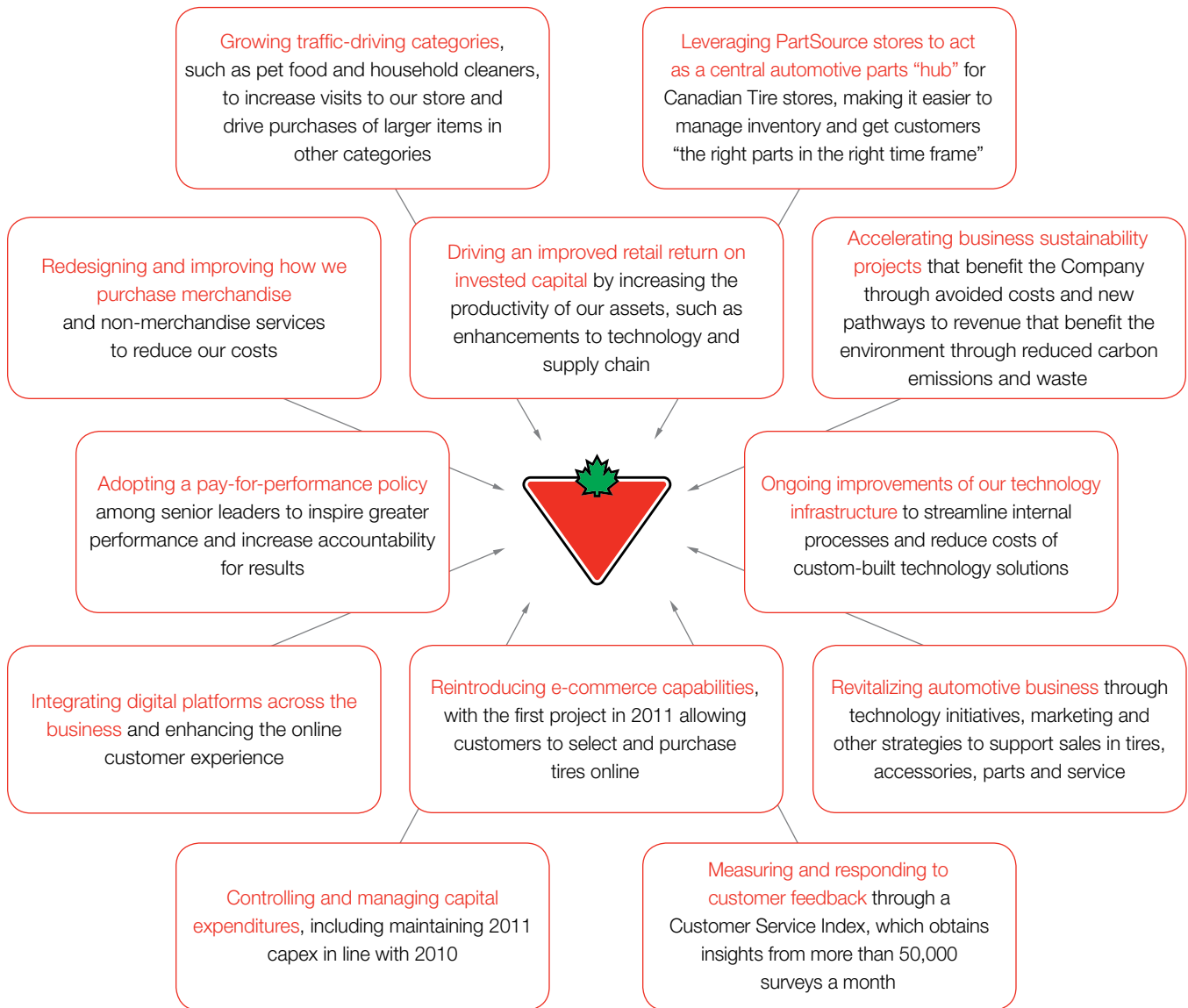


We have added 103 Smart stores through new builds and retrofits since the format debuted in 2008

Approximately nine Smart store major projects and approximately 60 Smart store retrofits are forecasted for 2011

Improving our Company performance

Canadian Tire is driving a number of initiatives to improve the Company's performance. While not as visible as some of the customer-facing improvements, these changes are making the Company more efficient and productive. For example, the Company is investing in infrastructure and increasing management's accountability to help improve our Company's performance and to create value for shareholders.





18%↑

SHARE PRICE

31%↑

DIVIDEND INCREASE

In 2010, Canadian Tire declared a quarterly cash dividend of 27.5 cents to be paid in 2011, an increase of 31%, while the share price increased 18% to \$68.19

Business sustainability

Our business sustainability strategy drives innovation, profitability and growth.

More than a stand-alone “green” initiative, Canadian Tire has integrated its business sustainability objectives into its operations and business plans.

Canadian Tire’s business sustainability strategy has three aspirations: to grow the business without increasing the net carbon footprint of the economy; to eliminate unnecessary packaging while sending zero waste to landfill; and to provide innovative products and services that satisfy today’s customers without compromising the ability of future generations to meet their own needs. The Company puts its strategy into action through its work related to energy and climate, waste and packaging, and products and services.

The results of Canadian Tire’s sustainability work are tracked and the benefits to our business are reported on a quarterly basis. During 2010, we completed 389 sustainability initiatives that are forecasted to annually avoid approximately \$6 million in costs as well as energy use and greenhouse gas emissions equivalent to powering more than 1,000 Canadian homes. Canadian Tire’s sustainability strategy is on track to have an even larger impact on the business in 2011. It is our intention to design, build and open the first of our stores that will be 75 per cent more energy efficient than those built in 2010.

80

Canadian Tire’s Blue Planet label spans 12 categories and more than 80 products, including cleaning supplies, automotive, and storage solutions



Our Canadian Tire Dealers

From our earliest days, Canadian Tire has relied on dedicated and entrepreneurial Dealers to represent our brand in Canadian communities. Indeed, Dealers in our 485 stores represent a major strategic advantage for the Company. We rely on their business instincts, their connection and commitment to their communities and their local market insights to ensure we're offering relevant products at competitive prices across the country.

Community involvement is taken seriously by our Dealers and is one of the most satisfying parts of their job. As local stewards of the Canadian Tire brand, our Dealers feel a strong sense of responsibility to ensure the surrounding community prospers, but they also enjoy making a difference in the lives of customers beyond the aisles of the store. Indeed, the vast majority of Dealers – who deserve recognition as the biggest champions of the Canadian Tire Jumpstart program – are also active participants in local organizations and do not hesitate to give back to the communities they serve.

Our Dealers are among the best and brightest in the retail industry and Canadian Tire is committed to giving them every advantage through compelling training programs and store assistance. Together, we are building the greatest retail programs in the industry. We share an unwavering commitment to always putting the customer foremost in our minds and decisions.

25%

Nearly 25% of Canadian Tire Dealers have more than 20 years of tenure with the Company



Corporate governance

It is a privilege to have, as colleagues, a group of directors who are so generous in their commitment and emotional attachment to Canadian Tire. Their attendance at lengthy and frequent meetings is without complaint, they spend many, many hours reading copious amounts of briefing materials prior to each meeting and sometimes between meetings, they spend days each year educating themselves about our business, they are available to management and to me at any time and on short notice, and they bring their significant skills and experience to decision-making. Working with them, I know that the shareholders of Canadian Tire are very well served by their Board of Directors.

Maureen J. Sabia Chairman of the Board

BOARD OF DIRECTORS *(in order of appearance)*

Peter B. Saunders³
Naples, Florida, U.S.A.

Iain C. Aitchison⁴
Howell, New Jersey, U.S.A.

H. Garfield Emerson, Q.C.³
Toronto, Ontario, Canada

Brian G. Domelle⁴
Toronto, Ontario, Canada

Graham W. Savage^{1*,2}
Toronto, Ontario, Canada

Maureen J. Sabia
Toronto, Ontario, Canada
Non-Executive Chairman of the Board

Peter W. Currie¹
Manotick, Ontario, Canada

Stephen G. Wetmore
Mississauga, Ontario, Canada
President and Chief Executive Officer

James A. Riley^{2*,3}
Toronto, Ontario, Canada



OFFICER TEAM

Stephen G. Wetmore
President and Chief Executive Officer

Marco Marrone
Chief Financial Officer and
Executive Vice-President, Finance

G. Michael Arnett
Executive Vice-President and
President, Canadian Tire Retail

Glenn Butt
Executive Vice-President,
Customer Experience and Automotive

Robyn A. Colver
Senior Vice-President, Secretary
and General Counsel

Kenneth Silver
Senior Vice-President, Corporate
Strategy and Real Estate

Paul D. Wilson
President,
Mark's Work Wearhouse, Ltd.

Dean McCann
President,
Canadian Tire Financial Services

Sharon J. Patterson
Senior Vice-President,
Human Resources

Patrick R. Sinnott
Executive Vice-President,
Technology and Supply Chain

Kristine Freudenthaler
Senior Vice-President, Information
Technology and Chief Information Officer

Candace MacLean
Vice-President and Treasurer

Frank Potter^{2,3*}
Toronto, Ontario, Canada

Owen G. Billes⁴
St. Catharines, Ontario, Canada

Timothy R. Price¹
Toronto, Ontario, Canada

Martha G. Billes^{2,3}
Calgary, Alberta, Canada

Robert M. Franklin^{1,2,4*}
Toronto, Ontario, Canada

James L. Goodfellow
Toronto, Ontario, Canada

Keith E. Gostlin⁴
Kelowna, British Columbia, Canada

- ¹ Audit Committee
- ² Governance Committee
- ³ Management Resources and
Compensation Committee
- ⁴ Social Responsibility
Committee
- * Committee Chair



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Message from the CFO

Marco Marrone



At Canadian Tire, we can look back on the past year and take pride in our financial accomplishments. With the worst of the economic turmoil behind us there is reason to be optimistic about the future. Our “One Company” approach is taking hold, making us more efficient and eliminating redundancies. At the same time, we remain prudent in our financial policies, as witnessed by our efforts to reduce debt, maintain substantial liquidity, and develop multiple funding sources.

Our strong balance sheet is underpinned by significant operating cash flow. From an operational perspective, the Company has improved its margin performance, maintained disciplined credit risk management strategies, and lowered capital expenditures.

We have clear and achievable financial aspirations, notably a 10–12 per cent total return to shareholders, including dividends. While there is hard work to be done to achieve them, I believe our productivity and customer-centric retailing efforts have us on the right path. We raised our quarterly dividend to 27.5 cents from 21 cents a share in 2010, and increased our dividend payout ratio to a range of 20–25 per cent from the previous 15–20 per cent range. We were able to do this because of a resilient core business, strong cash flows, and the confidence we have in our strategy to drive us forward.

Our growth strategy is not about building more stores but making the most of the assets we have already built. In past years, we have spent heavily to modernize and refresh our stores, giving us one of the youngest store networks in North America. Our latest store concept renewal programs – the “Smart store” and “Small Market store” concepts – offer strong returns but require little capital outlay.

When I assumed the role of CFO, the global economy was beset by the financial crisis, but we can thank our strong management team for seeing us through the turmoil. In 2010 we delivered on our objective of retiring \$300 million of debt. The Company has no corporate debt maturing in 2011.

Canadian Tire’s ability to generate cash flow is impressive and will support our future growth. We anticipate using our cash to fund several initiatives in the coming year, including store refresh projects, supply chain enhancements, loyalty program evolution, and in-store customer experience initiatives.

In 2011, the accounting world will undergo a major change with the implementation of International Financial Reporting Standards (IFRS). At Canadian Tire, we have been preparing for the transition for years, and our 2011 first quarter results will mark the debut of our IFRS reporting.

Another change this year, which is specific to Canadian Tire, is that our quarterly financials will report two segments – retail and financial services. We believe the new reporting framework aligns with our new organizational structure and will be more useful to shareholders while upholding Canadian Tire’s commitment to relevant disclosure.

Canadian Tire is approaching its 90th year in business, but there has never been more excitement about the future. We enter 2011 with the financial strength to execute our growth strategy, return capital to shareholders, and enhance the power of our brand.

Sincerely,

A handwritten signature in black ink, appearing to read 'M Marrone', written in a cursive style.

Marco Marrone

Chief Financial Officer and Executive Vice-President, Finance

March 10, 2011

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Management's discussion and analysis (MD&A)

Introduction

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

Definitions

In this document, the terms "we", "us", "our", "Company" and "Canadian Tire®" refer to Canadian Tire Corporation, Limited and its business units and subsidiaries. For commonly used terminology (such as retail sales and same store sales), see section 5.3 and the Glossary of Terms at the end of this financial report.

Review and approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on March 10, 2011.

Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the fourth quarter (13 weeks ended January 1, 2011) are against results for the fourth quarter of 2009 (13 weeks ended January 2, 2010) and all comparisons of results for the full year of 2010 (52 weeks ended January 1, 2011) are against results for the full year of 2009 (52 weeks ended January 2, 2010).

Restated figures

Certain of the prior periods' figures have been reclassified or restated to conform to the current year's presentation or to be in accordance with the adoption of the Canadian Institute of Chartered Accountants' (CICA) new accounting standards. Please refer to Notes 1 and 22 in the Notes to the Consolidated Financial Statements for further information.

Accounting estimates and assumptions

The preparation of consolidated financial statements that conform with Canadian generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. See section 15.0 in this MD&A for further information.

Forward-looking statements

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with Canadian Tire's business and the general economic environment. See section 22.0 for additional important information and a caution on the use of forward-looking information.

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

1.0 Our Company

1.1 Overview of the business

Canadian Tire has been in business for almost 90 years, offering everyday products and services to Canadians. Canadian Tire, our Dealers, **PartSource**[®] corporate and franchisee stores, Petroleum agents and Mark's[™] corporate and franchisee stores operate more than 1,200 general merchandise and apparel retail stores and gas bars. These comprise our retail businesses. Canadian Tire also operates a financial services business. Canadian Tire's financial services segment offers a variety of financial services to Canadians, including credit, deposit, insurance, warranty and auto club services.

Canadian Tire Retail (CTR) is one of Canada's most shopped general merchandise retailers, with a network of 485 Canadian Tire stores that are operated by Dealers who are independent business owners. Dealers buy merchandise from the Company and sell it to consumers in Canadian Tire stores. CTR operates in the Living, Fixing & Playing and Automotive categories. CTR also includes PartSource, a chain of 87 specialty automotive hard parts stores that cater to serious "do-it-yourselfers" and professional installers of automotive parts. The PartSource network consists of 26 franchise stores and 61 corporate stores.

Canadian Tire Petroleum[™] (Petroleum) is one of Canada's largest independent retailers of gasoline with a network of 287 gas bars, including 282 convenience stores and kiosks, 76 car washes, 9 Pit Stops and 92 propane stations. The majority of Petroleum's sites are co-located with Canadian Tire stores as a strategy to attract customers to Canadian Tire stores. All of Petroleum's sites are operated by agents.

Mark's Work Wearhouse[®] (Mark's) is one of Canada's leading clothing and footwear retailers, operating 383 stores nationwide, including 339 corporate and 44 franchise stores, that offer men's wear, women's wear and industrial wear. Mark's operates under the banners "Mark's", "Mark's Work Wearhouse" and in Quebec, "L'Équipeur[®]". Mark's also conducts a business-to-business operation under the name "Imagewear, a Division of Mark's Work Wearhouse[™]".

Canadian Tire Financial Services[®] Limited (Financial Services) markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options[®] MasterCard[®], Canadian Tire Options Visa[®], Cash Advantage[®] MasterCard and Gas Advantage[®] MasterCard. Financial Services also markets personal loans, lines of credit, insurance and warranty products and an emergency roadside assistance service called Canadian Tire Roadside Assistance[®]. Canadian Tire Bank (the Bank), a wholly-owned subsidiary of Financial Services, is a federally regulated bank that manages and finances Canadian Tire's consumer MasterCard, Visa and retail credit card portfolios, as well as the personal loan and line of credit portfolios, deferred financing on specific in-store purchases. The Bank also offers high-interest and tax-free savings accounts and retail GICs and offers GIC's through third-party brokers. The Bank is a member of Canada Deposit Insurance Corporation (CDIC) and eligible deposit products issued by the Bank qualify for CDIC insurance coverage.

2.0 Core capabilities

2.1 Brand equity

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

2.2 Loyalty program

Over 50 years ago, Canadian Tire's 'Money' loyalty program was launched as an innovative customer traffic-builder for Canadian Tire's gas bars. Today, Canadian Tire 'Money'[®] is one of Canada's most popular loyalty programs for customers who shop at our stores and fill up at our gas bars when they pay with cash or use their Canadian Tire-branded credit cards.

Commencing in 2009, we began development of a redesigned and enhanced loyalty program and customer centric retailing approach to provide deeper customer insights.

2.3 National reach and scale

CTR's stores are conveniently located to serve more than 90 per cent of the population, and, with a distribution to more than 11 million homes, our weekly flyer is one of the most widely read advertising vehicles in Canada. Financial Services and Petroleum leverage Canadian Tire's national customer reach to encourage cross-shopping and build loyalty. Our website, www.canadiantire.ca, is one of the country's most visited websites.

Number of stores and retail square footage

	January 1, 2011	January 2, 2010
Consolidated store count		
CTR retail stores ¹	485	479
PartSource stores	87	87
Mark's retail stores ¹	383	378
Petroleum gas bar locations ²	287	272
Total stores	1,242	1,216
Consolidated retail square footage (in millions)		
CTR	19.3	19.0
PartSource	0.3	0.3
Mark's	3.3	3.3
Total retail square footage² (in millions)	22.9	22.6

¹ Store count numbers reflect individual selling locations; therefore, both CTR and Mark's totals include stores that are co-located.

² The average retail square footage for Petroleum's convenience stores was 468 square feet per store in Q4 2010. It has not been included in the total above.

2.4 Innovative store formats, products and services

CTR has demonstrated expertise in the art of retailing—delivering innovative store designs and a merchandise selection that customers need and want. We continually refresh our store network and have built a reputation as an innovator by introducing new products, programs and services that address the everyday needs of customers. The objective is to launch new products with innovative features, at compelling prices, that enhance our unique mix of automotive, home and leisure products and that are not sold by any other retailer in this combination. Noma® true glow LED lights, Fiskars® Cut & More Scissors, Mastercraft Multi-Crafter, Grip-Tite™ Super Sockets, Blue Planet™ storage containers and Reflex Hybrid® Wiper Blades are all examples of new products recently introduced by CTR.

Mark's is also providing innovative apparel and footwear products, such as dri-Wear™ apparel, Freshtech® anti-microbial apparel, Tarantula Antislip™ footwear, never-iron shirts for men and women, shape enhancing technologies in Mark's women's wear and temperature regulating T-Max® insulation in cold weather products. The combination of quality, style and functionality of these products is unique to Mark's.

2.5 Real estate management

Canadian Tire owns and manages more than \$2 billion (net book value) in unencumbered real estate associated with our CTR, PartSource and Mark's stores and Petroleum sites. Our expertise in real estate enables us to expand quickly and efficiently, securing high-traffic, sought-after locations for our stores. We own more than 70 per cent of our CTR store properties. Since 1994, CTR has added, expanded or replaced over 400 stores and has sold many of the properties that became redundant.

2.6 Supply chain

CTR's supply chain is responsible for managing the flow of information and goods among our suppliers, CTR's supply chain partners and CTR stores. Supply chain partners include common carrier trucking companies, third-party logistics companies, ocean carriers and railways. Supply chain involves most aspects of product replenishment and product information flow at Canadian Tire.

Most of CTR's products are distributed to stores from the A.J. Billes Distribution Centre (located in Brampton, Ontario), the Brampton Distribution Centre, the Calgary Distribution Centre or the Montreal Distribution Centre (formerly referred to as the Eastern Distribution Centre). The A.J. Billes and Brampton Distribution Centres are operated by CTR and are staffed primarily by CTR employees. The Calgary and Montreal Distribution Centres are operated by a third-party logistics company. CTR also engages other third-party logistics companies to provide distribution capability in Vaughan, Halifax and Vancouver. CTR utilizes additional space that it owns or leases primarily for product storage and returns processing.

To support growth in automotive hard parts sales and service, three Express Auto Parts distribution centres, which are situated in Calgary, Vaughan and Montreal, provide overnight order processing six nights per week for nearly all CTR and PartSource stores and provide order delivery to most store locations between 24 and 48 hours from receipt of an order.

Mark's engages a third-party logistics company to transport its product shipments from its two distribution centres to its stores and to transport most of its product shipments directly to its stores from domestic suppliers. The same third-party logistics company operates both Mark's distribution centres in Calgary and Brampton pursuant to an outsourcing arrangement with Mark's. Both distribution centre facilities are leased to Mark's by third-party lessors. The movement of goods from offshore suppliers to these two distribution centres is managed by Mark's supply chain mostly through CTR's network of third-party logistics companies. Mark's also receives domestic transportation services from other third-party logistics companies.

Canadian Tire has been sourcing products outside North America since the 1970s and has built strong relationships with overseas suppliers and supply chain partners.

2.7 Credit risk management

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

3.0 Economic outlook

The year ahead is projected to remain challenging for retailers due to the slow pace of economic recovery and relatively high unemployment levels, although the effects of these are likely to vary on a regional basis. The resource-based western provinces are expected to remain relatively robust as global demand for commodities continues to recover, while regions more reliant on manufacturing continue to experience tepid growth. A key factor affecting both business and the consumer is oil prices. Ongoing tensions in the Middle East and North Africa could result in higher oil prices with a consequent dampening effect on consumer spending in 2011.

The Company is well positioned, given that:

- We have a strong network of retail stores with recognized banners in diverse geographic locations throughout the country;
- By the end of 2010, we were in one of our strongest financial positions in the last decade due to successful credit management initiatives, reduced capital expenditures (due to lighter capital intensity of our new store formats and the currency of our supply chain infrastructure), tightly controlled costs, improved liquidity, the retirement of long-term debt and good access to capital;
- CTR has strong consumer brands, a loyal customer base and a wide range of everyday products that are competitively priced and relevant to a cost-conscious consumer; and
- Mark's emphasis on private-label products, many of which have added features and benefits to improve customer satisfaction and provide a compelling value proposition, has allowed Mark's to continue to grow its business and increase its market share, despite temporary adverse business conditions.

In 2011 the Company will take a balanced approach, optimizing earnings through focused growth initiatives, strong expense management and ongoing improvements in financial flexibility, while continuing to invest in long-term growth and productivity initiatives, positioning the Company for strong growth in the business cycle upturn.

4.0 Our strategic objectives

4.1 Strategic objectives

The Strategic Objectives outline our strategy to build the Canadian Tire brand through a renewed focus on growth and productivity throughout the five-year plan period. Details of our Strategic Objectives were announced at our investor conference and media day on April 7, 2010 and have been posted online on our website (under the Investor section) at <http://corp.canadiantire.ca>.

4.2 Financial aspirations

The Strategic Objectives include financial aspirations for the Company for the five-year period ending in December 2014. These aspirations are not to be construed as guidance or forecasts for any individual year within the five-year period, but rather as long-term, rolling targets that we aspire to achieve over the life of the Strategic Objectives, based on the successful execution of our various initiatives.

Financial measure

	Aspiration
CTR retail sales (POS) annual growth	3% to 5%
Consolidated adjusted EPS annual growth	8% to 10%
Retail return on invested capital (ROIC)	10%+
Financial Services return on receivables (ROR)	4.5% to 5.0%
Total return to shareholders (TRS), including dividends	10% to 12%

CTR retail sales growth was 1.4 per cent in 2010 due to a challenging retail environment in 2010 with softness experienced throughout the industry in the Automotive category and declines in electronics and home décor due to market contraction.

Consolidated adjusted EPS was up 18.5 per cent due to higher year-over-year product margins at CTR, PartSource and Mark's as well as lower loan loss provisioning at CTFS and lower interest costs due to the retirement of debt in the prior year.

The retail ROIC was 8.0 per cent, below our aspirations, due to the legacy costs of a more capital intensive retail network and requirements to upgrade our distribution network that are not expected to contribute commensurately until future years.

Financial Services' ROR of 5.0% returned to the top of the aspiration range as the Canadian economy improved. Earnings throughout the year benefited from Financial Services' well managed operations and lower loan loss provisioning requirements.

Total return to shareholders was 19.8 per cent, well ahead of aspirations. This was partially due to a solid increase in the dividend rate and payout ratio announced in November 2010.

The above financial aspirations reflect our expectations over the life of the plan period and individual fiscal years within that period will vary.

5.0 Our performance in 2010

Throughout this document we refer to adjusted pre-tax and after-tax earnings before the impact of non-operating items. Non-operating items are generally the net gains and losses from transactions that are not consistent from quarter to quarter, such as securitization activities and dispositions of surplus property and equipment. In addition, we occasionally include unusual and/or non-recurring items, which are identified and explained at the time. We believe the adjusted figures allow for a clearer assessment of earnings for each of our businesses and provide a more meaningful measure of our consolidated operating results. Please refer to section 18.0 for more information on these and other non-GAAP measures that we use in this MD&A.

5.1 Consolidated financial results

(\$ in millions except per share amounts)	Q4 2010	Q4 2009	Change	2010	2009	Change
Retail sales ¹	\$ 3,064.2	\$ 2,993.0	2.4%	\$ 10,328.2	\$ 10,020.9	3.1%
Gross operating revenue	2,535.6	2,437.7	4.0%	8,980.8	8,686.5	3.4%
EBITDA ²	283.9	248.7	14.1%	947.6	873.7	8.4%
Retail EBITDA ^{2,3}	217.2	191.7	13.3%	679.7	668.4	1.6%
Earnings before income taxes	208.3	141.4	47.3%	597.0	479.2	24.6%
Basic effective tax rate	13.1%	32.0%		24.0%	30.1%	
Net earnings	\$ 181.1	\$ 96.2	88.2%	\$ 453.6	\$ 335.0	35.4%
Basic earnings per share	\$ 2.22	\$ 1.18	88.8%	\$ 5.56	\$ 4.10	35.6%
Adjusted basic earnings per share ²	\$ 1.51	\$ 1.28	17.8%	\$ 5.05	\$ 4.26	18.5%

¹ Represents retail sales at CTR (which includes PartSource), Mark's corporate and franchise stores and ancillary revenue in 2010, as well as Petroleum's sites.

² See section 18.0 for non-GAAP measures.

³ Retail EBITDA excludes Financial Services as EBITDA is not the most relevant measure for Financial Services.

Fourth quarter

Consolidated gross operating revenue

Consolidated gross operating revenue for the quarter increased 4.0 per cent over the prior year. This was due to increased revenue across our various retail businesses, including Mark's which grew 2.7 per cent on strong industrial wear sales and Petroleum, which experienced growth in gasoline volumes, pump prices and strong results from its convenience store business. Financial Services also exhibited strong growth due to increased credit card account balances.

Consolidated net earnings

Consolidated reported net earnings for the quarter increased 88.2 per cent due to improved product margins at CTR and Mark's as well as lower interest expense and the impact of a reduction in the tax provision for the resolution of an outstanding tax issue from prior years. This was partially offset by an increase in the current year effective tax rate caused by a change in the tax treatment of stock options (after tax impact of approximately \$8.1 million). Net earnings for the quarter were significantly impacted by non-operating items as explained below.

Impact of non-operating items

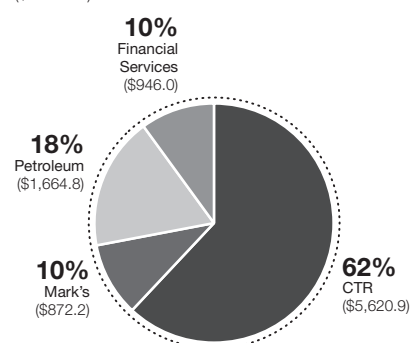
The table below shows our adjusted consolidated earnings on a pre-tax and after-tax basis, after taking into account certain non-operating and/or non-recurring and unusual items.

Full year 2010

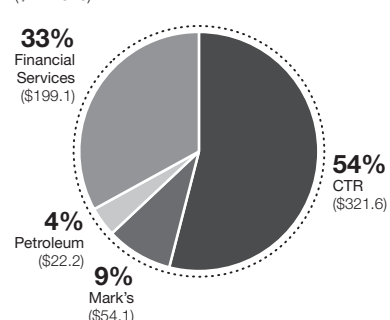
Consolidated gross operating revenue

Consolidated gross operating revenue increased 3.4 per cent over the prior year due to solid growth at Mark's and Petroleum for the reasons noted above. Financial Services revenue increased 4.0 per cent in a challenging environment in spite of the fact that the Financial Services mortgage portfolio, which contributed to revenues for three quarters in 2009, was sold in the fourth quarter of that year.

GROSS OPERATING REVENUE BY BUSINESS SEGMENT (\$ millions)



EARNINGS BEFORE INCOME TAXES BY BUSINESS SEGMENT (\$ millions)



Consolidated net earnings

Consolidated reported net earnings increased 35.4 per cent over the prior year due to lower loan loss provisioning at Financial Services, improved margins at CTR and Mark's and lower interest expenses as compared to the prior year. Earnings were also positively impacted by a reduction in the tax provision for the resolution of an outstanding tax issue from prior years. This was partially offset by an increase in the effective tax rate attributable to a change in the tax treatment of stock options and increased costs at Financial Services related to sales tax changes, new regulations and the conversion to PIN and chip technology.

Adjusted consolidated earnings before and after income taxes¹

(\$ in millions except per share amounts)	Q4 2010	Q4 2009	Change	2010	2009	Change
Earnings before income taxes	\$ 208.3	\$ 141.4	47.3%	\$ 597.0	\$ 479.2	24.6%
Less pre-tax adjustment for:						
Interest revenue on tax deposits ²	18.0	–		18.0	–	
Restructuring charge ²	–	–		(14.7)	–	
Redemption of debentures ²	–	(7.7)		–	(6.1)	
Net effect of securitization activities ³	6.6	(1.0)		(1.2)	(7.8)	
Costs associated with sale of mortgage portfolio	–	(5.3)		–	(5.3)	
(Loss) gain on disposals of property and equipment	(0.8)	1.9		(2.2)	(0.4)	
Other ²	(0.2)	–		–	0.5	
Adjusted earnings before income taxes ¹	\$ 184.7	\$ 153.5	20.3%	\$ 597.1	\$ 498.3	19.8%
Income taxes	(27.2)	(45.2)		(143.4)	(144.2)	
Less adjustments for:						
Income tax provision prior-year's adjustment	42.0	–		42.0	–	
Income tax on non-operating items	(7.1)	3.9		0.1	6.1	
Adjusted income taxes	(62.1)	(49.1)		(185.5)	(150.3)	
Adjusted earnings after income taxes ¹	\$ 122.6	\$ 104.4	17.4%	\$ 411.6	\$ 348.0	18.3%
Basic earnings per share	\$ 2.22	\$ 1.18	88.8%	\$ 5.56	\$ 4.10	35.6%
Adjusted basic earnings per share ¹	\$ 1.51	\$ 1.28	17.8%	\$ 5.05	\$ 4.26	18.5%

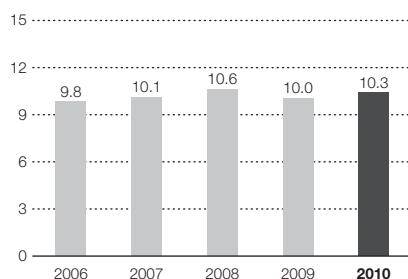
¹ See section 18.0 on non-GAAP measures.

² The interest revenue on tax deposits, restructuring charge, redemption of debentures and other have been recorded in CTR. See section 5.3.1.3.

³ Includes initial gain/loss on the sale of loans receivable, amortization of servicing liability and gain/loss on reinvestment.

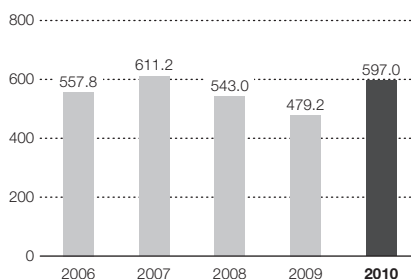
CONSOLIDATED ANNUAL RETAIL SALES

(\$ billions)



CONSOLIDATED EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST^{1, 2}

(\$ millions)

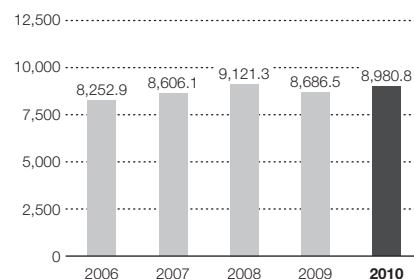


¹ 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. Data required to restate the information prior to 2008 is not available.

² The Company had material non-controlling interest up to 2006.

CONSOLIDATED GROSS OPERATING REVENUE

(\$ millions)



Selected annual consolidated financial information and trend analysis

(\$ in millions except per share amounts)	2010	2009 ¹	2008 ^{1,2,5}	2007 ^{1,2}	2006 ^{1,2,3}
Gross operating revenue ⁴	\$ 8,980.8	\$ 8,686.5	\$ 9,121.3	\$ 8,606.1	\$ 8,252.9
Net earnings	453.6	335.0	375.4	411.7	354.6
Basic earnings per share	5.56	4.10	4.60	5.05	4.35
Diluted earnings per share	5.56	4.10	4.60	5.05	4.31
Cash dividends declared per share	0.905	0.840	0.840	0.740	0.660
Total assets	8,764.1	8,872.5	7,783.8	6,764.8	5,804.6
Long-term debt (excludes current portion)	1,079.4	1,101.2	1,373.5	1,341.8	1,168.4
Long-term deposits (excludes current portion)	1,264.5	1,196.9	598.7	3.8	–
Financial Services gross average receivables (total portfolio)	4,041.2	4,071.5	3,913.0	3,650.4	3,409.0
Number of retail locations	1,242	1,216	1,206	1,168	1,130

¹ 2009 has been restated for debt issuance costs previously included in long-term receivables and other assets, now presented with long-term debt. Bank indebtedness has been reclassified from current assets to current liabilities. 2006, 2007, and 2008 have not been restated. Data is not available.

² 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. 2006 and 2007 have not been restated. Data is not available.

³ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. 2006 results have not been restated. Data is not available.

⁴ Gross operating revenue has been restated for the reclassification of passive interest income to short-term interest expense from 2006 to 2007.

⁵ 53-week period basis.

The five-year trend chart shown above demonstrates growth in gross operating revenue between 2006 and 2010, attributable to growth in our retail businesses, expansion of our loan portfolio and rising gasoline volumes and prices at Petroleum. In 2009, gross operating revenue declined due to the impact of the economy on our retail businesses and a reduction in gasoline prices at Petroleum. Despite the challenging economic conditions in 2009, gross operating revenue increased four out of the past five years across all of our business units due to:

- higher shipments to CTR Associate Dealers due to the expansion in the store network over that time as well as same store sales growth;
- increased sales at Mark's due to network growth, product innovation and an improved in-store consumer experience;
- higher sales at Petroleum due to increased volume and rising gas prices over the period, as well as an increased focus on ancillary products and services such as convenience store offerings and car washes; and
- increased revenue at Financial Services due to growth in the portfolio of loans receivable, especially with regard to loan balances, which are now approaching industry norms.

Long-term debt grew between 2006 and 2008, largely due to continued investment in the growth of our retail businesses in more capital intensive formats such as the Concept 20/20 stores and expanded distribution capacity. Since that time, strong cash flow from operations and reduced capital requirements from new store formats have enabled us to retire long term debt. In addition, the Company has expanded its financing sources over that period which now include deposit balances at Financial Services and serve as a cost effective source of funds.

Deposits have increased over the past few years as a result of diversification in financing strategies for our credit card receivables at Financial Services, lessening reliance on securitization as a funding source. Deposits from broker and retail GICs provide an alternative and effective strategy to finance the loans at a low cost.

Financial Services' gross average receivables (total portfolio) have increased each year over the five-year period, with the exception of 2010 which was affected by the disposition of the mortgage portfolio in Q4 2009. This is due to efforts by Financial Services to grow the total portfolio through increasing the average balance per account, while managing risk.

For our retail network, the focus is now on leveraging existing assets by driving productivity through the reallocation of space and expanded assortments, all at a lower capital cost than the previous generation Concept 20/20 stores. The Smart store format, launched in fall 2008, features category dominance in key heritage businesses, improved customer experience and a focus on improving in-store operations. The Small Market format, launched in summer 2008, is used to replace existing small traditional stores in their markets, and also allows CTR to enter incremental markets. Small Market stores also incorporate a Mark's outlet and Petroleum gas bar where feasible. In addition, the Mark's store network has continued to expand and we are pleased with the results of rebranding "Mark's Work Wearhouse" to "Mark's" in selective locations.

Seasonal trend analysis

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

Consolidated quarterly results

(\$ in millions except per share amounts)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Gross operating revenue	\$2,535.6	\$2,201.0	\$2,414.1	\$1,830.1	\$2,437.7	\$2,165.9	\$2,324.8	\$1,758.1
Net earnings	181.1	103.2	119.9	49.4	96.2	85.4	103.7	49.7
Adjusted net earnings ¹	122.6	119.1	118.4	51.5	104.4	91.0	103.0	49.6
Basic and diluted earnings per share	2.22	1.27	1.47	0.61	1.18	1.04	1.27	0.61
Adjusted basic and diluted earnings per share ¹	1.51	1.46	1.45	0.63	1.28	1.11	1.26	0.61

¹ See section 18.0 on non-GAAP measures.

5.2 Business unit 2010 performance overview

A summary of our key performance metrics for the full-year follows. Commentary to help explain full-year performance may be found in individual business segment performance sections.

Key operating performance measures

(year-over-year percentage change, \$ in millions, except where noted)	2010	2009	Change
CTR retail sales growth ¹	1.4%	(1.1)%	
CTR same store sales growth ²	0.8%	(2.6)%	
Retail square footage ³ (in millions of square feet)	19.3	19.0	1.7%
Sales per square foot ^{3,4} (Updated/Expanded & Traditional)	\$ 370	\$ 367	0.8%
CTR gross operating revenue	\$ 5,620.9	\$ 5,552.2	1.2%
CTR net shipments growth	1.0%	(2.4)%	
CTR EBITDA ⁵	\$ 551.8	\$ 535.7	3.0%
CTR adjusted EBITDA ⁵	\$ 565.2	\$ 533.4	6.0%
CTR adjusted earnings before income taxes ⁵	\$ 317.0	\$ 265.4	19.4%
Mark's retail sales growth ⁶	3.7%	(3.5)%	
Mark's same store sales growth ⁷	1.9%	(4.7)%	
Mark's total retail square footage (in millions of square feet)	3.3	3.3	1.1%
Average sales per square foot ¹³	\$ 289	\$ 288	0.4%
Mark's gross operating revenue ¹²	\$ 872.2	\$ 833.8	4.6%
Mark's EBITDA ⁵	\$ 87.5	\$ 90.5	(3.4)%
Mark's adjusted EBITDA ⁵	\$ 89.4	\$ 91.7	(2.6)%
Mark's adjusted earnings before income taxes ⁵	\$ 56.0	\$ 62.7	(10.8)%
Petroleum retail sales growth	10.2%	(16.8)%	
Petroleum gasoline volume (litres) growth	1.6%	0.7%	
Petroleum gross operating revenue	\$ 1,664.8	\$ 1,515.1	9.9%
Petroleum EBITDA ⁵	\$ 40.4	\$ 42.2	(4.2)%
Petroleum's adjusted EBITDA ⁵	\$ 41.7	\$ 42.9	(2.7)%
Petroleum adjusted earnings before income taxes ⁵	\$ 23.5	\$ 24.9	(5.5)%
Financial Services' credit card sales growth	2.8%	2.4%	
Financial Services' gross average credit card receivables growth	4.0%	4.3%	
Average number of credit card accounts with a balance – credit card portfolio only (thousands)	1,716	1,768	(2.9)%
Credit card account balances less than 30 days overdue, at the end of the period	96.17%	95.99%	
Average account balance – credit card portfolio only (whole \$)	\$ 2,334	\$ 2,179	7.1%
Net credit card write-off rate – credit card portfolio only	7.49%	7.83%	
Allowance rate ⁸	2.81%	3.07%	
Operating expenses ⁹ (as a % of GAR)	7.28%	6.92%	
Return on average total managed portfolio ^{9,10,11}	4.96%	3.57%	
Financial Services' gross operating revenue	\$ 946.0	\$ 909.9	4.0%
Financial Services' adjusted earnings before income taxes ⁵	\$ 200.6	\$ 145.3	38.1%

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

² Includes sales from Canadian Tire and PartSource stores, but exclude sales from the labour portion of CTR's auto service sales.

³ Excludes PartSource stores. Retail space does not include warehouse, garden centre and auto service areas.

⁴ Retail sales are shown on a 52-week basis in each year for those stores that had been open for a minimum of two years as at the end of the current quarter. Sales from PartSource stores and the labour portion of CTR's auto service sales are excluded.

⁵ See section 18.0 on non-GAAP measures.

⁶ Includes retail sales from Mark's corporate and franchise stores and in 2010 ancillary revenue

⁷ Mark's same store sales exclude new stores, stores not open for the full period in each year, store closures and ancillary revenue.

⁸ The allowance rate (estimate of future write-offs based on aging and arrears status) was calculated on the total managed portfolio of loans receivable.

⁹ Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable.

¹⁰ Excludes the net effect of securitization activities, costs associated with the sale of the mortgage portfolio in Q4 2009 and gain/loss on disposal of assets.

¹¹ Return is calculated as adjusted earnings before taxes as a percentage of GAR. (GAR is the monthly average of Financial Services' total portfolio loans receivable averaged over a specified period of time).

¹² Includes retail sales from Mark's corporate stores and in 2010 ancillary revenue.

¹³ Average retail sales per square foot are based on sales from corporate stores. Mark's has prorated square footage for corporate stores that have been open for less than 12 months.

The following sections outlining the Company's business segments' performance highlight the respective segment's achievements to date against its key initiatives identified in our Strategic Objectives. The initiatives have been divided into growth (increase sales primarily through network growth, new stores and new products) and productivity (improve customer service metrics, service levels, cost-effectiveness and rates of return).

5.3 Business segment performance

5.3.1 Canadian Tire Retail

5.3.1.1 2010 Strategic objectives

Canadian Tire Retail growth initiatives

New store program

Concept 20/20 stores have been the cornerstone of CTR's growth agenda since 2003. This program is now complete and CTR has developed new store concepts which are designed to build on the successes of the Concept 20/20 store program with a greater focus on improving sales and productivity at a lower capital cost. Plans for 2011 include opening new Smart store retrofits that will have the same focus on improving sales and productivity, as well as providing a more exciting customer experience, and Small Market stores which are designed to expand our presence in smaller markets.

2010 Key initiatives

We planned to rollout our new concept CTR stores:

- open approximately 60 Smart store retrofits;
- open four incremental new Smart stores;
- replace or expand four stores; and
- open three incremental new Small Market stores.

2010 Performance

Fourth quarter

During the fourth quarter CTR:

- initiated 20 Smart store retrofit projects;
- replaced two Traditional stores with two new Smart stores, one of which included a Mark's store; and
- opened one incremental Small Market store, which incorporates a full Mark's store.

Full year 2010

- opened 67 Smart stores, six of them incorporating a full Mark's store (of which three are incremental combo sites);
- opened three Small Market stores, two of them incorporating a full Mark's store; and
- closed seven traditional stores.

The store network now totals 485 stores, 57 of which include a Mark's component.

Enhance customer loyalty program

Over 50 years ago, Canadian Tire's 'Money' loyalty program was launched as a customer traffic-builder for Canadian Tire's gas bars. Today, Canadian Tire 'Money' is one of Canada's most popular loyalty programs for customers who shop at our stores and fill up at our gas bars when they pay with cash or use their Canadian Tire-branded credit cards. In 2010, we began development of a redesigned and enhanced loyalty program to provide deeper customer insights.

2010 Key initiatives

CTR began to develop a redesigned and enhanced loyalty program and customer-centric retailing approach to provide deeper customer insights. This includes:

- piloting the new loyalty program in 2011;
- measuring and utilizing Customer Service Index (CSI) feedback from customers to improve customer experience; and
- optimizing key retail processes such as pricing, assortment and integrated marketing based on the consumer insights.

2010 Performance

Fourth quarter and full year 2010

During the fourth quarter the Company made further preparations for the regional testing of its new loyalty program which is slated to occur in Q3 2011.

Canadian Tire Retail productivity initiatives

CTR Change Program

During 2007, CTR began to implement its multi-year productivity effort with projects designed to overhaul and upgrade internal processes and IT systems. The benefits of these projects include the ability to make faster and better decisions and improve our agility and speed to market.

2010 Key initiatives

CTR planned to advance productivity and control initiatives in the area of sales and operational planning, and CTR will also analyze and build requirements for implementation in the areas of promotional planning and vendor engagement.

2010 Performance

Fourth quarter and full year 2010

Progress made on the CTR Change Program includes:

- delivered improved product messaging on customer receipts and online for returns and warranty exceptions; and
- designed and implemented new software and processes for Promotional Planning capability in Q4 2010.

Automotive Infrastructure initiative

The Automotive Infrastructure initiative is intended to drive growth in the Company's automotive businesses and improve the automotive customer experience at Canadian Tire and PartSource stores. The program is comprised of three primary components:

- significantly expanding Canadian Tire's automotive parts assortment and replacing aging assortment planning technology with a commercially available, best-of-breed decision rule and predictive modelling-based solution;
- upgrading CTR's automotive retail operating systems by replacing legacy-based "green screen" applications with Windows-based automotive management software, parts application and data management technology to drive a stronger customer experience; and
- creating a network of approximately 23 PartSource hub stores across Canada to enhance supply of auto parts at the local market level and training CTR front-line automotive staff on associated new processes.

2010 Key initiatives

- establish two to four new PartSource hub stores;
- implement Manhattan warehouse management software (WMS) in the Calgary auto parts distribution centre;
- work to commence on Montreal (Eastern) auto parts distribution centre WMS; and
- design and build an updated automotive parts assortment planning (APAP) model (testing to commence in 2011).

Design and build the technology and processes necessary to pilot the Customer Experience Process solution (pilot to take place in 2011).

2010 Performance

Fourth quarter and full year 2010

Progress on the Automotive Infrastructure initiative includes:

Emergency Supply Processes:

- one PartSource hub store established in Dartmouth, NS serving 13 Canadian Tire Retail stores; and
- a second hub store was opened in the Ottawa market serving 21 Canadian Tire Retail stores.

Assortment Deployment Processes:

- the Calgary automotive warehouse management technology was placed in production in February 2010;
- completed the design of the Montreal auto parts distribution warehouse management system. Build and test phases are 80% complete with inbound processes on track to go live in Q1 2011; and
- continued to build automotive parts assortment planning models; on track to place the new models into production in Q4 2011.

Customer Experience Processes:

- CTR and our chosen vendors are developing the technology to support an improved customer experience process for do-it-yourself (DIY) and do-it-for-me (DIFM) customers; and
- completed the design and build of the new automotive service and parts solution. In-store testing will commence in Q1 2011; on track to rollout to the majority of stores by the end of 2011.

5.3.1.2 Key performance indicators

The following are key measures of CTR's sales productivity which are highlighted in the charts below:

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

CTR total retail and same store sales

(year-over-year percentage change)	Q4 2010	Q4 2009	2010	2009
Total retail sales ¹	0.5%	(3.1)%	1.4%	(1.1)%
Same store sales ²	(0.4)%	(4.1)%	0.8%	(2.6)%

¹ Includes sales from Canadian Tire and PartSource stores and the labour portion of CTR's auto service sales.

² Includes sales from Canadian Tire and PartSource stores, but exclude sales from the labour portion of CTR's auto service sales.

CTR's retail sales

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

CTR's same store sales

Same store sales include sales from all stores that have been open for more than 53 weeks (in a 52-week fiscal year).

CTR store network definitions

Our store network has evolved as we have introduced new store formats into our store categories, which we define as follows:

Smart store format (late 2008) Average retail square footage: 48,000	Small Market store format (mid-2008) Average retail square footage: 16,000	Updated and Expanded store format (1994 to mid-2008) Average retail square footage: 43,000	Traditional store format (1994 and prior) Average retail square footage: 15,000	PartSource stores (2009 and prior) Average retail and warehouse square footage: 7,200. Hub stores: 15,000
Next store concept renewal, building off the Concept 20/20 store with a focus on growth and improving productivity through inspiring layouts, refreshed assortments and more environmentally responsible options. Stores range in size from 19,000 to 89,000 square feet. There are currently 103 Smart stores in the network, the first of which opened in November 2008.	Smaller format launched in July 2008, ranging in size from 14,000 to 19,000 square feet. Small Market stores meet the needs of underserved rural markets and include customized product selection to serve a particular region, easy-to-navigate signage and walkways, prominent heritage departments (e.g.: hockey) and generously sized outdoor areas that "expand" the store in peak periods. There are currently 12 Small Market stores in the network.	A combination of our newer format stores, including "Concept 20/20", "Class-of" and "Next Generation" stores. These stores, previously referred to as "standard stores", range in size from 16,000 to 86,000 square feet, and most were opened or converted to these formats between 1994 and mid-2008. "Updated and expanded" format stores make up approximately 69 per cent of the retail square footage in the CTR network (excluding PartSource).	Smaller than the "Updated and Expanded" store format on average. Traditional stores have various sizes and layouts ranging in size from 3,000 to 35,000 square feet. Traditional stores make up approximately five per cent of the retail square footage in the CTR network (excluding PartSource).	PartSource is an automotive parts specialty store designed to meet the needs of major purchasers of auto parts, professional automotive installers and serious do-it-yourselfers. Stores carry a tailored product assortment based on local vehicle needs and are easily recognizable with the checkerboard flooring design. Beginning in 2007, new larger warehouse locations (hub stores) were opened to help bring more parts inventory closer to customers at both CTR and PartSource stores.

CTR store count

	2010	2009	2008	2007	2006
Updated and Expanded stores	306	363	393	381	363
Smart stores	103	36	2	-	-
Traditional stores	64	71	76	92	105
Small Market stores	12	9	4	-	-
Total Updated and Expanded, Traditional, Small Market and Smart stores	485	479	475	473	468
PartSource stores	87	87	86	71	63

CTR continues to retrofit its store network with a focus on converting selected Traditional and "Updated and Expanded" existing stores to the latest formats. Customer feedback on the two new formats (Small Market and Smart stores) has been especially well received and sales results have been very positive.

The Company has continued to ramp up its new format build/conversion/refresh program with 72 real estate projects completed in 2010, including 59 Smart store retrofits, three new Smart stores and three new Small Market stores.

Average sales per square foot of CTR retail space^{1,2,3}

	For the 12 months ended, January 1, 2011	For the 12 months ended, January 2, 2010
Retail square footage ^{1,3} (millions of square feet)	19.3	19.0
Sales per square foot ^{2,3} (\$ sales per square foot)	\$ 370	\$ 367

¹ Retail square footage is based on the total retail square footage including stores that have not been open for a minimum of two years. It represents a point in time (instead of a rolling 12-month period) as at the end of the year.

² Retail sales are shown on a 52-week basis in each year for those stores that had been open for a minimum of two years as at the end of the current quarter. Sales from PartSource stores and the labour portion of CTR's auto service sales are excluded.

³ Excludes PartSource stores. Retail space does not include warehouse, garden centre and auto service areas.

Retail square footage increased by approximately 0.3 million square feet year-over-year due to the network expansion and retrofit activities noted above.

CTR retail sales

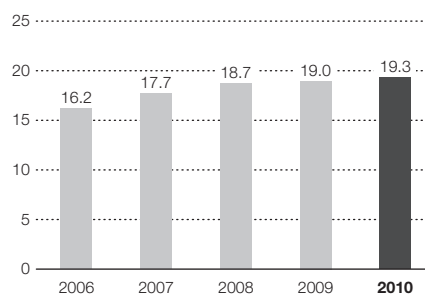
Fourth quarter

Total retail sales increased a modest 0.5 per cent, while same store sales decreased 0.4 per cent. The Automotive category reversed the negative trend of recent quarters and finished up slightly over the comparable period on the strength of cold weather related products such as wiper blades and batteries and a renewed focus in the back half of the year on the tire category, with light truck, winter and performance tires leading the way.

Strength in the Automotive category was substantially offset by lower growth in the Living, Fixing & Playing categories. Declines were experienced in snow related outdoor tools (snow throwers and shovels) and electronics (due to overall market contraction).

Sales grew strongly in hockey and sporting equipment (due to an effective marketing program with the National Hockey League® and a star player) and kitchen products (due to strong media support for premium brands).

CTR'S RETAIL SQUARE FOOTAGE¹
(millions of square feet)



¹ Excludes PartSource stores.

Full year 2010

On an annual basis, total retail sales increased 1.4 per cent. Strong growth was registered in the Living and Fixing categories an increase of 3.3 per cent over the prior year due to strong growth in household cleaning products and kitchen appliances, partially offset by softness in home décor products and electronics. The 2.2 per cent growth in leisure products was attributable to backyard living and gardening products. On a full year basis the Automotive category experienced a decline due to softness in heavy auto maintenance parts and fluids resulting from industry conditions and a very competitive market.

5.3.1.3 CTR's financial results

(\$ in millions)	Q4 2010	Q4 2009	Change	2010	2009	Change
Retail sales ²	\$ 2,177.7	\$ 2,167.8	0.5%	\$ 7,510.0	\$ 7,407.2	1.4%
Net shipments (year-over-year % change)	1.4%	(8.6)%		1.0%	(2.4)%	
Gross operating revenue	1,522.6	1,494.4	1.9%	5,620.9	5,552.2	1.2%
EBITDA ¹	141.1	114.6	23.2%	551.8	535.7	3.0%
Earnings before income taxes	97.9	38.0	157.8%	321.6	261.6	23.0%
Less adjustment for:						
Interest revenue on tax deposits	18.0	–		18.0	–	
Restructuring charge	–	–		(14.7)	–	
Redemption of debentures	–	(7.7)		–	(6.1)	
Gain on disposals of property and equipment	0.8	2.2		1.3	1.8	
Other	(0.2)	–		–	0.5	
Adjusted earnings before income taxes ¹	\$ 79.3	\$ 43.5	82.3%	\$ 317.0	\$ 265.4	19.4%

¹ See section 18.0 on non-GAAP measures.

² Includes sales from CTR and Partsource stores and the labour portion of CTR's automotive service sales.

CTR's net shipments

CTR's net shipments includes merchandise shipped to Canadian Tire Retail stores and PartSource franchise stores and sold at corporate PartSource stores, less discounts and net of returns.

Explanation of CTR's financial results

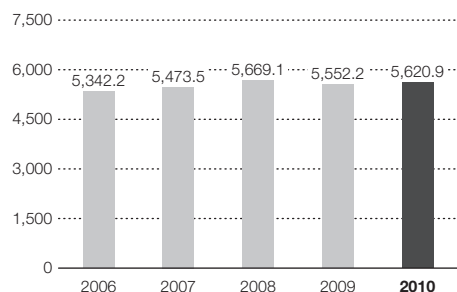
Fourth quarter

Gross operating revenue increased 1.9 per cent primarily due to the increase in shipments to Dealers.

Adjusted earnings before taxes increased 82.3 per cent due to improved product margins and lower net interest expense. Product margins improved due to lower product costs attributable in part to the strengthening of the Canadian dollar as well as favourable mix as certain higher than average margin product categories performed relatively well. Interest expense was lower due to the retirement of certain debt instruments in the prior year.

Operating expenses were higher as advertising and sponsorship activities were increased to support our Hockey and Automotive categories. In addition, corporate costs increased due to higher employee deferred compensation program costs as a result of the higher Company share price compared with the prior year.

CTR'S GROSS OPERATING REVENUE
(\$ millions)



Pre-tax earnings for CTR were also favourably impacted by the interest on the tax refund referenced above, partially offset by the fact that the prior year comparative includes a charge for the early redemption of debt.

Full year 2010

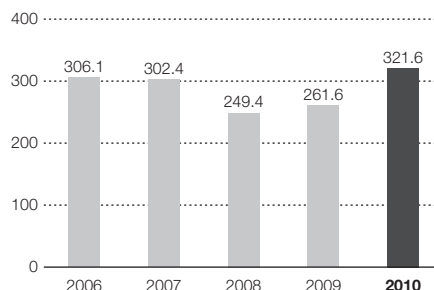
Gross operating revenue increased a modest 1.2 per cent over the prior year primarily due to the increase in shipments to Dealers, which was consistent with the increase in retail sales of 1.4 per cent.

Adjusted earnings before taxes increased 19.4 per cent due to improvements in product margins for reasons similar to those noted above and lower interest costs.

Pre-tax earnings were also favourably impacted by interest on the tax refund referenced above, partially offset by a restructuring charge taken in Q3 2010.

CTR'S EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST^{1,2}

(\$ millions)



¹ 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. Data required to restate the information prior to 2008 is not available.

² The Company had material non-controlling interest up to 2006.

5.3.1.4 Business trends

Canada's retail industry has experienced significant change over the past 10 years. Competition in the retail market generally and in individual sectors has intensified, with domestic retailers expanding and international retailers such as Walmart, Home Depot and Lowe's entering and expanding in Canada. Target recently indicated its intention to enter the Canadian market, initially via acquiring the locations of existing Zeller's stores. The industry has also experienced consolidation as department stores and other retailers either have gone out of business or been acquired.

Retail formats have continually increased in terms of store size and merchandise breadth, creating a situation where retailers are competing both within a specific industry segment (e.g., automotive and specialty) and across sectors (e.g. general merchandise and grocery). In order to maintain our competitive position, we believe we must have a clear and unique value proposition and be able to respond to the changing demographics and lifestyles of Canadian consumers who demand choice, convenience, quality, value and service. Price competitiveness and promotional effectiveness are increasingly important factors in retail success.

Retail consumers faced significant challenges in 2009 and most of 2010 due to the economic recession felt across Canada. The resulting job losses, slower income growth, and higher personal debt levels have created greater uncertainty in consumers' minds and led to lower spending levels in these years. The Company expects that 2011, while somewhat improved, will still not have rebounded to historical levels of growth. Accordingly, the Company is taking these factors into account, particularly in determining its future capital spending plans, and continues its focus on productivity and cost-saving initiatives.

5.3.1.5 Business risks

CTR is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to CTR's operations. Refer to section 14.0 of this MD&A for a discussion of some other industry-wide and company-wide risks affecting the business.

Seasonality risk

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

Supply chain disruption risk

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

Environmental risk

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

5.3.2 Canadian Tire Petroleum

5.3.2.1 2010 Strategic objectives

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

Canadian Tire Petroleum growth initiatives

Network renewal and new store concept

Petroleum's business is an integral part of the Canadian Tire organization as customers that use Petroleum's gas bars drive sales and traffic to our other business units. Through our Strategic Objectives, Petroleum will continue to develop its real estate plan, focusing on introducing new site concepts into its existing network of locations, while continuing to focus on renewing its current sites to enhance the customer experience.

2010 Key initiatives

Petroleum plans to strengthen the existing network by opening new sites and refurbishing or rebuilding existing sites.

2010 Performance

Fourth quarter

- opened four gas bars;
- rebranded two sites;
- refurbished four existing sites;
- opened four new convenience stores; and
- opened three cash wash locations.

Full year 2010

- opened 17 new gas bars;
- refurbished nine existing sites;
- closed two gas bars;
- opened 17 convenience stores; and
- closed two convenience stores.

At the end of the year, Petroleum had 287 gas bars, including 42 rebranded sites. Also included are eight state-of-the-art service centres along Ontario's two busiest highways (Highway 401 and Highway 400).

Supporting the Core – Canadian Tire Retail business

Petroleum's business supports the core business by giving out Canadian Tire Money that can only be redeemed at our stores and thereby drives customer traffic to Canadian Tire Retail and supports credit card receivables at Financial Services. Performance within this business will be driven by continued growth of gasoline volume and non-gas sales, and strong operating expense management.

2010 Key initiatives

In 2010, Petroleum plans to increase its gasoline volume and will drive non-gas sales by aggressively seeking out additional cross-marketing opportunities to support the core business – Canadian Tire Retail.

2010 Performance

Fourth quarter and full year 2010

- Gasoline volume increased by 5.3 per cent versus the fourth quarter of 2009. A portion of this increase was attributable to the above noted 400 series highway venture; and
- Non-gas sales increased by 16.3 per cent versus the fourth quarter of 2009, mostly due to strong growth in car wash sales and convenience store sales.

5.3.2.2 Key performance indicators

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

Gasoline sales volume

	Q4 2010	Q4 2009	Change	2010	2009	Change
Sales volume (millions of litres)	454.4	431.3	5.3%	1,736.7	1,708.8	1.6%

Petroleum has continued to hold its market share in a mature market, largely due to our loyalty program, customer service experience at our gas bars and strong penetration of our Canadian Tire Options MasterCard and Gas Advantage MasterCard. Petroleum executed an agreement to build 23 state-of-the-art service centres along Ontario's two busiest highways (Highway 401 and Highway 400) during the year and the initial 8 sites became operational in the back half of the year, contributing to Petroleum's volume growth and image enhancement.

Petroleum's convenience and car wash sales

(year-over-year percentage change)	Q4 2010	Q4 2009	2010	2009
Total retail sales				
Convenience store sales	17.1%	15.0%	16.1%	16.5%
Car wash sales	18.2%	8.5%	13.7%	8.4%
Same store sales				
Convenience store sales	11.8%	13.6%	13.4%	14.3%
Car wash sales	14.6%	9.3%	13.4%	8.7%

Convenience store sales were strong in the fourth quarter of 2010, mainly due to sales increases in the tobacco, lottery and confectionary categories and activity from the newly opened service centres on the 400 series highways. Car wash sales have shown strong growth year to date. Car wash results are generally heavily correlated to weather conditions.

5.3.2.3 Petroleum's financial results

(\$ in millions)	Q4 2010	Q4 2009	Change	2010	2009	Change
Retail sales	\$ 487.4	\$ 433.5	12.4%	\$ 1,822.8	\$ 1,653.7	10.2%
Gross operating revenue	449.8	398.8	12.8%	1,664.8	1,515.1	9.9%
EBITDA ¹	8.7	6.6	33.5%	40.4	42.2	(4.2)%
Earnings before income taxes	3.6	1.9	92.1%	22.2	24.2	(8.2)%
Less adjustment for:						
Loss on disposals of property and equipment	(0.4)	(0.3)		(1.3)	(0.7)	
Adjusted earnings before income taxes ¹	\$ 4.0	\$ 2.2	85.0%	\$ 23.5	\$ 24.9	(5.5)%

¹ See section 18.0 on non-GAAP measures.

Petroleum's retail sales

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

Gasoline pricing

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

Explanation of Petroleum's financial results

Fourth quarter

Petroleum's gross operating revenue increased 12.8 per cent due to the increase in volume (5.3 per cent) and price (6.3 per cent) of gasoline over the period combined with strong convenience and car wash sales as noted previously.

Petroleum's adjusted pre-tax earnings increased by 85.0 per cent due to increased revenues and favourable mix as the higher margined convenience store and car wash sales grew faster than gasoline sales. These were partially offset by operating costs associated with the new 400 highway series service stations and higher depreciation charges due to the expansion of the Petroleum network over the past few years.

Full year 2010

Petroleum's gross operating revenue increased 9.9 per cent over 2009. This was the result of a 1.6 per cent increase in gasoline volumes and an 8.0 per cent increase in average gasoline prices as well as growth in convenience store and car wash sales.

Petroleum's adjusted pre-tax earnings were down 5.5 per cent from 2009, due to gasoline margin pressure earlier in the year as well as start up costs associated with the new 400 highway series service stations.

5.3.2.4 Business trends and economic outlook

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

5.3.2.5 Business risks

Petroleum is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Petroleum's operations. Please refer to section 14.0 for a discussion of some other industry-wide and company-wide risks.

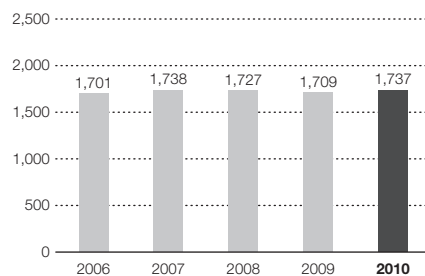
Commodity price and disruption risk

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

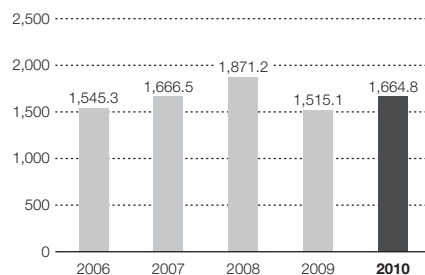
Environmental risk

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

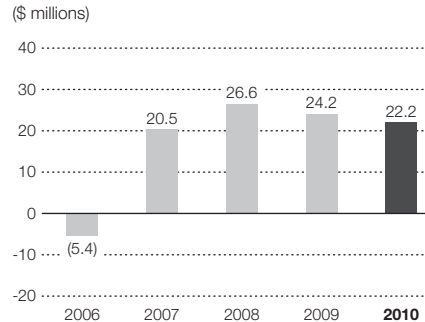
PETROLEUM'S GASOLINE SALES VOLUME
(millions of litres)



PETROLEUM'S GROSS OPERATING REVENUE
(\$ millions)



PETROLEUM'S EARNINGS (LOSS) BEFORE INCOME TAXES
(\$ millions)



5.3.3 Mark's Work Wearhouse

5.3.3.1 2010 Strategic objectives

Mark's Work Wearhouse growth initiatives

Network expansion

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

2010 Key initiatives

Mark's will continue network development through opening new stores, relocating or expanding existing stores and renovating older stores to the newest Mark's format. For 2010, we planned to:

- open 7 new stores; and
- relocate/renovate 1 store.

2010 Performance

Fourth quarter

- opened four new corporate stores, two of which are combo stores with CTR; and
- closed four corporate stores.

Full year 2010

- opened nine new corporate stores (five of which were combination stores with CTR);
- relocated two corporate stores;
- expanded two corporate stores and one franchise store; and
- closed four corporate stores.

The store network now totals 383 stores, 57 of which are CTR/Mark's combo stores.

Enhancing the brand and the customer experience

Enhancing the brand will centre on continuing to develop the Clothes that Work® ("CTW") store concept and the communication of this to Mark's customers in-store through consistent marketing addressing the innovations found in Mark's products. Mark's focus to enhance the customer experience will continue with the implementation of improved reporting tools that will help Mark's stay in touch with both current shoppers and non-shoppers to constantly improve product offering and store experience.

2010 Key initiatives

Mark's plans to develop the CTW strategy to enhance the brand and customer experience. Mark's will accomplish this by:

- growing the number of innovations engineered that support CTW; and
- piloting stores rebranding "Mark's Work Wearhouse" to "Mark's".

2010 Performance

Fourth quarter

- Mark's continued to introduce CTW products in the fourth quarter, including heated winter boots; Quad Lite work boots reducing the weight of work boots significantly; Hyper-Dri® water repellent fleece hoodies in men's wear; women's hoodies with temperature regulating T-Max insulation; and Dri-Wear polypropylene thermal underwear.

Full year 2010

- Over a dozen innovative products, including those noted above, were introduced to Mark's stores during the year; and
- From the launch date in September 2010, Mark's obtained a higher incremental average comparable sales growth from its 26 pilot rebrand stores (rebranding from "Mark's Work Wearhouse" to "Mark's") than the comparable control group of stores that were not rebranded.

Category expansion

Mark's growth goals for the Strategic Objectives will be supported by category expansion in its three major product lines. Women's wear will be the fastest growing segment of the business as it is the least developed of the Mark's main category lines. Improvements in the product assortment and fit in the women's wear category will be the foundation for growth.

2010 Key initiatives

In 2010, Mark's plans to expand its product assortment in the three main categories of apparel and footwear with a focus on the Clothes That Work campaign.

2010 Performance

Fourth quarter

- sales of industrial wear increased substantially with double digit growth rates within industrial footwear and men's underwear;
- sales of women's wear were flat although knits, health wear and casual footwear experienced double digit increases (offset by declines in sweaters, wovens and bottoms); and
- sales of men's wear were down slightly with double digit increases in sweaters and fleece but offsetting declines in outerwear.

Full year

- the full year sales increase was driven by the industrial wear category.

5.3.3.2 Key performance indicators

The following are key performance indicators for Mark's:

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

Mark's retail and same store sales growth

(year-over-year percentage change)

	Q4 2010	Q4 2009	2010	2009
Total retail sales ¹	1.9%	0.7%	3.7%	(3.5)%
Same store sales ²	0.7%	(0.2)%	1.9%	(4.7)%

¹ Includes retail sales from corporate and franchise stores and in 2010 total system ancillary embroidery and alteration revenue, net of a sales return provision.

² Mark's same store sales exclude new stores, stores not open for the full period in each year, store closures and in 2010 ancillary revenue.

Mark's retail sales

Mark's retail sales represent total merchandise sales to consumers and business-to-business customers, net of returns, across Mark's entire network of stores, fulfillment centres and Mark's online web store, recorded at retail prices. Mark's also has embroidery and alteration and other ancillary revenue in 2010.

Fourth quarter

Sales were uneven for the quarter. After a very strong sales month in November, Mark's experienced moderate store traffic in December as most apparel retailers started discounting prior to Christmas. Mark's however maintained its ongoing pricing and promotional strategy and, while this had a dampening effect on sales growth, it did contribute to margin rate enhancement.

Mark's total retail sales for the quarter increased 1.9 per cent over the comparable period in the prior year due to increased industrial wear sales on the strength of industrial footwear.

Geographically, Mark's experienced disparate growth with sales strongest in Alberta, Saskatchewan and Ontario but declining in the other provinces.

MARK'S RETAIL SALES

(\$ millions)



Full year 2010

Mark's total retail sales increased a solid 3.7 per cent over the prior year with Industrial wear leading the way. Both mens' and women's wear lines were essentially unchanged.

Average Corporate Store Sales¹

	For the 12 months ended, January 1, 2011	For the 12 months ended, January 2, 2010
Corporate store retail square footage (thousands) ⁴	3,336	3,300
Average retail sales per store (\$ thousands) ²	\$ 2,561	\$ 2,510
Average sales per square foot (\$) ³	289	288

¹ Calculated on a rolling 12-month basis.

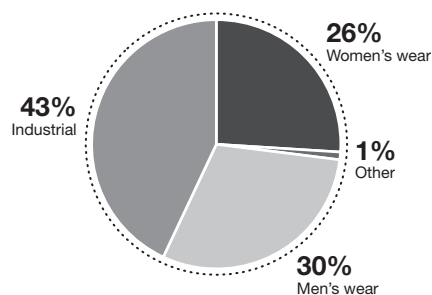
² Average retail sales per corporate store includes stores that have been open for 12 months or more.

³ Average retail sales per square foot are based on sales from corporate stores. Mark's has prorated square footage for corporate stores that have been open for less than 12 months.

⁴ End of period values.

Mark's sales per square foot stabilized during the year, reversing the trend experienced over the last several quarters during the recession. Mark's believes that, with its product innovation and improvements to the in-store customer experience, it is well positioned to increase its market share and resume improving its average sales per square foot as the economic recovery takes hold.

MARK'S 2010 CORPORATE SALES MIX



5.3.3.3 Mark's financial results

(\$ in millions)	Q4 2010	Q4 2009	Change	2010	2009	Change
Retail sales ¹	\$ 399.1	\$ 391.7	1.9%	\$ 995.3	\$ 960.0	3.7%
Gross operating revenue ²	349.5	340.3	2.7%	872.2	833.8	4.6%
EBITDA ³	67.4	70.5	(4.5)%	87.5	90.5	(3.4)%
Earnings before income taxes	58.1	63.1	(8.0)%	54.1	61.5	(12.1)%
Less adjustment for:						
Loss on disposals of property and equipment	(1.1)	(0.4)		(1.9)	(1.2)	
Adjusted earnings before income taxes ³	\$ 59.2	\$ 63.5	(6.7)%	\$ 56.0	\$ 62.7	(10.8)%

¹ Includes retail sales from corporate and franchise stores and in 2010 total system ancillary embroidery and alteration revenue, net of a sales return provision.

² Gross operating revenue includes retail sales at corporate stores and in 2010 ancillary franchise royalty fees, embroidery and alteration revenue, net of a sales return provision.

³ See section 18.0 on non-GAAP measures.

Explanation of Mark's financial results

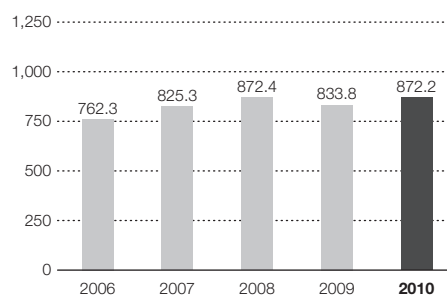
Fourth quarter

Gross operating revenue increased 2.7 per cent in the quarter and was driven, as noted above, by the increase in industrial wear sales in corporate stores.

Mark's adjusted earnings before taxes for the quarter, however, decreased 6.7 per cent due to store closure costs related to three sites (approximately \$3 million), increased costs due to the expansion of Mark's retail store network since the prior year and increased depreciation expense due to a reassessment of the useful lives of assets during the year. These were offset, in part by the increase in sales and product margins strengthened by improved purchase mark up and fewer markdowns over the holiday season as noted above.

MARK'S GROSS OPERATING REVENUE

(\$ millions)

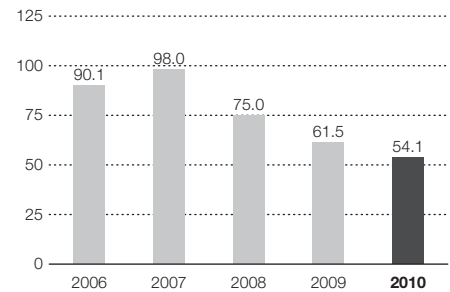


Full year 2010

Gross operating revenue increased a strong 4.6 per cent in 2010 compared to the prior year with Industrial wear being the primary driver, as noted above.

On an annual basis, Mark's adjusted pre-tax earnings decreased 10.8 per cent from 2009, as a result of the higher expenses due to network expansion and infrastructure investment in recent years, store closure costs related to three sites (approximately \$3 million) and increased depreciation expense due to a reassessment of the useful lives of assets during the year. These were partially offset by higher sales and gross margin improvement of 120 bps.

MARK'S EARNINGS BEFORE INCOME TAXES¹
(\$ millions)



¹ 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. Data required to restate for the information prior to 2008 is not available.

5.3.3.4 Business trends

Two long-term trends that have affected Canada's approximately \$20 billion apparel market are the move from traditional business attire to business casual clothing in the workplace and the increasing number of Canadians who are leading more active lifestyles.

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

Consumer retail markets faced major challenges in 2009 due to the recession that was felt across Canada with job losses in all provinces. While some improvement was experienced in 2010, uncertainty is likely to remain in Canadian consumers' minds going forward, and this may be reflected in cautious consumer spending patterns towards discretionary items in 2011.

5.3.3.5 Business risks

Mark's is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Mark's. Refer to section 14.0 for a discussion of some other industry-wide and company-wide risks affecting the business.

Seasonality risk

Mark's business remains very seasonal, with the fourth quarter typically producing the largest share of sales and most of annual earnings. Detailed sales reporting and merchandise planning modules assist Mark's in mitigating the risks and uncertainties associated with unseasonable weather and consumer behavior during the important Christmas 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.

Market obsolescence risk

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

5.3.4 Canadian Tire Financial Services

5.3.4.1 2010 Strategic objectives

Canadian Tire Financial Services growth initiatives

Increase the average credit card balance

Financial Services plans to rely on the strength of its credit risk management capabilities to execute targeted programs to selectively grow average credit card balances.

2010 Key initiatives

Average balance growth will be achieved through:

- ongoing selective credit limit increases;
- balance transfer offers; and
- pricing initiatives.

2010 Performance

Fourth quarter

The average credit card account balance grew by 3.8 per cent in the fourth quarter.

Full year 2010

Gross average credit card loans receivable was \$4.0 billion for the year. The growth reflects a 7.1 per cent increase in the average account balance, partially offset by a 2.9 per cent decrease in the number of accounts carrying a balance versus the same period last year.

Increase the number of active credit card accounts

Financial Services will leverage its proven in-store account acquisition channel to grow the number of active credit card accounts.

2010 Key initiatives

Growth in the number of active credit card accounts will be achieved through:

- improvements to in-store acquisition techniques;
- implementation of in-store instant credit account acquisition; and
- targeted retention programs to lower account attrition rates.

2010 Performance

Fourth quarter and full year 2010

- the average number of active accounts on the credit card loans receivable decreased by 2.3 per cent in the quarter versus the prior year and 2.9 per cent for the full year; and
- average active accounts increased in the fourth quarter versus the third quarter by 0.3 per cent.

Integrated customer-centric approach to long-term growth

Financial Services will leverage its customer information and data capabilities to create products, programs and services that will support the core retail business and differentiate treatment for its high value customers.

2010 Key initiatives

Initiatives include:

- in-store financing programs to support the core retail business and generate credit card accounts and balance growth for CTFS;
- customer segmentation to identify and differentiate treatment for high value customers; and
- investigation of new products that will enhance the Canadian Tire brand.

2010 Performance

Expanded deferred sales program at CTR stores in Q4 2010. Deferred sales volume for the full year 2010 increased 56% over 2009.

Customer segmentation and new product development initiatives advanced in the year.

5.3.4.2 Key performance indicators

Financial Services' profitability measures are tracked as a percentage of total gross average receivables (GAR), and key portfolio quality metrics are shown in the table below.

Key metrics

	Q4 2010	Q4 2009	Q4 2008	Q4 2007	Q4 2006
Total gross average receivables ^{1,2}	\$ 4,038.3	\$4,096.5	\$4,023.7	\$3,774.4	\$3,485.1
Total revenue as a % of GAR ^{2,3,4}	25.46%	25.14%	24.42%	24.78%	24.98%
Variable expenses as a % of GAR ^{3,4}	13.22%	14.65%	12.07%	11.80%	11.92%
Operating expenses as a % of GAR ^{3,8}	7.28%	6.92%	7.36%	7.84%	7.97%
Return on average total managed portfolio ^{3,4,5,8}	4.96%	3.57%	5.00%	5.15%	5.10%
Adjusted earnings before income taxes ^{1,4,6,8}	\$ 42.2	\$ 44.3	\$ 55.9	\$ 43.8	\$ 50.8
Average active credit card accounts (thousands)	1,721	1,761	1,818	1,829	1,843
Average credit card balance	\$ 2,332	\$ 2,247	\$ 2,083	\$ 1,962	\$ 1,759
Net credit card write-off rate ⁷	7.49%	7.83%	6.44%	5.67%	5.98%
Credit card account balances less than 30 days overdue at the end of the period	96.17%	95.99%	96.31%	96.30%	96.46%

¹ \$ in millions

² Represents the gross average receivables of credit card, personal loan, line of credit and mortgage portfolios.

³ Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable.

⁴ Excludes the net effect of securitization activities, gain on disposal / redemption of investment, costs associated with the sale of the mortgage portfolio and gain/loss on disposal of assets.

⁵ Return is calculated as adjusted earnings before taxes as a percentage of GAR.

⁶ See section 18.0 on non-GAAP measures.

⁷ Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of credit card receivables.

⁸ 2008, 2007 and 2006 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 - Goodwill and Intangible Assets and the amendments to CICA HB 1000 - Financial Statement Concepts.

5.3.4.3 Key definitions

Total managed portfolio

Financial Services' total managed portfolio consists of credit card, personal and line of credit loans. Until Q4 2009 the portfolio also included mortgages. The total managed portfolio includes all loans receivable that have been issued by Financial Services, before allowances, including those that have been securitized. Please see section 8.1.4 and below for additional information about our securitization program.

Securitization of loans receivable

Securitization is the process by which interests in financial assets are sold to a third party. Financial Services securitizes credit card loans receivable by selling co-ownership interests in the loans receivable to Glacier Credit Card Trust® (GCCT). Financial Services records these securitization transactions as a sale, and as a result, these assets are not included on the Company's consolidated balance sheets, but are included in our total and net managed portfolios of loans receivable.

Gross average receivables (GAR)

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

Net managed portfolio

Financial Services' net managed portfolio is the total value, after allowances, of loans receivable, including those that have been securitized, and consists of credit card, personal and line of credit loans.

As management believes that the full picture of trends in Financial Services' business can best be derived by evaluating the performance of both securitized and non-securitized loans receivable portfolios, the portfolios have been presented to include all securitized loans receivable. Financial Services presents loans receivable information on a managed basis to evaluate the credit performance and overall financial performance of the underlying loans.

Financial Services' total gross average receivables were down 1.4 per cent in the fourth quarter due primarily to scheduled repayments of personal loans. Credit card receivables experienced 1.4 per cent growth in the quarter.

Financial Services believes that its future growth will be driven by increases in average credit card account balances, modest increases in new accounts and the introduction of new credit card and insurance products. Management has integrated its deposit business into its operations and regards deposits as a cost-effective source of financing for credit card receivables.

Business Performance

In 2010, the Canadian economy, though faring better than most developed countries, was challenged with stubbornly higher unemployment rates and a tepid consumer confidence increase. Still, the economy has recovered somewhat in 2010 and this has resulted in the return on Financial Services' total managed portfolio increasing significantly in comparison with 2009 to come back in line with historical norms. Improvements in revenues from selective pricing changes, ongoing targeted credit limit increases and balance transfer offers and control of credit risk and operating expenses were measures put into place over the past few quarters to offset the effects of a challenged economy. Earnings throughout the year benefited from lower loan loss provisioning requirements partially offset by new government regulations for the credit card industry, sales tax changes (Harmonized Sales Tax or "HST") and migration to chip card technology.

Financial Services' net managed portfolio of loans receivable

(\$ in millions)	December 31, 2010	December 31, 2009
Securitized	\$ 1,535.2	\$ 1,693.4
Non-securitized	2,485.1	2,289.0
Net managed loans receivable	\$ 4,020.3	\$ 3,982.4

Portfolio Quality

The 2010 rolling 12-month net write-off rate on the credit card loans portfolio improved 34 bps from the prior year comparative illustrating the improved credit status of consumers.

As of Q4 2010, aging of credit card receivables had improved and has returned to normal levels.

Financial Services' profitability

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

Profitability of total managed portfolio

	2010	2009	2008	2007	2006
Total revenue as a % of GAR ²	25.46%	25.14%	24.42%	24.78%	24.98%
Gross margin as a % of GAR ²	12.25%	10.49%	12.35%	12.99%	13.07%
Operating expenses as a % of GAR ³	7.28%	6.92%	7.36%	7.84%	7.97%
Return on average total managed portfolio ^{2,3,4}	4.96%	3.57%	5.00%	5.15%	5.10%

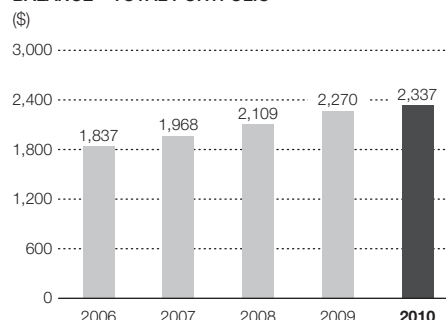
¹ Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable.

² Excludes the net effect of securitization activities, gain on disposal / redemption of investment, costs associated with the sale of the mortgage portfolio and gain/loss on disposal of assets.

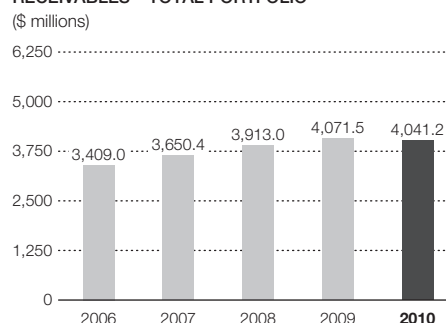
³ Figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts.

⁴ Return is calculated as adjusted earnings before taxes as a percentage of GAR.

FINANCIAL SERVICES' AVERAGE ACCOUNT BALANCE – TOTAL PORTFOLIO



FINANCIAL SERVICES' GROSS AVERAGE RECEIVABLES – TOTAL PORTFOLIO



FINANCIAL SERVICES' OPERATING EXPENSE RATIO – TOTAL PORTFOLIO^{1,2}



¹ Figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts.

² Excludes the impact of the 2006 stock option modification.

Gross margin

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

The return on the total managed portfolio has increased over the prior year to historical norms as the Canadian economy improved.

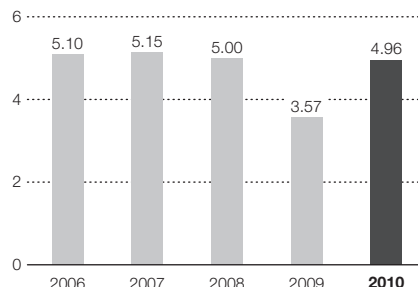
Financial Services' credit card accounts (MasterCard, Visa and retail cards) provide increased earnings potential through the cross-selling of balance-based insurance products and other financial services being offered by Financial Services. As Financial Services offers lower rate credit cards and other loans receivable, the reduction in gross margin as a percentage of gross average receivables will be offset by continued growth in loans receivable, higher sales of insurance and warranty products and ongoing improvements in the operating expense ratio. After a significant decrease in 2009 caused by higher loan loss provisioning due to increased consumer bankruptcies and deteriorating aging due to the state of the economy, gross margins have strengthened in 2010 due to the economic upturn and consequent improvement in loan loss provisioning.

As part of the strategic planning process, management set a long-term goal of managing Financial Services' pre-tax return on the average total managed portfolio in the target range of 4.5 to 5.0 per cent. As shown in the table above, Financial Services has met or exceeded this target over four of the last five years.

Portfolio quality

	2010	2009	2008	2007	2006
Net write-off rate (rolling 12-month basis)	7.51%	7.58%	6.34%	5.76%	6.01%
Account balances less than 30 days overdue at end of period	96.16%	95.92%	96.46%	96.36%	96.44%
Allowance rate	2.81%	3.07%	2.36%	2.41%	2.42%

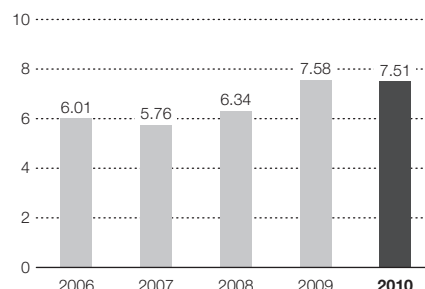
RETURN ON AVERAGE TOTAL MANAGED PORTFOLIO^{1,2}
(%)



¹ Figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts.

² Excludes the net effect of securitization activities, gain on disposal / redemption for investment, costs associated with the sale of the mortgage portfolio and gain/loss on disposal of assets.

NET WRITE-OFF RATE (ROLLING 12-MONTH BASIS)
(%)



Net write-offs

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

The 2009 and 2008 rolling 12-month net write-off rate on the total loans portfolio was negatively impacted by an increase in write-offs and consumer bankruptcies as a result of a significantly more challenging economic environment and rising unemployment levels as well as a reduction in the rate of portfolio growth. The trend has reversed in 2010 although net write-offs are still higher than historical norms.

Aging has improved over the prior year causing allowance rates to decline after rising in the prior year due to the effects of the economic slowdown.

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

Allowance methodology

Financial Services is required to maintain an allowance for future write-offs that will be incurred in the receivables portfolio.

Allowance

The allowance is an estimate of the amount of receivables as at the balance sheet date that will be written off over a set period, pursuant to Company policy. It is determined using historical loss experience of account balances based on the aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans.

5.3.4.4 Insurance and ancillary products

An important part of our Financial Services business is the ability to provide our large credit card customer base with additional products and services that enhance their loyalty to Canadian Tire and increase the return on our portfolio of receivables. These products and services include insurance offerings (credit protection, life and accident), warranty coverages, roadside assistance and identity theft coverage. We are continually searching for and testing additional value-added products and services for our customer base.

Of the earnings from these ancillary products and services, our creditor insurance and warranty services businesses are the most significant. These products and services have been offered to customers for more than 20 years. Financial Services is very experienced in managing the associated risks. The creditor insurance risk and warranty risk relate primarily to our card customer base and are borne by our reinsurance subsidiary which operates in Bermuda under professional management, together with the services of reputable and experienced actuarial and administrative services organizations.

5.3.4.5 Financial Services' financial results

(\$ in millions)	Q4 2010	Q4 2009	Change	2010	2009	Change
Gross operating revenue	\$ 248.4	\$ 237.7	4.5%	\$ 946.0	\$ 909.9	4.0%
EBITDA ¹	66.7	57.0	16.7%	267.8	205.3	30.5%
Earnings before income taxes	48.7	38.4	26.5%	199.1	131.9	51.0%
Less adjustment for:						
Costs associated with sale of mortgage portfolio	—	(5.3)		—	(5.3)	
(Loss) gain on disposals of property and equipment	(0.1)	0.4		(0.3)	(0.3)	
Net effect of securitization activities ²	6.6	(1.0)		(1.2)	(7.8)	
Adjusted earnings before income taxes ¹	\$ 42.2	\$ 44.3	(4.9)%	\$ 200.6	\$ 145.3	38.1%

¹ See section 18.0 on non-GAAP measures.

² Includes initial gain (loss) on the sale of loans receivable, amortization of servicing liability and gain (loss) on reinvestment.

Explanation of Financial Services' financial results

Fourth quarter

Financial Services' gross operating revenue increased by 4.5 per cent over the fourth quarter of 2009 largely as a result of an increase in credit card interest earned from higher average credit card receivables balances.

Adjusted pre-tax earnings for the quarter declined 4.9 per cent, reflecting increased operating costs associated with the new Harmonized Sales Tax (HST) and migration to chip and PIN technology.

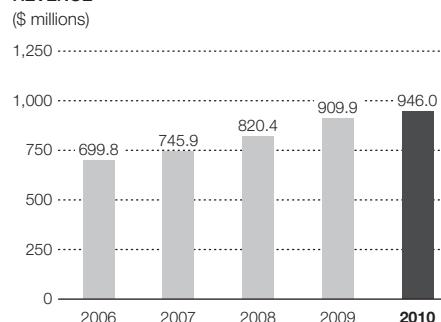
These were partially offset by higher credit card interest and reduced loan loss provisioning.

Full year 2010

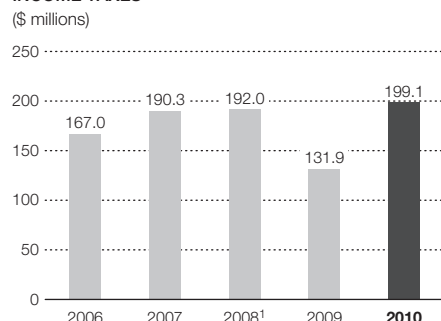
Financial Services' gross operating revenue increased in 2010 due to an increase in average account balances in the loans portfolio. This was in spite of the fact that the mortgage portfolio, which generated revenue for three quarters of 2009, was sold in Q4 2009.

Adjusted earnings before income taxes for 2010 increased 38.1 per cent compared to 2009. The primary reason was the reduction in loan loss provisioning, combined with higher interest income earned from higher average credit card balances. These were partially offset by increased marketing expenses, operating costs associated with the new HST and migration to chip and PIN technology, as noted above.

FINANCIAL SERVICES' GROSS OPERATING REVENUE



FINANCIAL SERVICES' EARNINGS BEFORE INCOME TAXES¹



¹ 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. Data required to restate the information prior to 2008 is not available.

5.3.4.6 Business trends

The total Canadian bank card market (which is comprised of all MasterCard and Visa branded credit cards as reported by the Canadian Bankers Association) has grown consistently over the past five years, offering an attractive growth opportunity despite intense competition. While Canada's major banks are the market leaders, U.S.-based credit card issuers are gaining market share and are redefining customer expectations. With the increasing number of credit cards available, consumers are looking for relationships with organizations that offer good value, exceptional service and programs that reward them for their loyalty. Growth of the credit card portfolio and the continued strength of the Canadian Tire brand provide an opportunity to grow the number of credit card customers that have one or more of our ancillary products and services.

5.3.4.7 Economic overview

As noted above, the year ahead is projected to remain challenging due to the slow pace of economic recovery and relatively high unemployment levels, with the consequent impact on consumer confidence.

Financial Services continually monitors bankruptcy rates in Canada and adjusts its lending policies according to current trends and economic indicators.

Efforts to reduce the exposure to higher credit risk associated with increased bankruptcies have been underway over the last several quarters through measures such as reducing credit limits for inactive accounts, actively changing the percentage of near-prime consumers in the portfolio mix, improving predictive scorecards to identify high-risk customer behaviour and further enhancing collection strategies.

5.3.4.8 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 14.0 for a discussion of some other industry-wide and company-wide risks affecting the business.

Consumer credit risk

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

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

Securitization funding risk

Securitization has historically been an important source of funding for Canadian Tire, involving the sale of co-ownership interests in credit card loans to Glacier Credit Card Trust (GCCT) and, previously, the sale of personal loans to another third-party trust. Securitization enables Financial Services to diversify funding sources and manage risks and capital requirements. Financial Services' securitization program relies on the marketability of the asset-backed commercial paper (ABCP) and asset-backed term notes issued by GCCT as described in section 8.1.4. Refer to section 8.0 for additional information on the sources of funding available to the Company.

It should be noted that, while changes to accounting for securitization transactions will be forthcoming as Canada moves to IFRS in 2011, the Company still plans to use asset securitization transactions to the extent that they continue to provide a cost-effective source of financing (see sections 17.2 and 17.3 regarding our transition to IFRS).

Interest rate risk

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

Most of Financial Services' revenue is not interest rate sensitive as it is generated primarily from Canadian Tire MasterCards, which carry a fixed interest rate appropriate to customer segments with common credit scores. The securitization and other financing programs, as described in section 8.0, reduce Financial Services' funding requirements. Canadian Tire constantly monitors the potential impact of interest rate fluctuations on its fixed versus floating rate exposure and manages its overall balance to reduce the magnitude of this exposure.

As the success of Financial Services is dependent upon its ability to access capital markets at favourable rates, maintaining the quality of the total managed portfolio and securitized loans receivable is a key priority of Financial Services. For additional information on Canadian Tire's financing activities, please refer to section 8.0.

Regulatory risk

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

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

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

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

6.0 New business development

Canadian Tire will continue to identify and evaluate opportunities to enhance our growth and profitability beyond the Strategic Objectives period. Our business development team is focused on identifying potential retail and retail-related business opportunities that leverage our core capabilities and fit within our existing network of businesses.

7.0 Capital management

In order to support our growth agenda and meet the goals highlighted in our Strategic Objectives, the Company actively manages its capital in the manner indicated below.

7.1 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 changed the Company's objectives in managing capital, although the Company did place greater emphasis on the second of these objectives when credit markets were constrained in 2008 and much of 2009.

7.2 Definition and management of capital

The definition of capital varies from company to company and from industry to industry. In the process of managing the Company's capital, management includes the following items in its definition of capital:

(\$ in millions)	2010	% of total	2009 ²	% of total
Capital components				
Deposits	\$ 615.6	8.7%	\$ 863.4	12.0%
Current portion of long-term debt	22.6	0.3%	309.3	4.3%
Long-term debt	1,079.4	15.2%	1,101.2	15.3%
Long-term deposits	1,264.5	17.9%	1,196.9	16.6%
Other long-term liabilities ¹	—	—%	1.3	0.0%
Total debt	2,982.1	42.1%	3,472.1	48.2%
Share capital	711.6	10.0%	720.4	10.0%
Contributed surplus	0.3	0.0%	0.2	0.0%
Retained earnings	3,393.5	47.9%	3,013.7	41.8%
Total capital under management	\$ 7,087.5	100.0%	\$ 7,206.4	100.0%

¹ Long-term liabilities that are derivative or hedge instruments related to capital items only.

² 2009 has been restated for the debt issuance costs previously included in long-term receivables and other assets and it is now presented with long-term debt.

The Company monitors its capital structure through measuring its various debt-to-capitalization ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other fixed charges coverage ratios. The Company monitors the impact of the growing Financial Services business on the consolidated metrics. The total debt-to-total capital ratio has improved from 48.2 per cent at the end of 2009 to 42.1 per cent at the end of 2010 largely due to the repayment of the \$300 million in MTN's, reduced deposits and an increase in retained earnings.

The Company has in place various policies which it uses to manage capital, including a leverage and liquidity policy, an interest rate risk management policy and a securities and derivatives policy. As part of the overall management of capital, management's Financial Risk Management Committee and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, these policies.

In addition, those committees perform periodic reviews of the policies to ensure they remain consistent with the risk tolerance acceptable to the Company and current market trends and conditions.

7.3 Constraints on managing capital

To assess its effectiveness in managing capital, management monitors certain key ratios to ensure they are within targeted ranges.

Under the existing debt agreements, key financial covenants are monitored on an ongoing basis by Management to ensure compliance with the agreements. The key covenants are as follows:

- maintaining a specified minimum net tangible assets coverage ratio, which is calculated as:
 - total assets less intangible assets, current liabilities (excluding current portion of long-term debt) and liability for employee future benefits, divided by long-term debt (including current portion of long-term debt);
- a limitation on the amount available for distribution to shareholders whereby the Company is restricted from distributions (including dividends and redemptions or purchases of shares) exceeding its accumulated net income over a defined period.

The Company was in compliance with these key covenants during the period. Under these covenants, the Company currently has significant flexibility to fund business growth and maintain or amend dividend rates within our existing dividend policy.

It should be noted that various accounting measures will change as Canada moves to IFRS in 2011. The Company is in compliance with the covenants on transition and will continue to monitor the covenants as changes occur to IFRS in future years.

The Company manages its capital structure with a view to maintaining investment grade ratings from two credit rating agencies. Management calculates ratios on an alternative basis from time to time to approximate the methodology of debt rating agencies and other market participants.

In order to maintain or adjust the capital structure, the Company has the flexibility to adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids (NCIBs), issue new shares, issue new debt, issue new debt with different characteristics to replace existing debt, engage in additional sale/leaseback transactions of real estate properties and/or increase or decrease the amount of sales of co-ownership interests in loans receivable to Glacier.

In addition, we are required to comply with regulatory requirements associated with the operations of Canadian Tire Bank (the Bank), our federally chartered bank, and other regulatory requirements that impact our business operations, which are noted below.

7.4 Canadian Tire Bank's regulatory environment

The Company's wholly-owned subsidiary, the Bank, manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions Canada (OSFI). The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank has a capital management policy, an internal capital adequacy assessment process and procedures and controls which it utilizes to achieve its goals and objectives. The Bank's objectives include:

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

The Bank's total capital consists of three tiers of capital approved under OSFI's current regulatory capital guidelines. As at December 31, 2010 (the Bank's fiscal year-end), Tier 1 capital includes common shares and retained earnings reduced by adjustments due to net securitization exposures. The Bank currently does not hold any instruments in Tier 2 or Tier 3 capital. Risk-weighted assets (RWA), referenced in the regulatory guidelines, include all on-balance sheet assets weighted for the risk inherent in each type of asset, using prescribed rates, as well as an operational risk component based on a percentage of average risk-weighted revenues.

The Bank's ratios are above internal minimum targets for Tier 1 and Total Capital ratios and below its internal maximum targets for the assets to capital multiple. The Bank's internal minimum ratios are determined by the Internal Capital Adequacy Assessment Process. During the 12 months ended December 31, 2010 and the comparative period, the Bank complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II).

8.0 Financing

Canadian Tire is in a strong liquidity position with the ability to access multiple sources of funding. In October 2010, the company repaid a \$300 million medium-term note with an interest rate of 5.22 per cent. A number of alternative financing sources are available to the Company and the Bank to ensure that the appropriate level of liquidity is available to meet our strategic objectives. These sources may be summarized as follows:

Summary of Canadian Tire's financing sources

Financing Source	Amount Available	Description
Committed bank lines of credit	\$1.17 billion	Provided by 10 domestic and international financial institutions the lines are for general corporate purposes and support the corporate and GCCT commercial paper program noted below. No amounts were drawn on the bank lines as at January 1, 2011 by the Company; however GCCT had \$101 million of commercial paper outstanding as at January 1, 2011.
Commercial paper program	\$800 million	Canadian Tire had no commercial paper outstanding as at January 1, 2011. GCCT had \$101 million of commercial paper outstanding as at January 1, 2011, as noted above.
Medium Term Notes (MTN) program	\$750 million	A \$200 million medium-term note was issued in June 2009 under the April 2009 prospectus. A new Shelf Prospectus will be filed in March 2011, providing the Company with access to up to \$750 million for 25 months from that date.
Securitization of receivables	Transaction specific	Securitization transactions handled through GCCT have historically proven to be a relatively cost-effective form of financing. Financial Services securitized \$265 million of credit card receivables in November 2010 as part of the GCCT securitization program.
Broker GIC deposits	No specified limit	Funds continue to be readily available through broker networks. As at January 1, 2011, Financial Services held \$1.39 billion in broker GIC deposits.
Retail deposits	No specified limit	Retail deposits consist of High Interest Savings Accounts, Tax-Free Savings Accounts and retail GIC deposits. As at January 1, 2011, Financial Services held over \$490 million in retail deposits.
Sale/leaseback transactions	Transaction specific	Additional sources of funding available on strategic transactions involving Company-owned properties as appropriate. No sale/leaseback transactions were completed in 2010.

As indicated in the table above, as of January 1, 2011, the Company had \$1.17 billion in committed bank lines of credit, \$800 million of which is available under a two-year syndicated credit facility. The syndicated facility is available to the Company until June 2012 and can be extended for an additional 364-day period in June 2011. The balance of credit lines has been established pursuant to bilateral credit facility agreements that are available to the Company until late 2011. At the end of each quarter, the company has the ability to request an extension of each of the bilateral credit facilities for an additional 90-day period.

As of January 1, 2011, the GCCT commercial paper program has access of up to \$800 million of the total Canadian Tire committed credit lines and complies with Dominion Bond Rating Service (DBRS®) Global Liquidity Standards.

Debt market conditions

The financial markets continue to be very competitive with strong investor demand for credit. Credit spreads tightened dramatically in late 2009 in the bond markets. Due to its strong liquidity position, Canadian Tire did not issue any long term debt in 2010 and was able to repay \$300 million maturing MTN's in October 2010. The Canadian asset-backed securities market has rebounded and is expected to remain active going forward with tighter credit spreads as investors' demand exceeds supply. Canadian Tire participates in the asset-backed security markets through the use of commercial paper and issuance of MTNs. During 2010, GCCT has continued to refinance its maturing commercial paper and had \$101 million of commercial paper outstanding as of January 1, 2011 (\$163 million of commercial paper outstanding as of January 2, 2010), fully backed by the bank credit lines. In November 2011, a five-year \$317 million GCCT-issued MTN series will be maturing. As per the Series Purchase Agreement, GCCT is required to accumulate the principal liquidation amounts for these notes from credit card collections over the two or three months preceding maturity in the Liquidation Principal Funding account.

In September 2010, Canadian Tire received confirmation from DBRS on its various funding programs, all of which had a stable outlook. Standard & Poor's remains stable. As at January 1, 2011 there has been no change in the ratings.

Credit rating summary

	DBRS	S&P
Canadian Tire		
Commercial paper	R-1 (low)	A-1 (low) (Cdn)
Debentures	A (low)	BBB+
Medium-term notes	A (low)	BBB+
Glacier Credit Card Trust¹		
Asset-backed commercial paper	R-1 (high) (sf)	–
Asset-backed Senior Notes	AAA (sf)	AAA (sf)
Asset-backed Subordinated Notes	A (sf)	A (sf)
Trend or outlook	Stable	Stable

¹ Asset-backed Series 2004 Senior and Subordinated Notes were discontinued on November 20, 2009.

Broker deposits

The Bank continues to be very successful in issuing broker GIC deposits. The Bank broker GIC deposits raise cash through sales of GICs through brokers rather than directly to the retail customer. The Bank broker GICs are offered for varying terms ranging from 30 days to five years and all issued broker GICs are non-redeemable prior to maturity (except in certain limited circumstances). Given that the overall size of the broker GIC market in Canada is estimated to be greater than \$64 billion, the Bank believes that there is ample room in the market to maintain the Bank broker GIC deposits as a permanent alternative funding source to the securitization of credit card receivables at reasonable and cost-effective interest rates.

As at December 31, 2010, the Bank had approximately \$1.39 billion in total short-term and long-term broker GIC deposits outstanding.

Retail deposits

Retail deposits consist of High Interest Savings Accounts (HIS), Tax-Free Savings Accounts (TFSA) and retail GIC deposits. The Bank has been successful in generating deposits from HIS and TFSA accounts and retail GIC deposits and at December 31, 2010 the Bank had in excess of \$490 million in retail deposits. Retail deposits provide another cost-effective alternative funding source to credit card securitization and broker deposits.

8.1 Funding program**8.1.1 Funding requirements**

We fund our capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under the NCIB (as described in section 9.0 below), from a combination of sources. In the fourth quarter of 2010, the primary sources of funding were:

- \$272.0 million of cash generated from operating activities before other changes in working capital; and
- \$48.8 million of cash arising from the maturity of short-term investments.

During 2010 full year, the primary source of funding was:

- \$820.5 million of cash generated from operating activities before other changes in working capital.

8.1.2 Available cash

At January 1, 2011, the Company's available cash, inclusive of cash and cash equivalents, short-term investments less bank indebtedness, totaled \$632.2 million versus \$850.0 million at January 2, 2010. Available cash from the beginning of the year, together with cash generated from operations during 2010, was used to reduce the overall indebtedness of the Corporation, giving rise to a net reduction in available cash of \$218 million. During the fourth quarter of 2010, we used cash for the following:

- \$128.9 million for net growth in loans receivable;
- \$109.5 million for the repayment of deposits;
- \$85.4 million for additions to property and equipment;
- \$27.7 million for additions to intangible assets, primarily computer software; and
- \$17.1 million in dividends paid.

During 2010 full year, we used cash primarily for the following activities:

- \$310.1 million for repayment of long-term debt;
- \$237.5 million for additions to property and equipment;
- \$183.5 million for the repayment of deposits;
- \$156.6 million for the net growth in loans receivable; and
- \$70.3 million for additions to intangible assets, primarily computer software.

8.1.3 Working capital

Optimizing our working capital continues to be a long-term priority in order to maximize cash flow for use in the operations of the Company. The table below shows the change in the value of our working capital components at the end of the fourth quarter of 2010 from the fourth quarter of 2009.

Comparable working capital components

(\$ in millions)	January 1, 2011	January 2, 2010	Increase/(decrease) in working capital
Accounts receivable	\$ 662.3	\$ 835.9	\$ (173.6)
Merchandise inventories	901.5	933.6	(32.1)
Income taxes recoverable	99.4	94.7	4.7
Prepaid expenses and deposits	37.6	40.7	(3.1)
Accounts payable and other	(1,355.9)	(1,391.4)	35.5
			\$ (168.6)

Accounts receivable decreased due to more timely collections from Dealers during the fourth quarter of 2010 and discontinuation of the incentive program (involving extended credit terms) implemented in 2009 to help counter the effects of the recession at that time.

Inventory decreased primarily due to reduced levels at CTR.

8.1.4 Loans receivable

Our loans receivable securitization program is designed to provide a cost-effective source of funding for Financial Services. At the end of the fourth quarter of 2010, owned loans receivable were up 8.6 per cent over 2009 due to an increase in account balances and an overall reduction in the securitized ownership interest of credit card receivables. The commercial paper balance in GCCT was reduced by approximately \$63 million during the year and a smaller securitization transaction was executed in November 2010 (\$265 million) as compared with the November 2010 maturing GCCT note (\$365 million).

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

We record the sale of loans receivable in accordance with CICA's Accounting Guideline 12, "Transfers of Receivables". See Note 1 in the Notes to the 2010 Consolidated Financial Statements. See section 17.3 regarding pending changes to the accounting for asset securitization transactions as publicly accountable enterprises in Canada move to IFRS in 2011.

We expect the continued growth in the average balances of Canadian Tire-branded credit card accounts to lead to an increase in total loans receivable in 2011. Financial Services expects to continue to fund this increase over the long term through the sale of co-ownership interests in credit card loans to GCCT and raising deposits by the Bank. GCCT is a third-party trust that was formed to buy co-ownership interests in our credit card loans and also issues debt to third-party investors to fund its purchases. The success of the securitization program is dependent on GCCT's ability to obtain funds from third parties by issuing debt instruments with high credit ratings. Refer to section 8.0 above for a listing of GCCT's credit ratings and prevailing market conditions.

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

Cash flows from loan securitizations

(\$ in millions)	Q4 2010	Q4 2009	2010	2009
Proceeds from new securitizations	\$ 264.6	\$ 100.0	\$ 264.6	\$ 100.0
Decrease in securitized ownership interests	(180.8)	(208.7)	(423.7)	(624.3)
Cash flows from collections reinvested in previous securitizations	1,290.1	1,649.6	5,155.2	6,805.7
Other cash flows received on retained interests ¹	1,707.5	1,415.6	6,837.1	4,735.5

¹ Represents total cash flows from collections, not reinvested in previous securitizations.

In 2010, Financial Services securitized approximately \$265 million of loans receivable through its securitization program through the issuance of GCCT term notes.

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

Glacier Credit Card Trust asset-backed notes outstanding

(\$ in millions)	At January 1, 2011	At January 2, 2010	Repayment of principal begins	Expected final payment date
Series 1997-1 Commercial Paper Notes ¹	\$ 101	\$ 163		
4.187% Series 2005-1 Senior Notes ²	–	345	Sep. 1, 2010 ⁴	Nov. 19, 2010
4.271% Series 2006-1 Senior Notes ²	300	300	Aug. 1, 2011 ⁴	Nov. 18, 2011
4.405% Series 2006-2 Senior Notes ²	239	239	Feb. 3, 2014 ⁴	May 20, 2014
5.027% Series 2008-1 Senior Notes ²	600	600	Nov. 1, 2012 ⁴	Feb. 20, 2013
3.158% Series 2010-1 Senior Notes ²	250	–	Aug 1, 2012 ⁴	Nov. 20, 2015
4.507% Series 2005-1 Subordinated Notes ³	–	20		
4.571% Series 2006-1 Subordinated Notes ³	17	17		
4.765% Series 2006-2 Subordinated Notes ³	14	14		
6.027% Series 2008-1 Subordinated Notes ³	35	35		
4.128% Series 2010-1 Subordinated Notes ³	15	–		
Total	\$ 1,571	\$ 1,733		

¹ Commercial Paper Notes mature on a business day within one year of the date of issue.

² Repayment of principal begins from allocations to GCCT in the previous month. In some instances, earlier prepayment may be required. Expected final payment dates are estimated based on assumptions about the performance of the credit card loans and other factors.

³ Repayment of principal for Subordinated Notes begins after all principal owing under the related series of Senior Notes has been repaid in full. Subordinate Notes have the same expected repayment dates as the Senior Notes.

⁴ At a minimum, repayment to occur over a one to three-month period prior to expected final payment date, based on the performance of the credit card loans.

8.2 Funding costs

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

Interest expense

(\$ in millions)	2010	2009
Long-term interest ¹	\$ 111.2	\$ 130.0
Short-term interest ²	(7.9)	17.0
Total	\$ 103.3	\$ 147.0
Cost of debt – long-term ³	4.01%	5.20%
Cost of debt – short-term ⁴	2.61%	2.84%

¹ Long-term interest is increased or decreased by the interest rate differentials paid or received on interest rate swap contracts and includes mark-to-market adjustments on interest rate derivatives that do not receive hedge accounting.

² Short-term interest includes passive interest income. Short-term interest expense (before allocating passive income) totaled \$35.9 million and \$26.2 million for the fiscal periods ended January 1, 2011 and January 2, 2010, respectively.

³ Represents the weighted average cost of long-term debt during the period.

⁴ Represents the weighted average cost of short-term debt during the period.

9.0 Equity

The book value of Common and Class A Non-Voting Shares at the end of the fourth quarter of 2010 was \$49.93 per share compared to \$45.19 at the end of the fourth quarter of 2009.

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

On February 10, 2011, we announced our intention to initiate an NCIB to purchase up to 3.5 million of the issued and outstanding Class A Non-Voting Shares over the 12-month period ending February 18, 2012. In the prior year, a total of approximately 0.45 million Class A Non-Voting Shares were purchased under the previous NCIB.

An NCIB is a bid by a listed company to buy back its shares, up to a prescribed number, on a stock exchange, subject to certain rules that protect investors.

Shares outstanding

	January 1, 2011	January 2, 2010
Class A Non-Voting Shares (CTC.A)		
Shares outstanding at beginning of year	78,178,066	78,178,066
Shares issued under plans ¹	300,390	742,198
Shares purchased under NCIB	(458,449)	(742,198)
Shares outstanding at end of year	78,020,007	78,178,066
Common Shares (CTC)		
Shares outstanding at beginning and end of the year	3,423,366	3,423,366

¹ We issue shares under various employee profit sharing and share purchase plans, in addition to the dividend reinvestment plan.

Dividends

As a result of the Company's operating results, strong cash generation, liquidity and solid balance sheet position, the Company has announced an increase in its quarterly dividend. On November 11, 2010, the Board of Directors approved a 31 per cent increase in the quarterly dividend per share from \$0.21 effective for the first three quarters of 2010 to \$0.275 per quarter effective for the dividend declared on November 11, 2010.

The following chart summarizes our quarterly dividend distribution in 2010 payable to the shareholders as of the record date:

Quarterly dividend	Date of declaration	Record date	Date payable	Amount payable per share
First Quarter	March 11, 2010	April 30, 2010	June 1, 2010	\$ 0.210
Second Quarter	May 13, 2010	July 31, 2010	September 1, 2010	\$ 0.210
Third Quarter	October 7, 2010	October 29, 2010	December 1, 2010	\$ 0.210
Fourth Quarter	November 11, 2010	January 31, 2011	March 1, 2011	\$ 0.275

Dividend policy

Canadian Tire's policy is to maintain dividend payments equal to approximately 20 to 25 per cent (previously 15 to 20 per cent) of the prior year's normalized basic net earnings per share, after giving consideration to the period-end cash position, future cash requirements, capital market conditions and investment opportunities. Normalized earnings per share for this purpose excludes gains and losses on the sale of credit card and loans receivable and non-recurring items but includes gains and losses on the ordinary course disposition of property and equipment.

10.0 Investing activities**10.1 2010 Capital expenditures program**

Canadian Tire's capital expenditures, on an accrual basis, totaled \$127 million in the fourth quarter of 2010 (including intangible assets such as software acquisitions), approximately 57 per cent higher than the \$81 million spent in the fourth quarter of 2009.

Overall, capital investment has increased over the prior year, as by 2009 the Company's expansion of its distribution network and completion of its Concept 20/20 store network were essentially complete by the start of that year. The Company is now focused on the next store concept renewals, such as our Smart and Small Market stores and improvements to the automotive infrastructure.

Total capital expenditures for the year are shown in the table below:

(\$ in millions)	2010	2009
Real estate projects (including CTR's new store projects)	\$ 184	\$ 161
Information technology	57	55
CTR distribution centres (excluding Montreal)	24	13
Automotive infrastructure	15	13
Montreal Distribution Centre	–	5
Other purposes	38	26
Total capital expenditures	\$ 318	\$ 273

11.0 Foreign operations

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

- U.S.-based subsidiaries hold highly rated short-term securities and loans to the Company and its wholly-owned Canadian subsidiaries. The capital and earnings of these U.S.-based subsidiaries arose from investments made to offset net operating losses incurred by U.S. retail operations closed in the 1980s and 1990s and from the reinsurance of risks relating to certain insurance products marketed to customers of Financial Services and other reinsurance activities;
- subsidiaries operating in the Pacific Rim have provided the Company with a variety of important services related to product sourcing, logistics and vendor management. These subsidiaries have earned commissions for such services for over 20 years. In 2008, several representative offices of the Company were created to perform the activities formerly provided by the subsidiaries due to changes in local regulations and the need to enhance operational efficiencies; and
- a Bermuda-based reinsurance company was established in 2004 to reinsure the risk of certain insurance products marketed to customers of Financial Services. In addition to its reinsurance activities, this company invests in highly rated short-term securities and makes loans to the Company and its wholly-owned Canadian subsidiaries.

12.0 Tax matters

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

The main issues that were challenged by the Canada Revenue Agency (CRA) in recent years related to the tax treatment of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 to 2007) and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities have also reassessed on these matters for the corresponding periods.

The Company has settled the commissions issue for the periods 1995-2003 and does not have a significant exposure on this issue subsequent to the 2003 taxation year.

During the fourth quarter of 2010, the Company reached an agreement with the CRA to settle the dividends received issue. Once federal reassessments have been issued in accordance with the settlement, the Company believes the provincial tax authorities will also reassess on the same basis. As a result of the settlement, the Company recorded an income tax recovery of \$42 million and pre-tax interest income from overpayment of taxes of \$18 million.

The 2010 tax provision has been reduced by \$37.3 million due mainly to the settlement of the dividends received issue, revision to the prior year's estimated tax expense and change in tax legislation relating to stock options.

The Company regularly reviews the potential for adverse outcomes in respect of 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 the results of operations because the Company believes that it has adequate provision for these tax matters. Should the ultimate tax liability materially differ from the 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.

13.0 Off-balance sheet arrangements

13.1 Glacier Credit Card Trust

As noted earlier, GCCT was formed to buy co-ownership interests in our credit card loans, and it issues debt to third-party investors to fund its purchases. Refer to section 8.1.4 for additional information on GCCT.

13.2 Trust financing for Dealers

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

Trust

In 1995, a major Canadian bank set up a trust (the Trust) to provide financing to retail Franchisees and, in 1997, began providing loans to our Dealers (Dealer Trust Loans) to finance a portion of their purchases of inventory from the Company and fixed assets. Each of these Dealer Trust Loans is secured by the assets of the respective Dealer's corporation. The amount of Dealer Trust Loans was reduced to \$687.0 million at January 1, 2011, compared to \$757.0 million at January 2, 2010, as a result of Dealers choosing to access funding directly from banks rather than through the Trust. In addition,

participating Dealers use subordinated operating lines of credit from Canadian banks to finance seasonal fluctuations in inventory levels and meet other regular business needs.

Co-owner Trusts

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

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

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

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

Program support

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

- we provide credit enhancement to the Trust in the form of guarantees of standby letters of credit (ultimately benefiting the Co-owner Trusts) issued by several Canadian banks with acceptable credit ratings;
- we have agreed to indemnify the Co-owner Trusts and certain other parties against shortfalls in payments owed by the Co-owner Trusts resulting from certain events such as changes in laws and regulations (including tax legislation). The terms of these indemnification agreements do not put a limit on our total potential liability;
- we have provided a waiver, ultimately to the Co-owner Trusts, of certain statutory rights that we have with respect to the Dealers as their landlord and merchandise supplier; and
- we have agreed to indemnify the interest rate swap counterparty for amounts owing in the event that the Trust, as servicer, cannot collect amounts owing to the Co-owners from a Dealer who has fixed an interest rate(s) on his/her Dealer Trust Loan.

To date, we have made only a few nominal payments under the program support provided, and we have not accrued any such amount in our Consolidated Financial Statements.

The Company receives consideration for our program support and out-of-pocket costs from the Trust and/or the participating Dealers. The Trust, as servicer, pays us a program support amount, pursuant to a formula, that depends on the average amount of Dealer Trust Loans outstanding and the average amount of credit enhancement provided by the Company.

We pay fees to the banks that provide the letters of credit to the Co-owner Trusts. The amount of our guarantees of the standby letters of credit provided by banks to the Trust was \$179.4 million at January 1, 2011 compared to \$178.8 million at January 2, 2010. The letters of credit benefit the Co-owner Trusts by helping them achieve a high credit rating on the debt they issue to fund their initial and ongoing purchases of Dealer Trust Loans. The following table summarizes the program support received and letters of credit fees paid by us.

(\$ in millions)	Q4 2010	Q4 2009	2010	2009
Program support received ¹	\$ 2.7	\$ 3.3	\$ 10.8	\$ 13.4
Letters of credit fees paid	0.9	1.6	3.5	3.3

¹ Amount received is net of out of pocket / reimbursable expenses

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

The Trust and Co-owner Trusts can draw on the letters of credit in various situations, including the following:

- if a Dealer defaults on a Dealer Trust Loan and if we choose not to buy such loan, the Co-owner Trusts can draw on the letter(s) of credit for the amount of the Dealer Trust Loan (including any unpaid interest and costs) and then must assign the Dealer Trust Loan obligation and related security documentation to us;
- if collections from Dealers and the interest rate swap counterparty are insufficient to cover all fees and expenses owing by the Co-owner Trusts, the Trust can draw on the letter(s) of credit to cover such shortfall;

- if we do not provide sufficient credit enhancement, the Co-owner Trusts can fully draw on the letter(s) of credit and realize on the Dealer Trust Loans' underlying security; and
- upon termination of the program.

We would be required to reimburse the banks for any amounts the Co-owner Trusts were to draw under the letters of credit.

Terminating the arrangement

The agreement with the Trust and the Co-owner Trusts for the Trust financing program for Dealers has been amended and extended. Except for the termination rights set forth below, neither the Company, the Trust nor the Co-owner Trusts can unilaterally terminate the financing program. Any party deciding to terminate participation in the program must provide six months' written notice to the other parties and such written notice may be delivered at any time.

The arrangement can be terminated if:

- we become insolvent or default on a material covenant contained in agreements governing this Dealer financing program;
- we do not provide sufficient credit enhancement or indemnify the Co-owner Trusts in certain events;
- the debt funding the interest in Co-ownership assets cannot be rated at the current highest rating by reason of the Dealer financing program (after reasonable time, to address underlying issues – during which time no new Dealer Trust Loans will be advanced); or
- after at least 180 days notice, at least one of the banks which administer a Co-owner Trust no longer provides such Co-owner Trust with a liquidity line (and such Co-owner Trust(s) is not immediately replaced by us).

13.3 Bank financing for Dealers and PartSource Franchisees

We have guaranteed the bank debt of some Dealers and some PartSource Franchisees. If a Dealer or PartSource Franchisee fails to make scheduled debt payments on bank loans we have guaranteed, we may be required to pay the amount guaranteed to the bank. All of the credit guarantees expire in 2011 and may be extended, upon expiry, at our option.

As of January 1, 2011, the maximum authorized limit of financial guarantees to certain financial institutions in support of specific Dealers is not to exceed \$50.0 million, of which \$36.8 million had been issued and outstanding at January 1, 2011, compared to \$34.1 million at January 2, 2010. We have not accrued any specific amount for these guarantees in our Consolidated Financial Statements.

14.0 Enterprise risk management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its Enterprise Risk Management (ERM) program. The Company's ERM program sets out principles and tools for identifying, evaluating, prioritizing, monitoring and managing risk effectively and consistently across the Company.

The intent of our ERM program is to ensure an integrated approach to managing risks to assist in achieving our Strategic Objectives. Our ERM program is:

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

A key element of our ERM program is the periodic review, identification and assessment of our Principal Risks. We define a Principal Risk as one that, alone or in combination with other interrelated risks, can have a significant adverse impact on Canadian Tire's financial performance, reputation or ability to service its customers, and has, in the absence of controls, a credible probability of occurring.

Based on our experience over the past five years, we continue to enhance the processes and procedures that support the ERM program, including our setting of the Company's risk appetite, monitoring of risk metrics and Board reporting. We are also enhancing our integration of risk management activities within our strategic and operational planning and reporting processes.

The officer in charge of each business and support unit is accountable for ensuring that risks are managed effectively within his or her business area. The Executive Committee oversees CTC's risk profile and ensures the appropriate management of Principal Risks and other enterprise-wide risks, and has the responsibility for reviewing and approving, for recommendation to the Board of Directors, the ERM policy and program and specific policies addressing each of the Principal Risks. This risk oversight is conducted under the leadership of the Chief Financial Officer and Executive Vice-President, Finance with the support of the Enterprise Risk Management group. Management has completed its formal annual review and update of its Principal Risks, which have been presented and approved by the Audit Committee and the Board.

The Company's Internal Audit Services (IAS) division also supports the Company's overall risk management program. The primary role of IAS is to assist the Audit Committee in the discharge of its responsibilities relating to risk and uncertainty, financial controls and control deviations, compliance with laws and regulations and compliance with the Company's Code of Business Conduct and 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.

14.1 Board accountability

The mandate of the Board of Directors includes overseeing the development of the ERM program, for which the Board has delegated primary responsibility to the Audit Committee. The Audit Committee is responsible for gaining and maintaining reasonable assurance that management:

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

14.2 Principal Risks

We have identified 10 Principal Risks. Information management is an integral component of all these Principal Risks. Effective information management is of paramount importance to the organization, and the risk of not having or not appropriately using and safeguarding the information needed to drive strategy and execute processes is significant.

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

Principal Risks	Our risk management strategy
<p>Business continuity</p> <ul style="list-style-type: none"> • hazards, disasters and business interruptions may compromise the safety of our employees or customers and our ability to provide products and services on a continuous basis 	<p>Our strategy in this area is a combination of prevention, mitigation and laying off of risk through third-party insurance. Crisis management and emergency response structures and protocols and business continuity plans continue to be enhanced to ensure we can appropriately respond in the event of business interruptions. Disaster recovery plan exercises are conducted twice annually. In addition, a comprehensive insurance program is in place with a number of carriers to provide coverage for major risks in this area in a cost-effective manner. The insurance program is reviewed annually with the Audit Committee.</p>
<p>Consumer lending</p> <ul style="list-style-type: none"> • failure or inability to accurately predict the creditworthiness or credit behaviour of our customers may significantly affect our earnings 	<p>Policies and processes are employed to strategically target the quality of our consumer lending portfolio as outlined in section 5.3.4.8. Further information regarding the Company's exposure to consumer lending risk is provided in section 14.3.</p>
<p>Financial markets</p> <ul style="list-style-type: none"> • lack of sufficient capital to absorb the impact of unexpected losses • lack of sufficient liquidity or financing to fund operations and strategic initiatives • significant volatility in exchange rates and interest rates resulting in adverse impact on our product pricing, gross margins and net interest expense • inappropriate hedging strategies for mitigating our foreign exchange, interest rate and equity exposures could cause a significant negative impact on earnings 	<p>Various policies and processes are in place to manage capital and funding risks. The Treasurer and CFO provide oversight on policy compliance. Further details are set out in sections 7.2 and 7.3.</p> <p>Various policies and processes are employed to manage our hedging activities which are designed to mitigate the Company's exposure to volatility in exchange rates, interest rates and equity markets. Treasury processes ensure hedges are placed with highly rated financial institutions and are monitored against policy limits. The Treasurer and CFO provide oversight on policy compliance. Further details are set out in sections 8.0 and 14.3.</p>
<p>Financial reporting</p> <ul style="list-style-type: none"> • financial information and reporting that lacks integrity or is not compliant with accounting standards may have a negative impact on our reputation 	<p>Numerous professional accountants are employed within the Company's finance groups, and policies and processes are in place to ensure the validity, completeness and accuracy of recorded transactions, as well as segregation of duties. Finance processes are in place to monitor and respond to changing regulations and standards governing accounting and financial presentation. Financial reporting processes, including CEO/CFO Certification, are overseen by the Audit Committee.</p>

Principal Risks

Execution of strategy

- failure to plan and execute strategic initiatives in alignment with the strategy could have a negative impact on our mid- to long-term success as an organization

Our risk management strategy

CTC regularly reviews and updates its long-term strategic objectives and identifies several key initiatives therein as being vital to its long-term success. Operating plans set out each year's objectives required as part of the successful longer term execution of these initiatives. The Board receives reports on progress against the operating plan on a quarterly basis.

Key contractual relationships

- inadequate management of our relationships and contracts with key business partners, including our exposure to their risks, can result in inadequate products and services disruptions to the delivery of products and services, including inadequate customer service, and legal disputes which may have a negative impact on our earnings, reputation and brand

Processes are in place to ensure the management of risks arising from key contractual relationships, including a policy requirement for review by the Legal department of key contracts prior to signing.

A Supplier Code of Conduct is also in place to ensure that our suppliers and vendors abide by CTC's high standards of ethical business conduct.

Legal and legislative compliance

- failure to comply with laws and regulations could result in sanctions and financial penalties that could negatively impact our earnings and reputation
- non-compliance with expectations arising from common law can give rise to legal action that may result in financial or reputational damage
- areas of most significant risk are product safety, environmental, occupational health and safety, competition, privacy, disclosure, insider trading and the Bank Act

Policies are in place setting out expectations regarding processes for ensuring compliance with legislation and regulations, including specific policies for each of the eight areas of most significant risk. The Legislative Compliance department provides compliance oversight and guidance to the organization. Each of the business units have also established processes for complying with the laws and regulations of most significance to their business activities. The Audit Committee and Governance Committee have an oversight role in this area.

Further information regarding the Company's exposure to legal and regulatory risks is provided in sections 14.4 and 14.5.

Marketplace

- economic conditions, the competitive landscape, domestic or international political environments, the demographics of the Canadian population, the buying behaviour of consumers, and the available shopping, product and service 'technologies' could have a significant impact on our earnings

Processes are in place to actively monitor and analyze economic, competitive, demographic, consumer behaviour and competitive developments in Canada. The Treasury and Strategic Planning departments have key roles in these processes. Results are shared with the Company's executives, who are accountable for any necessary adjustments to the strategic and operational plans and for ongoing investment decisions. The Board of Directors has an oversight role in ensuring the Company's strategy takes into account shifts in macro-economic factors.

People

- external pressures and/or ineffective internal human resource practices can negatively impact our ability to attract and retain appropriately skilled people who espouse our values and strive to achieve our strategic objectives

Various policies and practices are in place regarding organizational design, employee recruitment programs, succession planning, compensation structures, ongoing training and professional development programs and performance management.

Our Code of Business Conduct sets out expected 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.

Processes are also in place for the recruitment, training and mobility of Associate Dealers, and for the development of training programs for employees across the Associate Dealer network.

Technology including information systems

- not having the right technology and information may affect our ability to compete effectively and achieve our strategic objectives

Processes are in place for assessing business needs and monitoring systems capabilities, performance, availability, capacity and currency to ensure appropriate investments are made to deliver on the needs of our businesses. A multi-year program designed to upgrade our technology infrastructure is currently underway.

14.3 Financial instruments

The following discussion on risks and risk management includes some of the required disclosures under the CICA HB Section 3862 – Financial Instruments – Disclosures related to the nature and extent of risks arising from financial instruments, as required by the standard. Further information is also available in Note 19 of the Notes to the Consolidated Financial Statements.

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 are allowances for credit losses and liquidity risk. The Company also has financial risk exposures to foreign currency risk and interest rate risk which may be managed through the use of derivative financial instruments. The Company does not use derivative financial instruments for trading or speculative purposes.

The Company determines fair values by reference to quoted bid and ask prices, as appropriate, when available. In the absence of an active market, fair values are based on internal valuation models, such as discounted cash flow analyses, using market observed inputs. The estimated fair values of financial instruments as at January 1, 2011 and January 2, 2010 were based on relevant market prices and information available at that time. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company uses primarily external readily observable market inputs, including factors such as interest yield curves. The detailed processes for determining fair values have been documented and applied consistently. Fair value amounts may change in subsequent periods due to market conditions, particularly changes in interest rates and exchange rates, or other factors. For interest rate swaps, foreign exchange and equity derivative contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The interest rate swaps were valued using discounted cash flow models based on year-end market interest rate curves. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates, and reflect the time value of money. The equity derivative contracts were valued by the counterparties based on year-end market interest rates, implied Company volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange.

Credit risk

The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Dealers spread across Canada who individually, generally comprise less than one per cent of the total balance outstanding. Similarly, loans receivable are generated by credit card, personal loan and line of credit customers, a large and geographically dispersed group. Maximum credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

We use derivative financial instruments as a risk management tool solely to manage our exposure to changes in interest rates, foreign currency exchange rates and certain future stock-based compensation expenses. To manage the credit and market risks associated with derivative financial instruments, we:

- deal only with counterparties that are highly rated financial institutions;
- restrict the amount of hedging we can transact with any one counterparty; and
- regularly monitor the market value of the hedge portfolios by counterparty.

The credit exposure with respect to hedges and similar financial instruments is spread across 10 financial institutions and represents the current replacement value of only those contracts which are in a gain position.

The Company's maximum exposure to credit risk is as follows:

(\$ in millions)	2010	2009 ¹
Assets held for trading	\$ 856.7	\$ 1,006.2
Assets held to maturity	13.0	13.8
Loans and receivables	3,344.9	3,184.4
Undrawn loan commitments	14,710.7	16,062.7
Securitized receivables	1,570.7	1,732.9
Guarantees	236.6	236.6
Total	\$ 20,732.6	\$ 22,236.6

¹ Debt issuance costs previously included in long term receivables and other assets now presented together with long term debt. Bank indebtedness has been reclassified from an offset to current assets to current liabilities in the current year.

The Company believes that the risk of all counterparties defaulting at the same time with respect to these instruments is not significant.

Allowance for credit losses

The Company's allowances for receivables are maintained at levels which are considered adequate to provide for future credit losses. A continuity of the Company's allowances for credit losses is as follows:

(\$ in millions)	Credit card loans		Other loans ¹		Accounts receivable		Total	
	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010
Balance, beginning of period	\$ 83.9	\$ 51.8	\$ 2.1	\$ 3.5	\$ 3.5	\$ 3.3	\$ 89.5	\$ 58.6
Provision for credit losses	175.5	175.6	2.0	5.6	4.0	3.0	181.5	184.2
Recoveries	27.8	19.8	1.1	0.8	0.2	0.2	29.1	20.8
Write-offs	(207.4)	(163.3)	(4.7)	(7.8)	(0.4)	(3.0)	(212.5)	(174.1)
Balance, end of period	\$ 79.8	\$ 83.9	\$ 0.5	\$ 2.1	\$ 7.3	\$ 3.5	\$ 87.6	\$ 89.5

¹ Other loans include personal loans and line of credit loans.

Foreign currency risk

The Company has significant demand for U.S. dollars, due to global sourcing. To mitigate the impact of fluctuating foreign exchange rates on the cost of our globally sourced merchandise and, consequently, earnings, the Company has a comprehensive foreign exchange risk management policy in place which establishes ranges for the proportion of forecast U.S. dollar purchases that must be hedged for various time periods. Consequently, when dramatic swings in foreign currency rates occur, the Company has already hedged a significant portion of its near-term U.S. dollar-denominated forecast purchases. The foreign currency hedge portfolio has historically allowed the Company to achieve some margin stability. The outcome of the Company's hedge portfolio for 2011 will be dependent on the volatility of the currency markets and the directional move of the Canadian dollar. While the Company may be able to pass on changes in foreign currency exchange rates through pricing, it will be subject to currency rates and competitive conditions.

Liquidity risk

The following table summarizes the Company's contractual maturity for its financial liabilities. The table includes both interest and principal cash flows.

(\$ in millions)	1 year	2 years	3 years	4 years	5 years	Thereafter	Total
Non-derivatives							
Bank indebtedness	\$ 118.0	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 118.0
Deposits	623.6	253.2	482.4	348.9	180.0	–	1,888.1
Accounts payable and other	1,278.4	–	–	–	–	–	1,278.4
Long-term debt	22.6	10.1	7.6	4.0	303.5	755.7	1,103.5
Interest payments ¹	115.6	109.0	100.7	79.6	58.7	581.3	1,044.9
Derivatives	46.8	5.2	3.1	–	–	–	55.1
Total	\$ 2,205.0	\$ 377.5	\$ 593.8	\$ 432.5	\$ 542.2	\$ 1,337.0	\$ 5,488.0

¹ Includes interest payments on deposits and long-term debt.

Interest rate risk

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

14.4 Legal risk

The Company's wholly-owned subsidiary, Canadian Tire Bank (the Bank), is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank believes it has a solid defense to both actions on the basis that banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the present total aggregate exposure to the Bank is expected to be approximately \$22.5 million.

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

14.5 Regulatory risk

On September 30, 2009 the Federal government enacted new regulations focused on credit cards and other lending products. The regulations impose additional disclosure obligations in credit card applications, on credit card monthly statements and in credit agreements. They also impose rules related to payment allocation, calculation of interest charges, credit limit increases and debt collection practices. These regulations will have a negative impact on all

federally regulated financial institutions that issue credit cards in Canada. The implementation of the regulations was phased in over time with the first set of changes implemented January 1, 2010 and the second September 1, 2010. The January changes related to debt collection practices and disclosure obligations in applications and credit agreements and prohibit credit limit increases without consent. The September changes related to interest calculation, payment allocation and disclosure obligations on monthly statements. Financial Services assigned a project team that ensured compliance with the regulations by the respective deadlines and is also exploring any new mitigating actions that can be taken. As of December 31, 2010, Financial Services was in compliance with the legislation.

14.6 Other risks

In addition to the Principal Risks identified in section 14.2-14.5 and the business-specific risks identified in section 5.3.1.5 for CTR, section 5.3.2.5 for Petroleum, section 5.3.3.5 for Marks and section 5.3.4.8 for Financial Services, operational business risks that may cause actual results or events to differ materially from those forecasted in this MD&A include:

- the Company's ability to acquire and develop real estate properties, obtain municipal and other required government approvals, access construction labour and materials at reasonable prices, or lease suitable properties could also impact the timing of construction;
- changes in commodity prices could also affect the profitability of CTR and Mark's; and
- fluctuating foreign currency exchange rates could impact cross-border shopping patterns and employment levels in the manufacturing and export sectors and, consequently, negatively impact consumer spending practices.

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

15.0 Critical accounting estimates

The Company estimates certain amounts reflected in its financial statements using detailed financial models that are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In our judgment, the accounting policies and estimates detailed in Note 1 of the Notes to the Consolidated Financial Statements for the year ended January 1, 2011 do not require us to make assumptions about matters that are highly uncertain and accordingly none of the estimates is 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 credit losses at Financial Services is considered to be a "critical accounting estimate". The allowance for credit losses adjusts the value of the Financial Services loan portfolio to reflect its estimated realizable value. Financial Services' allowance for impaired loans receivable for each of credit card, personal and line of credit loans is determined using historical loss experience of account balances based on the aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans receivables. A robust model is used and is based on economic conditions and trends specific to Financial Services. The allowance for impaired credit card loans (the largest portfolio) is comprised of general, bankruptcy and fraud risk components. Changes in circumstances including, but not limited to, changes in the aging of accounts and changes in the bankruptcies experienced may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. The impairment provisions for personal loans and line of credit loans operate in similar fashion.

16.0 Contractual obligations

(\$ in millions)	Total	In years		In years	
		2011	2012 – 2013	2014 – 2015	After 2015
Long-term debt ¹	\$ 1,065.2	\$ 14.0	\$ 1.2	\$ 300.0	\$ 750.0
Capital lease obligations	38.3	8.6	16.5	7.5	5.7
Operating leases	2,023.5	224.4	408.1	342.8	1,048.2
Purchase obligations	897.0	791.8	82.3	22.8	0.1
Financial Services' deposits	1,888.1	623.6	735.6	528.9	0.0
Other obligations	52.6	21.6	16.0	8.7	6.3
Total contractual obligations	\$ 5,964.7	\$ 1,684.0	\$ 1,259.7	\$ 1,210.7	\$ 1,810.3

¹ Interest obligations are not included.

17.0 Changes in accounting policies

The numbers reflected in this MD&A have been calculated using the same accounting policies and methods of their application as in the prior year ended January 2, 2010 (contained in our 2009 Financial Report).

17.1 Comparative Figures

Certain of the prior period's figures have been reclassified to correspond to the current year presentation, including debt issuance costs netted against long-term debt and bank overdrafts now included in current liabilities. As a result, total assets have been restated by \$83.0 million at January 2, 2010, with a corresponding increase in total liabilities.

17.2 International Financial Reporting Standards (IFRS)

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS. The transition to IFRS will impact accounting, financial reporting, internal control over financial reporting, taxes, information systems and processes as well as certain contractual arrangements.

Given the magnitude of the effort involved in this conversion, the conversion project (which employed formal project management practices) was developed in three main phases and employed trained dedicated resources. Please see section 17.9 of the MD&A contained in our 2009 Financial Report for a full description of this project. The IFRS conversion project is now substantially complete.

17.3 Impact of International Financial Reporting Standards (IFRS) on the 2011 Consolidated Financial Statements

There are currently several differences between IFRS requirements and our existing Canadian GAAP accounting policies. Some of the more significant ones at present, as they relate to our Company, are set out in the table below, along with the preliminary unaudited impact on financial reporting in 2011 (and restated 2010 comparatives). The following table highlights the differences management considers the most relevant but should not be viewed as an all-encompassing listing at this time. The Company currently plans to provide a full Opening IFRS Consolidated Statement of Financial Position as at January 3, 2010 and restated comparatives for 2010 at an Analyst/Investor briefing on April 6, 2011. Providing IFRS restated 2010 amounts should provide some directional guidance as to the impact on 2011 results.

Standards	Comparison between Canadian GAAP ("CGAAP") and IFRS	Preliminary Findings
Consolidations (including IAS 27, 28)	<p>CGAAP:</p> <p>a) Variable interest entities (VIEs) (where control is exercised by means other than share ownership) are consolidated if the reporting entity is the primary beneficiary of the VIE's earnings</p> <p>b) Qualifying special purpose entities are exempt from consolidation.</p> <p>IFRS: There is no concept of qualifying special purpose entities under IFRS. There is no concept of variable interest entities under IFRS. Rather, entities are to be consolidated if the Company has control over the subject entity.</p> <p>Some of the control factors considered include:</p> <ul style="list-style-type: none"> • a majority share ownership; • ability to control the Board; • power to govern financial and operating policies; • contracted arrangements conferring effective control. 	<p>The relationship with Glacier Credit Card Trust ("GCCT") has been assessed and meets the control criteria under IAS 27 and thus will be consolidated upon adoption of IFRS. Impacts included increasing both the assets and the liabilities by approximately \$1.7 billion on the Opening IFRS Consolidated Statement of Financial Position and \$1.6 billion on the 2010 year-end IFRS Consolidated Statement of Financial Position.</p> <p>The Company has completed its assessment of the relationship with Franchise Trust and has determined that it also meets the control criteria and accordingly it too will be consolidated under IFRS. Assets and liabilities both increased by approximately \$760 million on the Opening IFRS Consolidated Statement of Financial Position and approximately \$690 million on the 2010 year end IFRS Consolidated Statement of Financial Position.</p> <p>The 2010 IFRS Consolidated Statement of Income will reflect additional revenue of approximately \$105 million on a full year basis, which will be offset by an increase in expenses, including finance costs (interest expense).</p> <p>The Company has assessed that the relationships with CTR Dealers, PartSource Franchisees, Mark's Franchisees, Petroleum agents and entities such as Canadian Tire Jumpstart Charities (our charitable organization) currently do not meet the criteria for consolidation under IFRS. It should be noted however that these relationships will be monitored continuously for potential changes in the future.</p>

Standards	Comparison between Canadian GAAP ("CGAAP") and IFRS	Preliminary Findings
Securizations (included in IAS 39)	<p>CGAAP: Under AcG 12, "Transfer of Receivables", securitization transactions result in the recording of a sale of receivables and the consequent de-recognition of these assets from the Balance Sheet where the entity has surrendered control over the transferred assets and does not maintain control over these either through an agreement that obligates the entity to reacquire them or unilaterally re-acquire specific transferred assets.</p> <p>IFRS: Financial assets can only be derecognized under IAS 39 if:</p> <ul style="list-style-type: none"> • the entity's contractual rights to the asset expire; • it has transferred the asset and substantially all of the risks and rewards of ownership; and • If some of the risks and rewards haven't transferred, the other party has the unilateral right to sell the assets. 	<p>Securitization transactions with GCCT will no longer meet the de-recognition criteria upon adoption of IFRS. As noted above, GCCT has been consolidated with the Company.</p>
Borrowing costs (IAS 23)	<p>CGAAP: Borrowing costs may be capitalized on major projects.</p> <p>IFRS: Capitalization of borrowing costs is required on qualifying assets, which are assets that require an extended period of preparation before they are usable or saleable.</p>	<p>The Company has historically chosen to capitalize borrowing costs on major real estate projects only. Upon adoption of IFRS, the Company has capitalized borrowing costs only on those real estate projects that meet the qualifying asset criteria. Additionally, the Company has also extended borrowing cost capitalization to other classes of assets (e.g.: major IT projects) that meet the qualifying asset criteria. The net impact was not significant.</p>
Property, plant and equipment ("Fixed assets") (IAS 16)	<p>CGAAP: The historical cost model is required. Assets are to be recorded at cost upon initial acquisition and are to be depreciated over their useful lives.</p> <p>IFRS: After initial recognition, there is the option to measure fixed assets using the cost model or the revaluation (mark-to-fair-market value) model.</p>	<p>We will continue to use the cost model.</p> <p>Certain of our fixed assets were re-componentized as of the Opening IFRS Consolidated Statement of Financial Position date resulting in a lower net book value of fixed assets. The impact was not significant.</p> <p>It should be noted that more extensive disclosure is required under IFRS in the notes to the consolidated financial statements in this area.</p>

Standards	Comparison between Canadian GAAP ("CGAAP") and IFRS	Preliminary Findings
Leases (IAS 17)	<p>CGAAP: Canadian GAAP has established quantitative guidelines to distinguish between operating leases and capital (finance) leases. Leases are treated as finance leases if, at the inception of the lease:</p> <ul style="list-style-type: none"> • there is reasonable assurance that the lessee will obtain ownership of the leased asset at the end of the lease term or if there is a bargain purchase option; • the lease term is 75 per cent or more of the economic life of the leased asset; or • The present value of the minimum lease payments is 90 per cent or more of the fair value of the leased asset at the inception of the lease. <p>In a sale-leaseback transaction that results in an operating lease, the gain or loss arising on the sale is deferred and amortized over the lease term. If the fair value of the property is less than the carrying value, the difference is recognized as a loss immediately.</p> <p>IFRS: There are no specific quantitative guidelines to determine whether the risks and rewards of ownership of the leased asset have been transferred. Each asset must be assessed qualitatively to make the determination as to whether it is an operating or finance lease.</p> <p>In a sale and leaseback transaction that results in an operating lease, and it is clear that the transaction was established at fair value, the gain or loss is immediately recognized.</p>	<p>The Company has assessed that there were instances where assets under operating leases for CGAAP purposes should be treated as finance leases under IFRS. This resulted in an increase in assets in the Opening IFRS Consolidated Statement of Financial Position of approximately \$120 million and an increase in the liabilities of approximately \$160 million. As at the 2010 year-end, on the IFRS Consolidated Statement of Financial Position, leased assets were approximately \$105 million and liabilities were approximately \$155 million.</p> <p>The recording of these finance leases has resulted in an increase in depreciation and finance costs, which has been substantially offset by a reduction in rent expenses.</p> <p>Certain sale and leaseback transactions have resulted in operating leases for both CGAAP and IFRS. Other sale and leaseback transactions have resulted in finance leases for IFRS, but were operating leases under CGAAP. The deferred gains from these transactions have been restated resulting in a decrease in liabilities of approximately \$80 million with a corresponding pre-tax equity increase of \$80 million on the Opening IFRS Consolidated Statement of Financial Position.</p>
Impairment of assets (IAS 36)	<p>CGAAP: Asset impairment testing is required where indicators of impairment are present and a two-step approach is used to determine whether an impairment exists and to measure the impairment loss but discounting is not required at the initial step.</p> <p>IFRS: Asset impairment testing is required where indicators of impairment are present and a single-step impairment testing of assets at the independent cash generating unit (CGU) level will be required to measure the loss. In addition, future cash flows used to determine the recoverable value of assets for impairment testing are discounted. Impairment losses can be reversed, except for impairment losses of goodwill.</p>	<p>Impairments are likely to occur more often under IFRS. The Company has identified its cash generating units, which vary by business unit. Impairments were not significant in 2010.</p>
Share-based payments (IFRS 2)	<p>CGAAP: Awards of stock-based compensation result in a liability when the employee can compel the Company to settle the award with a cash payment instead of issuing equity instruments. Accordingly, these are measured using the difference between the quoted market price of the Company's shares and the option price.</p> <p>IFRS: All stock-based awards must be recorded at fair value. Share-based payment awards for which the counterparty has a choice of requesting settlement in cash or with an equity instrument is a compound instrument with a debt component and an equity component.</p>	<p>The impact of accounting for these awards at fair value and as compound instruments on our Opening IFRS Consolidated Statement of Financial Position an increase to liabilities and a decrease to equity of approximately \$7 million before taxes.</p>

Standards	Comparison between Canadian GAAP ("CGAAP") and IFRS	Preliminary Findings
Provisions, Contingent Liabilities and Contingent Assets (IAS 37)	<p>CGAAP: Amounts payable for goods and services are reflected as "Accounts payable and other" on the face of the Balance Sheet and generally represent amounts legally payable at the Balance Sheet date. Contingent losses are only recorded when it is likely that a future event will confirm that an asset has been impaired or a liability incurred and that the amount of the loss can be reasonably estimated.</p> <p>IFRS: IFRS introduces the concept of "constructive obligations" (those which the Company, based on its past practice and future intent, will discharge by issuing payment, regardless of whether a legal liability technically exists or not) and "onerous contracts". In addition, recognizing the more subjective nature of some obligations, IFRS requires obligations of a more subjective nature to be reflected as "Provisions" on the face of the Balance Sheet, rather than Accounts Payable and Accruals.</p>	<p>Additional obligations will be reflected on the Consolidated Statement of Financial Position. In addition there will be a reclassification of a portion of "accounts payable and other" to the new Consolidated Statement of Financial Position caption of "provisions". The impact on the Opening IFRS Consolidated Statement of Financial Position was approximately \$250 million and approximately \$220 million on the 2010 year-end IFRS Consolidated Statement of Financial Position.</p>
Employee benefits (IAS 19)	<p>CGAAP: Gains and losses related to defined benefit obligations are recorded using a 10 per cent corridor approach.</p> <p>IFRS: Gains and losses related to the revaluation of defined benefit obligations can be recorded using a 10 per cent corridor approach or be immediately recognized in other comprehensive income.</p>	<p>We will now be recording revaluation gains and losses (for our obligation to provide certain health care, dental care, life insurance and other benefits for certain retired employees pursuant to Company policy) in other comprehensive income. This resulted in an increase to our liabilities and a decrease to our equity of approximately \$14 million before taxes on both our Opening IFRS Consolidated Statement of Financial Position and the 2010 year end IFRS Consolidated Statement of Financial Position. The liabilities on the 2010 year end IFRS Consolidated Statement of Financial Position increased by an additional \$8 million before tax to reflect the revaluation reserve (which was recorded as a charge on the 2010 year end Consolidated Statement of Comprehensive Income on an after-tax basis).</p>

The Company also assessed other relevant standards including IFRIC 13 ("Customer Loyalty Programs"). IFRIC 13 will result primarily in an offsetting increase in both revenue and operating expenses. These other standards were determined to have less significance than those noted above.

We have also made choices concerning certain exemptions from retrospective application of IFRS standards at the time of changeover that are provided by IFRS 1, some of which are set out in the following table.

Optional Exemption	CTC Election
<i>Business Combinations</i>	<p>Under this exemption, the Company may elect not to apply IFRS 3 retrospectively to past business combinations. The standard may be applied prospectively from the date of the Opening IFRS Consolidated Statement of Financial Position.</p> <p>The Company has used this exemption.</p>
<i>Share-based payment transactions</i>	<p>A first time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted on or before November 7, 2002 or that were granted after November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. Otherwise retrospective application is required.</p> <p>The Company has applied this exemption to the extent possible.</p>
<i>Fair value or revaluation as deemed cost</i>	<p>This exemption allows the Company to initially measure an item of Property, Plant and Equipment upon transition to IFRS at fair value or a previous GAAP valuation (ie: historical cost).</p> <p>The Company applied this exemption when historical information was not available for certain assets.</p>
<i>Employee benefits</i>	<p>This exemption permits the Company to reset the cumulative actuarial gains and losses to zero by recognizing the full amount in the retained earnings on the Opening IFRS Consolidated Statement of Financial Position.</p> <p>The Company used this exemption.</p>
<i>Cumulative translation differences</i>	<p>This exemption permits the Company to reset the cumulative translation differences to zero by recognizing the full amount in the retained earnings on the Opening IFRS Consolidated Statement of Financial Position.</p> <p>The Company used this exemption.</p>
<i>Designation of previously recognized financial instruments</i>	<p>This exemption permits an entity to designate any financial asset that qualifies as available-for-sale at the date of transition to IFRS. Additionally, at the date of transition to IFRS, the Company is permitted to designate any financial instrument that qualifies as fair value through profit and loss.</p> <p>The Company used this exemption for certain financial assets.</p>
<i>Decommissioning liabilities included in the cost of property, plant, and equipment</i>	<p>This exemption permits the Company not to comply with IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>, which requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates.</p> <p>The Company used this exemption.</p>
<i>Borrowing costs</i>	<p>This exemption allows the Company to adopt IAS 23, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the date of the Opening IFRS Consolidated Statement of Financial Position.</p> <p>The Company used this exemption.</p>

The above impact assessment is based on IFRS as it stands at present. It should be noted, however, that accounting standards and interpretations are always subject to change and that the Company's initial reporting under IFRS for the 2011 fiscal year (and prior year comparatives presented) will be based on standards that are effective at the end of 2011. The Company will thus continue to actively monitor developments in the standards as proposed and issued by the International Accounting Standards Board (IASB) as well as regulatory standards issued by Canadian Securities administrators and Office of the Superintendent of Financial Institutions (OSFI) and will adjust accordingly, as it becomes necessary.

18.0 Non-GAAP measures

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

- EBITDA (earnings before interest, income taxes, depreciation and amortization);
- Adjusted EDITDA (consists of EBITDA adjusted for pre-tax non-operating items);
- Adjusted EPS;
- adjusted earnings; and
- same store sales.

EBITDA

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

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

Reconciliation of EBITDA to GAAP measures¹

(\$ in millions)	Q4 2010	Q4 2009	2010	2009
EBITDA				
CTR	\$ 141.1	\$ 114.6	\$ 551.8	\$ 535.7
Petroleum	8.7	6.6	40.4	42.2
Mark's	67.4	70.5	87.5	90.5
Financial Services	66.7	57.0	267.8	205.3
Total EBITDA	\$ 283.9	\$ 248.7	\$ 947.6	\$ 873.7
Less: Depreciation and amortization expense				
CTR	\$ 48.2	\$ 50.4	\$ 189.9	\$ 191.2
Petroleum	5.1	4.7	18.2	18.0
Mark's	9.1	7.1	32.6	27.3
Financial Services	1.9	2.4	6.6	11.0
Total depreciation and amortization expense	\$ 64.3	\$ 64.6	\$ 247.3	\$ 247.5
Interest expense				
CTR	\$ (5.0)	\$ 26.2	\$ 40.3	\$ 82.9
Mark's	0.2	0.3	0.8	1.7
Financial Services	16.1	16.2	62.2	62.4
Total interest expense	\$ 11.3	\$ 42.7	\$ 103.3	\$ 147.0
Earnings before income taxes				
CTR	\$ 97.9	\$ 38.0	\$ 321.6	\$ 261.6
Petroleum	3.6	1.9	22.2	24.2
Mark's	58.1	63.1	54.1	61.5
Financial Services	48.7	38.4	199.1	131.9
Total earnings before income taxes	\$ 208.3	\$ 141.4	\$ 597.0	\$ 479.2

¹ Differences may occur due to rounding.

References to adjusted earnings

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

From time to time adjusted earnings may also contain additional unusual and/or non-recurring items which are explained in detail at that time.

Same store sales

Same store sales are the metric used by management, and most commonly used in the retail industry, to compare retail sales growth in a more consistent manner across the industry. CTR's same store sales includes sales from all CTR and PartSource stores that have been open for more than 53 weeks and therefore allows for a more consistent comparison to other stores open during the period and to results in the prior year. CTR's same store sales exclude the sales from the labour portion of CTR's auto service sales. Mark's same store sales exclude new stores, stores not open for the full period in each year and store closures.

19.0 Controls and procedures**Disclosure controls and procedures**

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

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

As required by CSA National Instrument 52-109 (NI 52-109), Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of management, including the CEO and CFO, as of January 1, 2011. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of January 1, 2011.

Internal control over financial reporting

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

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

As required by NI 52-109, management, including the CEO and CFO, evaluated the design and effectiveness of our internal control over financial reporting as defined in NI 52-109 as at January 1, 2011. 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. This evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls, and a conclusion on this evaluation. Based on this evaluation, the CEO and the CFO have concluded that, as at January 1, 2011, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has evaluated whether there were changes in our internal controls over financial reporting during the quarter ended January 1, 2011 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Management has determined that no material changes occurred in the fourth quarter.

20.0 Business sustainability**Strategy and aspirational goals**

The Company affirms its commitment to business sustainability with three primary aspirations; a) profitably grow the business without increasing the net carbon footprint of the economy, b) eliminate unnecessary packaging while sending zero waste to landfills, and c) provide innovative products and services that meet customers' needs without compromising the ability of future generations to meet their needs.

The active management of energy and carbon issues is a foundational element of Canadian Tire's business sustainability strategy. Periodic measurements of the operational footprint of the business complement quarterly reporting on the results of initiatives that mitigate the Corporation's footprint. Starting in 2010, Canadian Tire began reporting these results in quarterly and year-end financial reporting documents, including the MD&A.

Carbon footprint baseline

At Canadian Tire we look beyond our direct impact and consider the footprints of our dealer stores, and our product and transportation partners. When reporting Canadian Tire's footprint, we include the extended value chain of the business, accounting for the environmental footprint of each area of the business and its associated operations, whether these activities are undertaken by the Corporation or third-parties on behalf of Canadian Tire. This is highlighted in the following table^{1,2}:

2007	Percentage of Extended Value Chain Footprint	GHG Emissions (CO ₂ -eq tonnes)	Energy Use (GJ)	Equivalent to the Energy Used to Power this Many Canadian Homes
Embedded in Retail Products	77%	2,303,200	34,008,500	321,100
Canadian Tire Product Transport	1%	5,700	79,200	800
3rd Party Product Transport	14%	439,500	6,511,700	61,500
CTC Buildings/Operations	2%	71,000	1,064,500	10,000
Dealer/Franchise Building/Operations	6%	185,000	3,142,000	29,700
TOTAL	100%	3,004,400	44,805,900	423,100

2010 Performance

Canadian Tire continued to realize economic benefits from its business sustainability strategy during the past year. During fiscal 2010, the Corporation completed 389 discrete initiatives that are forecasted to avoid annual costs of approximately \$6 million³. These initiatives are also forecasted to annually avoid approximately 106,400 gigajoules³ of energy use and 7,800 CO₂-eq tonnes³ of greenhouse gas emissions (equivalent to powering over 1,000 Canadian homes). Additionally, Canadian Tire contributed \$17.9 million in funds to community blue box and industry product stewardship and recycling programs in 2010.

There are three specific areas of sustainability efforts: a) products and packaging; b) product transportation; and c) the operation of the Company's owned and leased buildings.

Products and Packaging

During 2010, Canadian Tire completed 161 revisions to products and packaging, reducing the size and weight of packaging and modifying handling processes to reduce damages throughout the supply chain. This is forecasted to annually avoid over 22,400 gigajoules³ of energy use and 1,700 CO₂-eq tonnes³ of greenhouse gas emissions (equivalent to powering more than 200 Canadian homes). These changes are also forecasted to annually avoid 610 tonnes³ of product and packaging waste (equivalent to the annual household waste from more than 580 Canadian homes)³.

Product Transportation

Canadian Tire completed 43 upgrades and process improvements to its transportation fleet which ships products to store shelves in 2010. This included the replacement of old fleet vehicles with newer fuel efficient models and performance enhancements that provide additional fuel efficiency to fleet vehicles. These initiatives are forecasted to annually avoid more than 5,900 gigajoules³ of energy use and 420 CO₂-eq tonnes³ of greenhouse gas emissions.

Buildings and Operations

The 185 upgrades and process improvements made to buildings and operations in 2010 focused on retrofits to lighting, energy management and heating and air conditioning systems. These upgrades are forecasted to annually avoid over 78,000 gigajoules³ of energy use and 5,600 CO₂-eq tonnes³ of greenhouse gases. In addition, Canadian Tire operates two low carbon energy generation installations that include solar PV and geothermal technologies. Since the start of operation in 2008 to the end of 2010, these installations have generated over 176,000 ekWh³, which helped to avoid 41 tonnes³ of greenhouse gas emissions in the local environment.

¹ Based on 2007 data. Rounded to the nearest hundred. For further details, refer to <http://CTSustainabilityinAction.ca>.

² The 2007 carbon footprint was first reported in our sustainability report published on our website in February 2010. Since that date, enhancements have been made in the methodology to improve data consistency, and alignment with the WBCSD/WRI GHG Protocol. As a result, the 2007 carbon footprint has been revised to reflect these changes.

³ As sustainability initiatives are part of an inherently dynamic process and as projects come to fruition, revisions to estimates are periodically made to provide the most accurate data available at the time.

Stakeholder recognition

BC Hydro recently recognized Canadian Tire for its energy efficiency efforts and commitment to energy conservation that runs from the independent dealers who operate individual stores right up to the CEO. One Change, an international organization that recognizes sustainability efforts across North America, awarded Canadian Tire its Corporate Catalyst prize.

Canadian Tire began a two-year partnership with the City of Toronto's *Live Green Toronto* program. Canadian Tire was the key retail sponsor in the annual Live Green Toronto Festival and is the exclusive retail partner for Toronto's *Cut It Out* program, offering customers the opportunity to return their old gas-powered lawn and snow removal equipment during the City's *Community Environment Days* or at special events at four selected Canadian Tire stores. A \$25 Canadian Tire Bonus Card was offered to customers who returned this equipment to purchase newer, more efficient equipment or other environmentally preferable products. Canadian Tire also provided grants to fund four winning environmental projects in the community.

In addition, Canadian Tire partners every year with utility companies across the country such as the Ontario Power Authority, BC Hydro, Manitoba Hydro, SaskPower and Nova Scotia Power to offer customers incentives on the purchase of energy efficient products or for trading in their older, inefficient items to help reduce household energy consumption.

The next step for Canadian Tire will be to formally integrate business sustainability into its planning process by including sustainability objectives in the business's 2011 operating plans. During 2011, the Corporation will strive to achieve the publicly-stated goal to design, build, and open the first of its next-generation of energy efficient stores that will be 75 per cent more energy efficient than those built in 2010⁴.

For further details, refer to <http://CTSustainabilityinAction.ca>.

21.0 Community Activities – Jumpstart

Canadian Tire's charitable efforts are reflected in the work of Canadian Tire Jumpstart® Charities. The Jumpstart organization, formerly the Canadian Tire Foundation for Families, underwent a name change in 2009 to reflect the success of the Jumpstart program, which helps financially disadvantaged children gain the life benefits that are associated with participating in organized sports and recreation activities. National in scope but local in focus, Canadian Tire Jumpstart has delivered support since 2005 to children through a Canada-wide network of local chapters. To date, 310 Jumpstart chapters have been created in communities across the country and have contributed to help over 315,000 children.

During 2010, Jumpstart has raised over \$12.1 million across Canada (\$11.3 million during 2009), helping over 98,000 children participate in sports and recreation programs (65,000 children helped in 2009). Jumpstart continues to grow and help more children. In 2010, Canadian Tire Jumpstart Charities has a target to help over 95,000 children by covering registration, equipment and transportation costs for sport and recreation activities.

22.0 Other Investor Communication**Caution regarding forward-looking information**

This document contains forward-looking information that reflects management's current expectations related 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:

- financial aspirations listed in section 4.2;
- the Company's strategic objectives for 2010, listed throughout section 5.3; and
- business sustainability in section 20.0.

In addition, long-term financial metrics and aspirations have not been adjusted for IFRS.

Forward-looking statements are provided for the purposes of providing information about management's current expectations and plans and allowing investors and others to get a better understanding of our financial position, results of operations and operating environment. Readers are cautioned that such information may not be appropriate for other circumstances.

⁴ This will reduce a new store's energy use from the current 191.8 ekwh/m² to 109.3 ekwh/m².

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

By its very nature, forward-looking information requires us to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's assumptions may not be correct and that the Company's expectations and plans will not be achieved. Although the Company believes that the forward-looking information in this document is based on information and assumptions which are current, reasonable and complete, this information is necessarily subject to a number of factors that could cause actual results to differ materially from management's expectations and plans as set forth in such forward-looking information for a variety of reasons. Some of the factors – many of which are beyond our 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 Canadian Tire to attract and retain quality employees, Dealers, Canadian Tire Petroleum agents and PartSource and Mark's Work Wearhouse store operators and Franchisees, as well as our financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at our stores or acquire our financial products and services; (d) our margins and sales and those of our competitors; (e) risks and uncertainties relating to information management, technology, supply chain, product safety, changes in law, competition, seasonality, commodity price and business disruption, our relationships with suppliers and manufacturers, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by Canadian Tire and the cost of store network expansion and retrofits and (f) our capital structure, funding strategy, cost management programs and share price. We caution that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect our results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information.

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 5.3.1.5 (CTR's business risks), 5.3.2.5 (Petroleum's business risks), 5.3.3.5 (Mark's business risks), 5.3.4.8 (Financial Services' business risks) and 14.0 (Enterprise risk management) and all subsections there under of this MD&A. Please also refer to the "Risk Factors" section of our Annual Information Form for fiscal 2010, as well as Canadian Tire's other public filings, available at www.sedar.com and at www.corp.canadiantire.ca.

Statements that include forward-looking information do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the effect of any dispositions, acquisitions, asset write-downs or other charges announced or occurring after such statements are made.

The forward-looking statements and information contained herein are based on certain factors and assumptions as of the date hereof. The Company does not undertake to update any forward-looking information, whether written or oral, that may be made from time to time by it or on its behalf, to reflect new information, future events or otherwise, unless required by applicable securities laws.

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

Commitment to disclosure and investor communication

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

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

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

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

Management's Responsibility for Financial Statements

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

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

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

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



Stephen G. Wetmore
President and
Chief Executive Officer
March 10, 2011



Marco Marrone
Chief Financial Officer and
Executive Vice-President, Finance

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 January 1, 2011 and January 2, 2010, and the consolidated statements of earnings, changes in shareholders' equity, comprehensive income and cash flows for the years then ended, 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 Canadian generally accepted accounting principles, 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 January 1, 2011 and January 2, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
March 10, 2011
Toronto, Ontario

Consolidated Statements of Earnings

For the years ended (\$ in millions except per share amounts)	January 1, 2011	January 2, 2010
Gross operating revenue	\$ 8,980.8	\$ 8,686.5
Operating expenses		
Cost of merchandise sold and all other operating expenses except for the undernoted items (Note 3)	8,000.2	7,788.1
Interest		
Long-term debt	111.2	130.0
Short-term debt	(7.9)	17.0
Depreciation and amortization	247.3	247.5
Employee profit sharing plan	33.0	24.7
Total operating expenses	8,383.8	8,207.3
Earnings before income taxes	597.0	479.2
Income taxes (Note 14)		
Current	132.8	135.2
Future	10.6	9.0
Total income taxes	143.4	144.2
Net earnings	\$ 453.6	\$ 335.0
Basic and diluted earnings per share	\$ 5.56	\$ 4.10
Weighted average number of Common and Class A Non-Voting Shares outstanding (Note 12)	81,565,476	81,678,775

Consolidated Statements of Cash Flows

For the years ended (\$ in millions)	January 1, 2011	January 2, 2010
Cash generated from (used for):		
Operating activities		
Net earnings	\$ 453.6	\$ 335.0
Items not affecting cash		
Depreciation	196.8	193.7
Net provision for loans receivable (Note 2)	177.5	181.2
Amortization of intangible assets	50.5	53.8
Future income taxes	10.6	9.0
Employee future benefits expense (Note 11)	6.3	6.0
Other	2.6	4.0
Impairments on property and equipment (Note 7)	2.1	1.9
Loss (gain) on disposal of property and equipment	1.8	(1.6)
(Recovery) impairment of other long-term investments	(0.6)	1.1
Changes in fair value of derivative instruments	(16.0)	(11.4)
Loss on disposal of mortgage portfolio	–	0.6
Securitization loans receivable	(30.9)	(39.4)
Gain on sales of loans receivable	(33.8)	(39.2)
	820.5	694.7
Changes in other working capital components (Note 15)	170.7	(275.9)
Cash generated from operating activities	991.2	418.8
Investing activities		
Additions to property and equipment (Note 15)	(237.5)	(220.0)
Investment in loans receivable, net	(156.6)	(208.5)
Net securitization of loans receivable	(155.1)	(532.3)
Short-term investments	(99.6)	(38.0)
Additions to intangible assets (Note 15)	(70.3)	(67.8)
Other long-term investments	(58.7)	(50.7)
Other	(8.3)	(7.7)
Purchases of stores	(0.2)	(6.1)
Long-term receivables and other assets	6.7	(3.1)
Proceeds on disposition of property and equipment	9.5	27.8
Proceeds on disposal of mortgage portfolio (Note 2)	–	162.2
Cash used for investing activities	(770.1)	(944.2)
Financing activities		
Class A Non-Voting Share transactions (Note 12)	(8.7)	(0.9)
Dividends	(68.5)	(68.7)
Net change in deposits	(183.5)	917.3
Repayment of long-term debt (Note 9)	(310.1)	(165.4)
Issuance of long-term debt (Note 9)	–	200.1
Cash (used for) generated from financing activities	(570.8)	882.4
Cash (used) generated in the year	(349.7)	357.0
Cash and cash equivalents, net of bank indebtedness, beginning of year	786.0	429.0
Cash and cash equivalents, net of bank indebtedness, end of year (Note 15)	\$ 436.3	\$ 786.0

Consolidated Statements of Comprehensive Income

For the years ended (\$ in millions)	January 1, 2011	January 2, 2010
Net earnings	\$ 453.6	\$ 335.0
Other comprehensive income (loss), net of taxes		
Loss on derivatives designated as cash flow hedges, net of tax of \$22.7 (2009 – \$33.7)	(54.9)	(80.7)
Reclassification to non-financial asset of loss (gain) on derivatives designated as cash flow hedges, net of tax of \$25.3 (2009 – \$31.1)	58.4	(58.5)
Reclassification to earnings of loss (gain) on derivatives designated as cash flow hedges, net of tax of \$1.9 (2009 – \$0.9)	4.2	(1.9)
Other comprehensive income (loss)	7.7	(141.1)
Comprehensive income	\$ 461.3	\$ 193.9

Consolidated Statements of Changes in Shareholders' Equity

For the years ended (\$ in millions)	January 1, 2011	January 2, 2010
Share capital		
Balance, beginning of year	\$ 720.4	\$ 715.4
Transactions, net (Note 12)	(8.8)	5.0
Balance, end of year	\$ 711.6	\$ 720.4
Contributed surplus		
Balance, beginning of year	\$ 0.2	\$ –
Transactions, net	0.1	0.2
Balance, end of year	\$ 0.3	\$ 0.2
Retained earnings		
Balance, beginning of year	\$ 3,013.7	\$ 2,752.4
Transitional adjustment on adoption of new accounting policies – EIC 173 (Note 1)	–	1.1
Net earnings for the year	453.6	335.0
Dividends	(73.8)	(68.7)
Repurchase of Class A Non-Voting Shares	–	(6.1)
Balance, end of year	\$ 3,393.5	\$ 3,013.7
Accumulated other comprehensive income (loss)		
Balance, beginning of year	\$ (46.4)	\$ 97.2
Transitional adjustment on adoption of new accounting policies – EIC 173 (Note 1)	–	(2.5)
Other comprehensive income (loss) for the year	7.7	(141.1)
Balance, end of year	\$ (38.7)	\$ (46.4)
Retained earnings and accumulated other comprehensive income (loss)	\$ 3,354.8	\$ 2,967.3

Consolidated Balance Sheets

As at (\$ in millions)	January 1, 2011	January 2, 2010 <small>(Restated – Note 22)</small>
ASSETS		
Current assets		
Cash and cash equivalents (Note 15)	\$ 554.3	\$ 869.7
Short-term investments	195.9	64.0
Accounts receivable	662.3	835.9
Loans receivable (Note 2)	2,481.2	2,274.8
Merchandise inventories (Note 3)	901.5	933.6
Income taxes recoverable	99.4	94.7
Prepaid expenses and deposits	37.6	40.7
Future income taxes (Note 14)	72.4	82.8
Total current assets	5,004.6	5,196.2
Long-term receivables and other assets (Note 4)	100.9	109.9
Other long-term investments, net	75.8	48.8
Goodwill (Note 5)	71.9	71.8
Intangible assets (Note 6)	291.1	265.4
Property and equipment, net (Note 7)	3,219.8	3,180.4
Total assets	\$ 8,764.1	\$ 8,872.5
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 15)	\$ 118.0	\$ 83.7
Deposits (Note 8)	615.6	863.4
Accounts payable and other	1,355.9	1,391.4
Current portion of long-term debt (Note 9)	22.6	309.3
Total current liabilities	2,112.1	2,647.8
Long-term debt (Note 9)	1,079.4	1,101.2
Future income taxes (Note 14)	54.6	49.8
Long-term deposits (Note 8)	1,264.5	1,196.9
Other long-term liabilities (Note 10)	186.8	188.9
Total liabilities	4,697.4	5,184.6
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	711.6	720.4
Contributed surplus	0.3	0.2
Accumulated other comprehensive loss	(38.7)	(46.4)
Retained earnings	3,393.5	3,013.7
Total shareholders' equity	4,066.7	3,687.9
Total liabilities and shareholders' equity	\$ 8,764.1	\$ 8,872.5



Maureen J. Sabia
Director



Graham W. Savage
Director

1. Significant Accounting Policies

Basis of consolidation

The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries, collectively referred to as the "Company".

Fiscal year

The fiscal year of the Company consists of a 52- or 53-week period ending on the Saturday closest to December 31. The fiscal years for the Consolidated Financial Statements and Notes presented for 2010 and 2009 are the 52-week period ended January 1, 2011 and the 52-week period ended January 2, 2010, respectively.

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

Consolidation of variable interest entities

The Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities, requires a variable interest entity (VIE) to be consolidated by the primary beneficiary, who is the party that will absorb the majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. A VIE is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements.

The Company reviews all legal structures in which the Company has a potential financial interest including Associate Dealer (Dealer) corporations, Petroleum agent corporations, PartSource and Mark's Work Wearhouse (Mark's) franchisee corporations, financing trusts and external suppliers.

The Company enters into various forms of agreements with independent owner-operators of Canadian Tire associate stores (Dealers) and franchisees of Mark's and PartSource stores. The Company's agreement with each Dealer generally permits the Dealer to own and operate the retail business of a Canadian Tire associate store under the Canadian Tire trademark. The Company has a policy to offer new Dealers smaller Canadian Tire associate stores and, based upon successful operation of their Canadian Tire associate stores, to offer such Dealers relocation to larger Canadian Tire associate stores from time to time. When eligible, Dealers may obtain financing through a structure involving independent trusts to facilitate the purchase of inventory and fixed assets. These trusts are administered by independent major Canadian banks. Dealers may also obtain financing through traditional financial institutions. The Company monitors the financial condition of its Dealers and provides for estimated losses when appropriate.

The Company's agreements with each Mark's and PartSource franchisee also permit the franchisees to own and operate retail businesses under their respective trademarks. Franchisees obtain financing through traditional financial institutions. The Company monitors the financial condition of its franchisees and provides for estimated losses when appropriate.

While the Company is the primary beneficiary of a small number of these entities, these VIEs have not been consolidated in these financial statements, as the impact was not material.

During the year the Company entered into an agreement to build and operate petroleum service centres along the 400 series highways in Ontario. The agreement is accounted for as a VIE and the assets, liabilities and results of operations are consolidated with the Company as at that date.

Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each accounting period end date. Non-monetary assets and liabilities are translated using historical exchange rates. Exchange gains or losses are included in net earnings.

For foreign subsidiaries that are considered self-sustaining, the current rate method of translating foreign currencies is used. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at each accounting period end date, and revenues and expenses are translated at average exchange rates for the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in other comprehensive income (loss). The Company does not own any self-sustaining foreign subsidiaries.

For foreign subsidiaries that are considered integrated, the temporal method of translating foreign currencies is used. Under this method, monetary items are translated into Canadian dollars at the exchange rates in effect at each accounting period end date. Non-monetary items and their related amortization are translated at their historical exchange rates. Revenues and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in net earnings.

Credit risk and the fair value of financial assets and financial liabilities

The CICA Emerging Issues Committee (EIC) 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, rather than using a risk-free rate.

Entities are required to re-measure the financial assets and liabilities, including derivative instruments, as at the beginning of the period of adoption (i.e. the beginning of fiscal 2009) to take into account their own credit risk and counterparty credit risk. Any resulting difference would be recorded as an adjustment to retained earnings, except: a) derivatives in a fair value hedging relationship accounted for by the “shortcut method”, in which case the resulting difference would adjust the basis of the hedged item; and b) derivatives in cash flow hedging relationships, in which case the resulting difference would be recorded in accumulated other comprehensive income (AOCI).

As a result of the retrospective implementation of this new standard, 2009 opening accumulated other comprehensive income decreased by \$2.5 million and 2009 opening retained earnings increased by \$1.1 million.

Financial instruments

Recognition and Measurement

CICA Handbook section (HB) 3855 establishes standards for recognizing financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the Consolidated Balance Sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition.

The standard also requires the Company to classify financial assets and liabilities according to their characteristics and management’s choices and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale – measured at fair value with changes in fair value recognized in other comprehensive income (loss) until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; and b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is derecognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

Subsequent measurement of these assets and liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification.

In accordance with CICA HB 3855, the Company’s financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Short-term investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Deposits (recorded in Prepaid expenses and deposits)	Held for trading	Fair value
Loans receivable	Loans and receivables	Amortized cost
Long-term receivables and other assets	Loans and receivables	Amortized cost
Other long-term investments	Held for trading	Fair value
Bank indebtedness	Held for trading	Fair value
Commercial paper	Other liabilities	Amortized cost
Accounts payable and other	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Other long-term liabilities	Other liabilities	Amortized cost

Included in the above financial statement line items are the following:

- investments in highly liquid equity instruments, which are included in short-term investments, are classified as available for sale and are measured at fair value;
- interest-only strip related to the sale of loans receivable, which is included in long-term receivables and other assets, is classified as held for trading and measured at fair value; and
- certain investments which are included in long-term receivables and other assets have been classified as held to maturity and measured at amortized cost.

Other balance sheet accounts, such as merchandise inventories, prepaid expenses, current and future income taxes, goodwill, intangible assets and property and equipment, are not within the scope of these accounting standards as they are not financial assets or financial liabilities.

Transaction costs related to financial liabilities classified as other liabilities are expensed as incurred, except for transaction costs related to deposits, which are added to the initial carrying amount of deposits and are amortized using the effective interest method.

Credit card promotions offered by the Company at rates not equal to market value are measured at fair value at date of acquisition and then subsequently accounted for at amortized cost using the effective interest method. The difference between the promotional rates offered and the market rates is recorded as an expense over the expected life of the offer.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. The Company does not have any significant embedded derivatives in contracts that require separate accounting and disclosure.

Comprehensive Income

Comprehensive income consists of net earnings and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign subsidiaries and changes in the fair value of the effective portion of cash flow hedging instruments. The Company reports changes in these items, net of taxes, in the Consolidated Statement of Comprehensive Income.

The cumulative changes in OCI are included in accumulated other comprehensive income (loss) (AOCI), which is presented as a separate category in shareholders' equity on the Consolidated Balance Sheets. The AOCI represents the cumulative portion of comprehensive income not already included in net earnings.

Hedges

CICA HB 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Company enters into various derivative contracts as part of the Company's strategy to manage its exposure to interest and foreign currencies. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. For each derivative, a determination is made as to whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of foreign currency exposure of an investment in a self-sustaining foreign subsidiary. For our detailed accounting policy on hedge accounting, refer to the Derivatives section below in Note 1.

Financial instruments – disclosures

In June 2009, the CICA amended CICA HB 3862 – Financial Instruments – Disclosures, which adopted the amendments issued by the International Accounting Standards Board (IASB) to IFRS 7 – Financial Instruments: Disclosures, which was issued in March 2009. These amendments are applicable to publicly accountable enterprises and those private enterprises, co-operative business enterprises, rate-regulated enterprises and not-for-profit organizations that choose to apply CICA HB 3862.

The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. CICA HB 3862 requires that all financial instruments measured at fair value be categorized into one of three levels of hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2 – inputs do not have quoted prices but are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs are not based on observable market data.

The amendments were effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. The required disclosures are provided in Note 19.

Capital management disclosures

CICA HB section 1535 – Capital Disclosures requires entities to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally imposed capital requirements (see Note 18).

Revenue recognition

The Company's shipments of merchandise to Canadian Tire Retail's (CTR) Dealers and PartSource franchisees (retail store owner-operators or franchisees) are recorded as revenue when delivered and are net of returns. Revenue on the sale of gasoline by Canadian Tire Petroleum (Petroleum) is recorded upon sale to the customer. Revenue for Mark's is recognized at the time goods are sold by its corporate-owned stores to its customers and is net of returns. Royalties, based on sales by Mark's franchisees, are recorded in income as they are earned. Interest income and service charges on loans receivable are accrued each month according to the contractual provisions of the loan agreements. Merchant and interchange fees on credit card transactions are taken into revenue at the time transactions are recorded. Revenue from separately priced extended warranty contracts is recorded on a straight-line basis over the term of the contracts.

Cash consideration given to a customer

The Company generally records cash consideration given to a customer as a reduction to the selling price of the Company's products or services and reflects it as a reduction of revenue when recognized in the income statement. Certain exceptions apply where the Company receives an identifiable benefit in exchange for the consideration, and the Company can reasonably estimate the fair value of the identifiable benefit, in which case the cost is reflected in operating expenses.

Stock-based compensation plans

Stock options (referred to as "stock options with tandem stock appreciation rights") 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 a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised. The obligation is revalued at each reporting period based on the changes in the market price of the Company's Class A Non-Voting Shares for the unexercised stock options subject to vesting.

Compensation expense is recognized for the Company's contributions under the Employee Profit Sharing Plan and the Employee Stock Purchase Plan. Compensation expense is also recorded for the Deferred Share Unit Plans, the Performance Share Unit Plan and the Performance Driven Share Unit Plans (see Note 13).

Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the accounting period. The diluted earnings per share calculation uses an increased number of shares, determined using the treasury stock method (see Note 12).

Cash and cash equivalents

Cash equivalents are defined as 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 deposits, commercial paper or other securities, primarily Canadian and United States 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.

Loans receivable

Loans receivable include credit card, personal and line of credit loans and previously, residential mortgages. Loans receivable are recorded at cost, net of unearned interest income and of allowances established for future credit losses. An allowance for credit losses is calculated using the historical loss experience of account balances based on aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans.

A loan is classified as impaired when there has been deterioration in the credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Interest income on impaired loans is not recognized.

Credit card loans that have a payment which is 180 days past due are considered impaired and are written off. Personal loans are considered impaired when principal or interest payments are over 90 days past due and are written off when they are one year past due. Line of credit loans that have a payment which is 180 days past due are considered impaired and are written off. When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. Recoveries of amounts previously written off and any increase in the estimated realizable value of the loan are credited to the provision for credit losses. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectability of principal or interest and payments are current.

The Company recognizes gains or losses on its loans receivable securitizations that qualify as sales. The gain or loss on the sale of the loans receivable depends in part on the previous carrying amount of the loans involved in the sale. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair values at the date of sale. The Company estimates fair value based on the present value of future expected cash flows using management's estimates of the key assumptions (see Note 2).

Loan securitization

The Company sells co-ownership interests in a pool of credit card receivables to a third party Trust (the Trust) in transactions known as securitizations. The transactions are accounted for as sales in accordance with CICA Accounting Guideline 12 (AcG-12), Transfers of Receivables, and the receivables are removed from the Consolidated Balance Sheets.

In accordance with AcG-12, an asset called an "interest only strip" is created to account for the difference between the market value of the transfer and the proceeds received. It represents the present value of the excess spread to be earned over the expected life of the receivables, specifically the yield less the write offs and interest expense of the Trust. Similarly, a servicing liability is established representing an estimate of Canadian Tire Bank's (the Bank) cost to service the receivables over the expected life.

The Trust's recourse to the Company is limited to customer payments received on the portion of receivables in the pool that represent over-collateralization. The proceeds of any sale are the sum of the cash proceeds and the increase in the interest-only strip, less the sum of any transaction costs and increase in the servicing liability.

The assets and liabilities of the Trust have not been consolidated in these financial statements because the Trust meets the criteria for a qualified special purpose entity and therefore is exempt from consolidation.

Merchandise inventories

Merchandise inventories are carried at the lower of cost and net realizable value, with cost being determined as weighted average cost.

Vendor rebates

The Company records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction to cost of goods sold and related inventory when recognized in the Consolidated Statements of Earnings and Consolidated Balance Sheets. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for assets or services delivered to the vendor, in which case the cash consideration is reflected in operating expenses.

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

Income taxes

Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. A future income tax asset or liability is estimated for each temporary difference using substantively enacted income tax rates and laws for the year when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

Goodwill and intangible assets

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

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

Costs related to development projects can be recorded as assets only if they meet the definition of an intangible asset.

Additionally, internally developed computer software that is not an integral part of the related hardware is amortized over a five-year period.

Property and equipment

Property and equipment are stated at cost. The cost of real estate includes all direct costs, financing costs on specific and general corporate debt relating to major projects until project completion and certain pre-development costs. Depreciation is provided for using the declining balance method commencing in the month that the equipment or facilities are placed into service.

Amortization of leasehold improvements and lease inducements, and lease expense are recognized on a straight-line basis over the terms of the respective leases. Depreciation relating to each capital lease for fixtures and equipment is provided for on a straight-line basis over the term of the lease, unless the terms of the lease provide for the transfer of ownership or a bargain purchase option at the end of the term of the lease. In the latter case, depreciation is provided for using the declining balance method for comparable owned assets.

Property and equipment are subjected to an assessment for impairment. Property and equipment assets are grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities.

An impairment loss is recognized when the carrying amount of property and equipment is not recoverable and exceeds its fair value of the asset group.

Asset retirement obligations

Legal obligations associated with site restoration costs on the retirement of property and equipment are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The obligations are initially measured at fair value and discounted to present value. A corresponding amount equal to that of the initial obligation is added to the capitalized costs of the related asset. Over time, the discounted asset retirement obligation amount accretes due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to income for the period. The initial costs are depreciated over the useful lives of the related property and equipment.

Actuarial liabilities

Actuarial liabilities for reinsurance of coverages provided to the Company's credit card holders include an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claim severity and frequency. While management believes that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided, and any adjustments will be reflected in the periods in which they become known. These amounts are included in accounts payable and other in the Consolidated Balance Sheets.

Employee future benefits

The Company provides certain health care, dental care, life insurance and other benefits, but not pensions, for certain retired employees pursuant to Company policy. The Company accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The discount rate used is based on market rates as at the measurement date. The net actuarial gains and losses that exceed 10 per cent of the accrued benefit obligation are amortized on a straight-line basis over the expected average remaining service life of employees.

Derivatives

Derivatives are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. All derivative instruments are recorded on the Consolidated Balance Sheets at fair value, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Each derivative is classified as either accounts receivable, accounts payable, long-term receivable, or long-term liability, depending on its financial position on the report date and its contractual settlement date. For each derivative, a determination is made as to whether hedge accounting can be applied.

Hedge accounting

Where hedge accounting can be applied, a hedge relationship is designated and documented at the inception of the derivative contracts to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in achieving its object of offsetting either changes in the fair value or anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Fair value hedges

For fair value hedges, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and this adjustment is included in net earnings for the period. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also included in net earnings. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are amortized to net earnings over the remaining term of the hedged item using the effective interest method.

The Company enters into fair value hedges, including certain interest rate swap contracts. In fair value hedges, the changes in fair value of both the hedged item attributable to the risk being hedged and the entire hedging item are recorded in net earnings for the respective period.

Cash flow hedges

For cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recognized in OCI, while the ineffective portion is recognized in net earnings. When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to income during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains and losses on derivatives are reclassified immediately to net earnings when the hedged item is sold or terminated early.

The Company enters into foreign currency contracts to hedge the exposure to foreign currency risk on the future payment of foreign currency denominated inventory purchases. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. Once the inventory has been recognized, the Company has elected to reclassify the related accumulated other comprehensive income amount to merchandise inventories. Subsequent changes in the fair value of the foreign exchange contracts are recorded in net earnings. The Company enters into equity derivative contracts to hedge certain future stock-based compensation expenses. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. The related other comprehensive income amounts are reclassified to net earnings based on vesting of the respective stock-based share units.

Use of estimates

The preparation of the Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used when accounting for a number of items including, but not limited to, income taxes, impairment of assets (including goodwill), employee benefits, product warranties, inventory, inventory provisions, amortization, uncollectible loans, environmental reserves, asset retirement obligations, financial instruments and the liability for the Company's loyalty programs.

Future accounting changes**Business Combinations**

In January 2009, the CICA issued CICA HB 1582 – Business Combinations, which will replace CICA HB 1581 – Business Combinations. The CICA also issued CICA HB 1601 – Consolidated Financial Statements and CICA HB 1602 – Non-Controlling Interests, which will replace CICA HB 1600 – Consolidated Financial Statements. The objective of the new standards is to harmonize Canadian GAAP for business combinations and consolidated financial statements with the International and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period, commencing January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Company has elected not to adopt the new standard prior to 2011.

Financial Instruments – Recognition and Measurement

In April 2009, the CICA amended CICA HB 3855 – Financial Instruments – Recognition and Measurement. The amendment included a paragraph relating to embedded prepayment options. This amendment is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The new standard has no impact to the Company.

Multiple Deliverable Revenue Arrangements

In December 2009, the EIC issued EIC 175 – Multiple Deliverable Revenue Arrangements, which should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011.

International Financial Reporting Standards

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011, for which the current and comparative 2010 information will be prepared under IFRS. The transition to IFRS will impact accounting, financial reporting, internal controls over financial reporting, taxes, information systems and processes as well as certain contractual arrangements. The Company has assessed the impact of the transition to IFRS in the above areas through the deployment of additional trained resources and formal project management practices and governance to ensure the timely conversion to IFRS.

2. Loans Receivable

Quantitative information about loans receivable managed and securitized by the Company is as follows:

(\$ in millions)	Total principal amount of receivables ¹		Average balances ¹	
	2010	2009	2010	2009
Total net managed credit card loans	\$ 3,997.8	\$ 3,932.8	\$ 3,886.7	\$ 3,742.4
Credit card loans sold	(1,535.1)	(1,693.4)	(1,594.4)	(2,044.1)
Credit card loans held	2,462.7	2,239.4	2,292.3	1,698.3
Total net managed personal loans ²	11.2	34.0	20.7	56.2
Total net mortgage loans ³	–	–	–	141.0
Total net line of credit loans	11.2	15.6	13.0	18.1
Total loans receivable	2,485.1	2,289.0	\$ 2,326.0	\$ 1,913.6
Less: long-term portion ⁴	3.9	14.2		
Current portion of loans receivable	\$ 2,481.2	\$ 2,274.8		

¹ Amounts shown are net of allowance for credit losses.

² Personal loans are unsecured loans that are provided to qualified existing credit card holders for terms of three to five years. Personal loans have fixed monthly payments of principal and interest; however, the personal loans can be repaid at any time without penalty.

³ Mortgage loans are issued for terms of up to 10 years, have fixed or variable interest rates, are secured and include a mix of both high and low ratio loans. High ratio loans are fully insured and low ratio loans are partially insured. The Company sold its mortgage portfolio with a book value of approximately \$162.8 million in 2009, resulting in a pre-tax loss of \$0.6 million.

⁴ The long-term portion of loans receivable is included in long-term receivables and other assets.

Provision for net credit losses for the owned portfolio for the year ended January 1, 2011 was \$177.5 million (2009 – \$181.2 million). Provision for net credit losses for the total managed portfolio for the year ended January 1, 2011 was \$293.9 million (2009 – \$337.7 million). Provision for net credit losses consist of total write-offs (including regular and bankruptcy write-offs and consumer proposals), net of recoveries and any changes in allowances.

The following table outlines the key economic assumptions used in estimating the fair value of retained interests. The table also displays the sensitivity of the current fair value of residual cash flows to immediate 10 per cent and 20 per cent adverse changes in those assumptions at year-end.

Credit card loans

(\$ in millions)	Assumptions	Impact of adverse changes on fair value of retained interest ¹		Assumptions 2009	
		2010	10%		20%
Yield ²	16.05%		\$(7.9)	\$(15.7)	15.92%
Liquidation rate ³	25.19%		(6.4)	(11.6)	25.53%
Expected credit losses ²	7.39%		(0.1)	(0.1)	7.76%
Discount rate ²	9.30%		(0.0)	(0.1)	12.00%
Servicing rate ^{2,4}	2.00%		(0.9)	(1.9)	2.00%

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

² Yield, expected credit losses and discount and servicing rates are forecasted for the next 12 months.

³ Based on historical patterns, credit card loans are estimated to be collected in 12 months.

⁴ The servicing liability as at December 31, 2010 (the Bank's fiscal year end) was \$9.3 million (2009 – \$9.9 million) and is included in accounts payable and other.

Details of cash flows from the securitization of loans are as follows:

(\$ in millions)	2010	2009
Proceeds from new securitizations	\$ 264.6	\$ 100.0
Decrease in securitized ownership interests	(423.7)	(624.3)
Proceeds from collections reinvested in previous securitizations	5,155.2	6,805.7
Other cash flows received on retained interests ¹	6,837.1	4,735.5

¹ Represents total cash flows from collections, not reinvested in previous securitizations.

3. Merchandise Inventories

Included in "Cost of merchandise sold and all other operating expenses except for the undernoted items" for year ended January 1, 2011 is \$6,019.5 million (2009 – \$5,856.0 million) of inventory recognized as an expense, which included \$50.9 million (2009 – \$55.7 million) of write-downs of inventory as a result of net realizable value being lower than cost of inventory. Inventory write-downs recognized in previous periods and reversed in the current year or the comparative year were insignificant.

4. Long-Term Receivables and Other Assets

(\$ in millions)	2010	2009
		(Restated – Note 22)
Mortgages receivable	\$ 62.0	\$ 54.9
Interest-only strip	21.8	19.6
Derivatives (Note 19)	7.1	1.3
Other receivables	5.7	5.9
Loans receivable (Note 2)	3.9	14.2
Other assets	0.4	0.2
Pledged collateral (Note 9)	–	13.8
	\$ 100.9	\$ 109.9

5. Goodwill

The change in the carrying amount of goodwill by business segment (Note 20) is as follows:

(\$ in millions)	CTR	Mark's	2010 Total	2009 Total
Balance, beginning of year	\$ 16.9	\$ 54.9	\$ 71.8	\$ 70.7
Goodwill acquired	0.1	–	0.1	1.1
Balance, end of year	\$ 17.0	\$ 54.9	\$ 71.9	\$ 71.8

6. Intangible Assets

The intangible assets consist of:

(\$ in millions)	Cost	Accumulated Amortization	2010 Net book Value	2009 Net book Value
Finite-life intangible assets				
Purchased/customized software	\$ 688.2	\$ 455.5	\$ 232.7	\$ 207.0
Indefinite-life other intangible assets				
Mark's Work Wearhouse/L'Equipeur store banner	46.0	–	46.0	46.0
Mark's franchise locations	6.0	–	6.0	6.0
Mark's private label brands	4.4	–	4.4	4.4
Mark's franchise agreements	2.0	–	2.0	2.0
	58.4	–	58.4	58.4
Balance, end of year	\$ 746.6	\$ 455.5	\$ 291.1	\$ 265.4

Purchased/customized software includes software purchased and the capitalized cost of internal IT professionals developing and tailoring software being used in the business. All software is recorded at cost and amortized on a straight-line basis over a period of up to five years and includes \$89.7 million (2009 – \$72.5 million) pertaining to projects under development yet to be amortized. The aggregate amount of software acquired during the year is \$76.1 million (2009 – \$70.3 million).

Indefinite life intangible assets are assessed for impairment at least annually and intangible assets are assessed when an event or a change in circumstances indicates that the assets might be impaired. As a result of annual impairment testing, no impairment write-downs were required in 2010 and 2009.

7. Property and Equipment

(\$ in millions)	2010			2009			Depreciation amortization rate/term
	Cost	Accumulated depreciation and amortization	Net book value	Cost	Accumulated depreciation and amortization	Net book value	
Land	\$ 785.8	\$ –	\$ 785.8	\$ 748.6	\$ –	\$ 748.6	
Buildings	2,605.6	960.2	1,645.4	2,566.7	876.3	1,690.4	4% – 10%
Fixtures and equipment	736.8	488.2	248.6	721.2	455.6	265.6	10% – 33%
Leasehold improvements	552.9	181.6	371.3	506.2	157.7	348.5	Term of lease
Asset under capital lease	60.5	20.2	40.3	55.0	14.7	40.3	Term of lease/ 12.5% declining balance
Construction in progress	128.4	–	128.4	87.0	–	87.0	
	\$ 4,870.0	\$ 1,650.2	\$ 3,219.8	\$ 4,684.7	\$ 1,504.3	\$ 3,180.4	

Included in property and equipment are land and buildings held for sale with a cost of \$13.8 million and \$20.3 million, respectively (2009 – \$7.3 million and \$18.9 million, respectively), and accumulated depreciation of \$13.3 million (2009 – \$11.8 million). Land and buildings held for sale generally relate to Canadian Tire Retail stores that have relocated to newer sites. The Company is actively marketing these properties to third parties and they will be sold when terms and conditions acceptable to the Company are reached.

Gains/losses on the sale of assets held for sale are reported in “Cost of merchandise sold and all other operating expenses except the undernoted items” in the Consolidated Statements of Earnings.

The Company capitalized interest of \$1.2 million (2009 – \$1.8 million) on indebtedness related to property and equipment under construction.

Impairments of property and equipment charged against earnings for the year were \$2.1 million (2009 – \$1.9 million) and are reported in “cost of merchandise sold and all other operating expenses except the undernoted items” in the Consolidated Statements of Earnings.

8. Deposits

Deposits consist of broker deposits and retail deposits.

Cash from broker deposits is raised through sales of guaranteed investment certificates (GICs) through brokers rather than directly to the retail customer. Individual balances up to \$100,000 are Canada Deposit Insurance Corporation (CDIC) insured. Broker deposits are offered for varying terms ranging from 30 days to five years, and all issued GICs are non-redeemable prior to maturity (except in certain rare circumstances). Total short-term and long-term broker deposits outstanding at January 1, 2011 were \$1,388.1 million (2009 – \$1,514.8 million).

Retail deposits consist of high-interest savings deposits, retail GICs and tax-free savings deposits. Total retail deposits outstanding at January 1, 2011 were \$492.0 million (2009 – \$545.5 million).

Repayment requirements

(\$ in millions)	
2011	\$ 162.0
2012	253.2
2013	482.4
2014	348.9
2015	180.0
Current and long-term guaranteed investment certificates	1,426.5
High-interest and tax-free savings accounts	453.6
Total deposits¹	\$ 1,880.1

¹ The carrying value of deposits as of January 1, 2011 is net of \$7.9 million (2009 – \$8.8 million) of deferred transaction costs.

9. Long-Term Debt

(\$ in millions)	2010	2009
		(Restated – Note 22)
Medium-term notes		
5.22% due October 1, 2010	–	300.0
4.95% due June 1, 2015	300.0	300.0
5.65% due June 1, 2016	200.0	200.0
6.25% due April 13, 2028	150.0	150.0
6.32% due February 24, 2034	200.0	200.0
5.61% due September 4, 2035	200.0	200.0
Capital lease obligations	38.3	40.6
Promissory note	12.7	13.0
Other ¹	1.0	3.5
Fair value hedge adjustment	–	3.4
Total long-term debt	1,102.0	1,410.5
Less: amounts due within one year	22.6	309.3
Total – net of current portion	\$ 1,079.4	\$ 1,101.2

¹ As of January 1, 2011, the carrying value of long-term debt includes debt issuance costs of \$0.6 million (2009 – \$0.7 million).

Medium-term notes

On October 1, 2010, the Company repaid \$300.0 million of three-year 5.22% medium term notes.

Promissory note

On March 31, 2006, a mortgage payable on a shopping centre in Kitchener, Ontario, with a maturity date of October 2011 and an interest rate of 7.6 per cent that was assumed in 2005, was refinanced with a promissory note with the same terms and conditions. The promissory note is secured by a portfolio of bonds and cash with a total carrying value of \$13.0 million, which is included in Accounts Receivable.

Capital lease obligations

The Company has capital lease obligations for trailers, fixtures, equipment, and computer software. These assets are the security for the respective obligations. The leases have an average interest rate of 4.77 per cent and an average remaining term of 60 months.

Debt covenants

The Company has provided covenants to certain of its lenders. All of the covenants were complied with during 2010 and 2009.

Debentures

On October 22, 2009, the Company redeemed \$150 million of 12.10% debentures, which were to mature on May 10, 2010. As a result of this redemption, the Company paid a redemption premium of \$9.4 million on the redemption date. The debentures were hedged by interest rate swaps that were to mature on May 10, 2010, but were terminated early in connection with the redemption. Hedge accounting for these swaps ceased upon the redemption announcement. As a result, a \$3.3 million benefit was amortized to earnings, and a \$6.1 million pre-tax loss was recorded. These amounts were included in long-term interest expense in 2009.

Repayment requirements

(\$ in millions)	2011	2012	2013	2014	2015	Thereafter	Total
Medium term notes	\$ –	\$ –	\$ –	\$ –	\$ 300.0	\$ 750.0	\$ 1,050.0
Capital lease obligations	8.6	9.0	7.5	4.0	3.5	5.7	38.3
Promissory note	12.7	–	–	–	–	–	12.7
Other	1.3	1.1	0.1	–	–	–	2.5
	\$ 22.6	\$ 10.1	\$ 7.6	\$ 4.0	\$ 303.5	\$ 755.7	\$ 1,103.5

10. Other Long-Term Liabilities

(\$ in millions)	2010	2009
Deferred gains ¹	\$ 95.7	\$ 104.2
Employee future benefits (Note 11)	63.9	59.8
Asset retirement obligations	16.5	17.6
Derivatives (Note 19)	8.3	7.3
Other	2.4	–
	\$ 186.8	\$ 188.9

¹ The Company has deferred gains related to its sales/leaseback of certain CTR real estate properties and distribution centres. The gains are being amortized over the term of the leases. The unamortized gains are classified as long-term liabilities.

11. Employee Future Benefits

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

(\$ in millions)	2010	2009
Accrued benefit obligation, beginning of year	\$ 72.0	\$ 64.8
Current service cost	1.5	1.2
Interest cost	4.7	4.9
Benefits paid	(2.2)	(2.5)
Actuarial losses	8.3	3.6
Accrued benefit obligation, end of year ¹	84.3	72.0
Unamortized past service costs	1.8	2.2
Unamortized net actuarial losses	(22.2)	(14.4)
Accrued benefit liability	\$ 63.9	\$ 59.8
Elements of benefit plan costs recognized		
Current service cost	\$ 1.5	\$ 1.2
Interest cost	4.7	4.9
Actuarial losses	8.3	3.6
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	14.5	9.7
Differences between costs arising in the period and costs recognized in the period in respect of:		
Actuarial gains ²	(7.8)	(3.3)
Plan amendments	(0.4)	(0.4)
Benefit costs recognized	\$ 6.3	\$ 6.0

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

² Includes actuarial loss amortization of \$0.5 million (2009 – \$0.3 million) less actuarial loss incurred of \$8.3 million (2009 – \$3.6 million).

Significant actuarial assumptions used:

	2010	2009
Accrued benefit obligation		
Discount rate	5.75%	6.50%
Benefit costs recognized		
Discount rate	6.50%	7.50%

For measurement purposes, a 7.28 per cent weighted average health care trend rate was assumed for 2010 (2009 – 7.37 per cent). The rate was assumed to decrease gradually to 4.50 per cent for 2029 (2009 – decrease gradually to 4.50 per cent for 2029) and remain at that level thereafter. The expected average remaining service period of the active employees covered by the benefit plan is 14 years (2009 – 16 years).

The most recent actuarial valuation of the obligation was performed as of December 31, 2009. The next required valuation will be as of December 31, 2012.

Sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

(\$ in millions)	Increase	Decrease
Total of service and interest cost	\$ 0.6	\$ (0.5)
Accrued benefit obligation	9.7	(7.9)

12. Share Capital

(\$ in millions)	2010	2009
Authorized		
3,423,366 Common Shares		
100,000,000 Class A Non-Voting Shares		
Issued		
3,423,366 Common Shares (2009 – 3,423,366)	\$ 0.2	\$ 0.2
78,020,007 Class A Non-Voting Shares (2009 – 78,178,066)	711.4	720.2
	\$ 711.6	\$ 720.4

During 2010 and 2009, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, if any, with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2010 and 2009:

(\$ in millions)	2010		2009	
	Number	\$	Number	\$
Shares outstanding at the beginning of the year	78,178,066	\$ 720.2	78,178,066	\$ 715.2
Issued				
Dividend reinvestment plan	60,485	3.4	68,151	3.4
Stock option plan	2,000	0.1	7,700	0.3
Employee Stock Purchase Plan	107,682	6.0	521,804	25.6
Employee Profit Sharing Plan	74,491	4.1	85,927	4.3
Associate Dealer profit sharing plans	55,732	3.1	58,616	3.0
Repurchased	(458,449)	(25.4)	(742,198)	(37.5)
(Issue price over repurchase price) Excess of repurchase price over issue price	–	(0.1)	–	5.9
Shares outstanding at the end of the year	78,020,007	\$ 711.4	78,178,066	\$ 720.2

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

Subsequent to the end of the fiscal year, from January 2, 2011 to March 10, 2011, the Company issued 17,230 Class A Non-Voting Shares for proceeds of \$1.1 million. There was no repurchase of Class A Non-Voting Shares.

All outstanding stock options have a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised. Accordingly, outstanding stock options have no dilutive impact on the average number of shares outstanding.

Conditions of Class A Non-Voting Shares and Common Shares

The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of \$0.01 per share per annum. After payment of preferential cumulative dividends at the rate of \$0.01 per share per annum on each of the Class A Non-Voting Shares in respect of the current year and each preceding year and payment of a non-cumulative dividend on each of the Common Shares in respect of 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.

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.

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

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 directors 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 the other class. Neither the Class A Non-Voting Shares nor the Common Shares can be changed by way of subdivision, consolidation, reclassification, exchange or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

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

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

As at January 1, 2011, the Company had dividends payable to holders of Class A Non-Voting Shares and Common Shares of \$22.4 million (2009 – \$17.1 million).

13. Stock-Based Compensation Plans

The following describes the Company's stock-based compensation plans.

Profit sharing plan for certain employees

The Company has a profit sharing plan for certain of its employees. The amount awarded to employees is contingent on the Company's profitability. The maximum contribution is 6.75 per cent of earnings before income taxes, after certain adjustments. A portion of the award is contributed to a Deferred Profit Sharing Plan (DPSP) for the benefit of the employees. The maximum amount of the Company's contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 per cent of his or her holdings in the 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 in respect of each employee vest 20 per cent after one year of continuous service and 100 per cent after two years of continuous service.

In 2010, the Company contributed \$18.6 million (2009 – \$19.1 million) under the terms of the DPSP, towards the Trustee-managed investment portfolio. As of January 1, 2011, the DPSP held 419,280 Common Shares (2009 – 419,280) and 1,113,502 Class A Non-Voting Shares (2009 – 1,153,217) of the Company.

Employee Stock Purchase Plan

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

In return for employee contributions, the Company issued to employees 107,682 Class A Non-Voting Shares in 2010 (2009 – 521,804). The Company's matching contribution of \$11.7 million in 2010 (2009 – \$11.8 million) was used to purchase Class A Non-Voting Shares in the open market. In addition, the Company recorded as compensation expense \$6.4 million (2009 – \$6.5 million) for reimbursement of employee income tax liabilities relating to the ESPP.

Deferred Share Unit Plan

The Company offers a Deferred Share Unit Plan (DSUP) for members of the Board of Directors. Under the DSUP, each director may elect to receive all or a percentage of his or her annual compensation in the form of notional Class A Non-Voting Shares of the Company called deferred share units (DSUs). The issue price of each DSU is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange during the 10-day period prior to the last day of the calendar quarter in which the DSU is issued. A director may elect to participate or change his or her participation in the DSUP upon written notice. The DSU account of each director includes the value of dividends, if any, as if reinvested in additional DSUs. The director is not permitted to convert DSUs into cash until retirement. The value of the DSUs, when converted to cash, will be equivalent to the market value of the Class A Non-Voting Shares at the time the conversion takes place pursuant to the DSUP details. The value of the outstanding DSUs as at January 1, 2011 was \$5.8 million (2009 – \$4.4 million).

2006 and 2007 Performance Driven Share Unit Plans

The Company had granted performance driven share units (PDSUs) to certain employees. Each PDSU entitles the participant to receive a cash payment in an amount equal to the weighted average share price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period. Compensation expense related to PDSUs was accrued over the term of the respective performance period based on the expected total compensation to be paid out at the end of the respective performance period. Compensation expense recorded for these PDSUs for the year ended January 1, 2011 was \$0.4 million (2009 – \$4.8 million).

2008 Performance Share Unit Plan

The Company has granted 2008 performance share units (PSUs) to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. Compensation expense related to the PSUs is accrued over the performance period based on the expected total compensation to be paid out at the end of the performance period. No compensation expense was recorded for these PSUs for the year ended January 1, 2011 (2009 – \$(2.9) million).

2009 Performance Share Unit Plan

The Company has granted 2009 performance share units (PSUs) to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. Compensation expense related to the PSUs is accrued over the performance period based on the expected total compensation to be paid out at the end of the performance period. Compensation expense recorded for these PSUs for the year ended January 1, 2011 was \$6.9 million (2009 – \$5.3 million).

2010 Performance Share Unit Plan

The Company has granted 2010 performance share units (PSUs) to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. Compensation expense related to the PSUs is accrued over the performance period based on the expected total compensation to be paid out at the end of the performance period. Compensation expense recorded for these PSUs for the year ended January 1, 2011 was \$3.8 million (2009 – \$nil).

Deferred Share Unit Plan for certain executives

The Company has granted deferred share units (DSUs) to certain executives. The DSU account for each executive includes the value of dividends, if any, as if reinvested in additional DSUs. Each DSU entitles the executive to receive a cash payment in an amount equal to the weighted average share price of Class A Non-Voting Shares traded on the Toronto Stock Exchange on the tenth business day prior to the settlement date. Compensation expense related to these DSUs for the year ended January 1, 2011 was \$0.2 million (2009 – \$nil).

Stock options

The Company has granted stock options with tandem stock appreciation rights to certain employees for the purchase of Class A Non-Voting Shares. The exercise price of each option equals the weighted average closing price of Class A Non-Voting Shares on the Toronto Stock Exchange for the 10-day period preceding the date of grant. Stock options granted prior to 2006 generally vested on a graduated basis over a four-year period and are exercisable over a term of 10 years. Stock options granted in 2006 and 2007 vested on a graduated basis over a three-year period and are exercisable over a term of seven years. Stock options granted in 2008, 2009 and 2010 fully vest after three years and are exercisable over a term of seven years. At January 1, 2011, approximately 3.4 million Class A Non-Voting Shares were issuable under the stock option plan.

The compensation expense recorded for stock options for the year ended January 1, 2011 was \$5.9 million (2009 – \$1.1 million).

The outstanding options as at January 1, 2011 were granted at prices between \$19.80 and \$83.16 and expire between March 2011 and May 2017.

Stock option transactions during 2010 and 2009 were as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	2,148,844	\$ 52.62	1,646,290	\$ 56.97
Granted	574,518	53.49	765,706	40.40
Exercised	(103,860)	23.42	(140,965)	28.62
Forfeited and expired	(339,128)	57.18	(122,187)	62.33
Outstanding at end of year	2,280,374	\$ 53.49	2,148,844	\$ 52.62
Stock options exercisable at end of year	761,080		818,311	

The following table summarizes information about stock options outstanding and exercisable at January 1, 2011:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of outstanding options	Weighted average remaining contractual life ¹	Weighted average exercise price	Number exercisable at January 1 2011	Weighted average exercise price
\$ 66.04 to 83.16	367,383	3.22	\$ 72.40	361,595	\$ 72.50
56.12 to 64.82	556,868	3.39	63.84	226,271	64.60
44.52 to 55.35	565,128	6.08	53.15	24,000	48.04
29.63 to 41.47	713,331	4.89	39.05	71,550	30.13
19.80 to 29.17	77,664	1.03	24.93	77,664	24.93
\$ 19.80 to 83.16	2,280,374	4.42	\$ 53.49	761,080	\$ 60.54

¹ Weighted average remaining contractual life is expressed in years.

14. Income Taxes

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

(\$ in millions)	2010	2009
Income taxes based on a combined Canadian federal and provincial income tax rate of 30.49% (2009 – 32.03%)	\$ 182.0	\$ 153.5
Adjustment to income taxes resulting from:		
Prior years' tax settlements	(42.0)	–
Change in legislation relating to stock options	8.1	–
Adjustments of prior years' tax estimates	(3.4)	(10.4)
Lower income tax rates on earnings of foreign subsidiaries	(1.9)	(2.3)
Other	0.6	3.4
Income tax expense	\$ 143.4	\$ 144.2

The following are the components of the income tax provision:

(\$ in millions)	2010	2009
Current tax expense	\$ 132.8	\$ 135.2
Future income tax expense relating to the origination and reversal of temporary differences	10.6	8.2
Future income tax expense resulting from change in tax rate	–	0.8
Income tax expense	\$ 143.4	\$ 144.2

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

(\$ in millions)	2010	2009
Current		
Reserves and deferred income	\$ 64.6	\$ 71.5
Other comprehensive income	13.3	17.9
Deferred items	(7.2)	(8.1)
Capital lease obligations	1.1	1.3
Other	0.6	0.2
Current future income taxes	\$ 72.4	\$ 82.8
Long-term		
Property and equipment	\$ (62.0)	\$ (66.1)
Goodwill and intangible assets	(36.6)	(32.6)
Reserves and deferred income	23.7	24.5
Post retirement benefits	16.3	15.4
Capital lease obligations	8.8	9.4
Deferred items	(7.0)	(4.9)
Other	2.2	4.5
Long-term future income taxes	\$ (54.6)	\$ (49.8)

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

The main issues that were challenged by the Canada Revenue Agency (CRA) in recent years related to the tax treatment of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 to 2007) and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities have also reassessed on these matters for the corresponding periods.

The Company has settled the commissions issue for the periods 1995-2003 and does not have a significant exposure on this issue subsequent to the 2003 tax year.

During the fourth quarter of 2010, the Company reached an agreement with the CRA to settle the dividends received issue. Once federal reassessments have been issued in accordance with the settlement, the Company believes the provincial tax authorities will also reassess on the same basis. As a result of the settlement, the Company recorded an income tax recovery of \$42 million and pre-tax interest income from overpayment of taxes of \$18 million.

The 2010 tax provision has been reduced by \$37.3 million due mainly to the settlement of the dividends received issue, revision to the prior year's estimated tax expense and a change in tax legislation relating to stock options.

The Company regularly reviews the potential for adverse outcomes in respect of 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 the results of operations because the Company believes that it has adequate provision for these tax matters. Should the ultimate tax liability materially differ from the 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.

15. Notes to the Consolidated Statements of Cash Flows

Working capital components

(\$ in millions)	2010	2009
Cash generated from (used for):		
Accounts receivable	\$ 169.1	\$ (176.7)
Merchandise inventories	19.7	36.4
Prepaid expenses and deposits	3.1	(0.5)
Income taxes recoverable	(4.6)	30.1
Accounts payable and other	(16.6)	(105.0)
Change in other working capital components	\$ 170.7	\$ (275.9)

Cash and cash equivalents

The components of cash and cash equivalents are:

(\$ in millions)	2010	2009
		(Restated – Note 22)
Cash	\$ 15.4	\$ 35.2
Cash equivalents	538.9	834.5
Bank indebtedness	(118.0)	(83.7)
Cash and cash equivalents, net of bank indebtedness	\$ 436.3	\$ 786.0

Supplementary information

For the year ended January 1, 2011, the Company paid income taxes amounting to \$131.5 million (2009 – \$165.2 million) and made interest payments of \$127.3 million (2009 – \$173.9 million).

For the year ended January 1, 2011, property and equipment were acquired at an aggregate cost \$242.3 million (2009 – \$202.8 million). The amount of property and equipment acquired that is included in accounts payable and other at January 1, 2011 was \$29.3 million (2009 – \$22.7 million).

For the year ended January 1, 2011, intangible software was acquired at an aggregate cost of \$76.1 million (2009 – \$70.3 million). The amount of intangible software acquired that is included in accounts payable and other at January 1, 2011 was \$8.4 million (2009 – \$2.6 million).

16. Leases**Operating leases**

The Company is committed to minimum annual rentals (exclusive of taxes, insurance and other occupancy charges) for equipment and properties under leases with termination dates extending to 2062.

The minimum annual rental payments for equipment and property under operating leases are as follows:

(\$ in millions)	
2011	\$ 224.4
2012	210.5
2013	197.6
2014	179.3
2015	163.5
2016 – 2062	1,048.2
	\$ 2,023.5

Capital leases

The minimum annual rental payments for equipment under capital leases are as follows:

(\$ in millions)	
2011	\$ 10.1
2012	10.1
2013	8.3
2014	4.5
2015	3.9
2016 – 2018	5.9
Total minimum lease payments	42.8
Less: financing expenses included in minimum lease payments	4.5
	\$ 38.3

17. Guarantees, Commitments and Contingencies

Guarantees

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

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

Standby letters of credit and performance guarantees

The Company has arranged for several major Canadian banks to provide standby letters of credit (the LCs) to an independent trust (the Independent Trust), which provides loans to Dealers for their purchase of inventory and fixed assets (the Dealer Loans). During 2004, the Independent Trust sold all of its rights in the LCs and the then outstanding Dealer Loans to other independent trusts set up by major Canadian banks (the Co-owner Trusts) that raise funds in the capital markets to finance their purchase of these undivided co-ownership interests. As a result, the Independent Trust's only remaining role is that of originator, seller and servicer of the Dealer Loans. Total Dealer Loans as at January 1, 2011 were \$687.0 million (2009 – \$757.4 million).

In the event that a Dealer defaults on a loan, the Company has the right to purchase such loan from the Co-owner Trusts, at which time the Co-owner Trusts will assign such Dealer's debt instrument and related security documentation to the Company. The assignment of this documentation provides the Company with first priority security rights over all of such Dealer's assets, subject to certain prior ranking statutory claims. In most cases, the Company would expect to recover any payments made to purchase a defaulted loan, including any associated expenses. In the event the Company does not elect to purchase a defaulted Dealer Loan, the Co-owner Trusts may draw against the LCs.

The Co-owner Trusts may also draw against the LCs to cover any shortfalls in certain related fees owing to them. In any case where a draw is made against the LCs, the Company has agreed to reimburse the bank issuing the LCs for the amount so drawn. In the unlikely event that all the LCs had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been \$179.4 million at January 1, 2011 (2009 – \$178.8 million). The Company has not recorded any liability for these amounts, due to the credit quality of the Dealer Loans and to the nature of the underlying collateral, represented by the inventory and fixed assets of the borrowing Dealers.

Business and property dispositions

In connection with agreements for the sale of all or a 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

The Company has entered into agreements with certain of its lessors that guarantee the lease payments of certain sub-lessees of its facilities to lessors. Generally, these lease agreements relate to facilities the Company has vacated prior to the end of the term of its lease. These lease agreements require the Company to make lease payments throughout the lease term if the sub-lessee fails to make the scheduled payments. These lease agreements have expiration dates through January 2016. The Company has also guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. These lease agreements have expiration dates through January 2016. The maximum amount that the Company may be required to pay under these agreements is \$7.2 million (2009 – \$7.8 million), except for five lease agreements for which the maximum amount cannot be reasonably estimated. In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the Consolidated Financial Statements with respect to these lease agreements.

Third party debt agreements

The Company has guaranteed the debt of certain Dealers. These third party debt agreements require the Company to make payments if the Dealer fails to make scheduled debt payments. The majority of these third party debt agreements have expiration dates extending to January 29, 2011. The maximum amount that the Company may be required to pay under these types of debt agreements is \$50.0 million (2009 – \$50.0 million), of which \$36.8 million (2009 – \$34.1 million) has been issued at January 1, 2011. No amount has been accrued in the Consolidated Financial Statements with respect to these debt agreements.

Indemnification of lenders and agents under credit facilities

In the ordinary course of business, the Company has agreed to indemnify its lenders under various credit facilities against costs or losses resulting from changes in laws and regulations which would increase the lenders' costs and from any legal action brought against the lenders related to the use of the loan

proceeds. These indemnifications generally extend for the term of the credit facilities and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification agreements.

Other indemnification commitments

In the ordinary course of business, the Company provides other additional indemnification commitments to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above) and the arrangements with the Independent Trust and Co-owner Trusts discussed above. These additional indemnification agreements require the Company to compensate the counterparties for certain amounts and costs incurred, including costs resulting from changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these additional indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such additional indemnifications and no amount has been accrued in the Consolidated Financial Statements with respect to these additional indemnification commitments.

Other commitments and contingencies

As at January 1, 2011, the Company had other commitments and contingencies. In accordance with Canadian GAAP, the Company has not recognized a liability relating to these commitments and contingencies except for a provision for legal proceedings:

The Company has obtained documentary and standby letters of credit aggregating \$25.2 million (2009 – \$25.5 million) relating to the importation of merchandise inventories and to facilitate various real estate activities for the Company's merchandise operations.

The Company has commitments of approximately \$20.0 million (2009 – \$17.5 million) for the acquisition of property and equipment and the expansion of retail store facilities and its distribution centres in Ontario and Quebec.

The Company has committed to pay \$91.2 million (2009 – \$123.9 million) in total to third parties for credit card processing and information technology services mainly in support of the Company's credit card and retail banking services for periods up to 2015.

The Company has committed to pay \$20.1 million (2009 – \$22.7 million) for various commitments and contingent liabilities including merchandise inventory buy-back agreements, a customs bond, and the obligation to buy back two franchise stores.

18. Capital Management Disclosures

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 changed the Company's objectives in managing capital, although the Company did place greater emphasis on the second of these objectives when credit markets were constrained during 2008 and much of 2009.

The definition of capital varies from company to company and from industry to industry. In the process of managing the Company's capital, Management includes the following items in its definition of capital:

(\$ in millions)	2010	% of total	2009	% of total
				(Restated – Note 22)
Capital components				
Deposits	\$ 615.6	8.7%	\$ 863.4	12.0%
Current portion of long-term debt	22.6	0.3%	309.3	4.3%
Long-term debt	1,079.4	15.2%	1,101.2	15.3%
Long-term deposits	1,264.5	17.9%	1,196.9	16.6%
Other long-term liabilities ¹	–	–%	1.3	0.0%
Total debt	\$ 2,982.1	42.1%	\$ 3,472.1	48.2%
Share capital	711.6	10.0%	720.4	10.0%
Contributed surplus	0.3	0.0%	0.2	0.0%
Retained earnings	3,393.5	47.9%	3,013.7	41.8%
Total capital under management	\$ 7,087.5	100.0%	\$ 7,206.4	100.0%

¹ Long-term liabilities that are derivative or hedge instruments relate to capital items only.

The Company monitors its capital structure through measuring its various debt to capitalization ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other fixed charge coverage ratios. The Company monitors the impact of the growing Financial Services business on the consolidated metrics. The total debt to total capital ratio has decreased from 48.2% at the end of 2009 to 42.1% at the end of 2010 due to the repayment of \$300 million in medium-term notes, reduced deposits, and an increase in retained earnings.

The Company has in place various policies which it uses to manage capital, including a leverage and liquidity policy, an interest rate risk management policy, and a securities and derivatives policy. As part of the overall management of capital, Management's Financial Risk Management Committee and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, these policies.

In addition, those committees perform periodic reviews of the policies to ensure they remain consistent with the risk tolerance acceptable to the Company and current market trends and conditions.

To assess its effectiveness in managing capital, Management monitors certain key ratios to ensure they are within targeted ranges.

Under the existing debt agreements, key financial covenants are monitored on an on-going basis by Management to ensure compliance with the agreements. The key covenants are as follows:

- maintaining a specified minimum net tangible asset coverage ratio, which is calculated as:
 - total assets less intangible assets, current liabilities (excluding current portion of long-term debt), and liability for employee future benefits, divided by long-term debt (including current portion of long-term debt);
- a limitation on the amount available for distribution to shareholders whereby the Company is restricted from distributions (including dividends and redemptions or purchases of shares) exceeding its accumulated net income over a defined period.

The Company was in compliance with these key covenants during the year. Under these covenants, the Company currently has significant flexibility to fund business growth and maintain or amend dividend rates within our existing dividend policy.

The Company manages its capital structure with a view to maintaining investment grade rating from two credit rating agencies. Management calculates ratios on an alternative basis from time- to-time to approximate the methodology of debt rating agencies and other market participants.

In order to maintain or adjust the capital structure, the Company has the flexibility to adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids (NCIBs), issue new shares, issue new debt, issue new debt with different characteristics to replace existing debt, engage in additional sale/leaseback transactions of real estate properties and/or increase or decrease the amount of sales of co-ownership interests in loans receivable to the Trust.

In addition, the Company is required to comply with regulatory requirements associated with the operations of Canadian Tire Bank (the Bank), its federally chartered bank, and other regulatory requirements that impact its business operations.

The Bank manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions Canada (OSFI). The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank has a capital management policy, an internal capital adequacy assessment process and procedures and controls which it utilizes to achieve its goals and objectives. The Bank's objectives include:

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

The Bank's total capital consists of three tiers of capital approved under OSFI's current regulatory capital guidelines. As at December 31, 2010 (the Bank's fiscal year end), Tier 1 capital includes common shares and retained earnings reduced by net securitization exposures. The Bank currently does not hold any instruments in Tier 2 or Tier 3 capital. Risk-weighted assets (RWA), referenced in the regulatory guidelines, include all on-balance sheet assets weighted for the risk inherent in each type of asset, using prescribed rates, as well as an operational risk component based on a percentage of average risk-weighted revenues.

The Bank's ratios are above internal minimum targets for Tier 1 and Total Capital ratios and below its internal maximum targets for the assets to capital multiple. The Bank's internal minimum ratios are determined by the Internal Capital Adequacy Assessment Process. During the 12 months ended December 31, 2010 and the comparative period, the Bank complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II).

19. Financial Instruments

The Company records financial instruments classified as held for trading, including all derivative instruments, at fair values. Fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. The Company determines fair values by reference to quoted bid and ask prices, as appropriate, when available. In the absence of an active market, fair values are based on internal valuation models, such as discounted cash flow analyses, using market observed inputs. The estimated fair values of financial instruments as at January 1, 2011 and January 2, 2010 were based on relevant market prices and information available at that time. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company uses primarily external readily observable market inputs, including factors such as interest yield curves. The detailed processes for determining fair values have been documented and applied consistently. Fair value amounts may change in subsequent periods due to market conditions, particularly changes in exchange rates, share price and interest rates or other factors. For foreign exchange, interest rate swaps, and equity derivative financial instruments, the fair values reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates, and reflect the time value of money. The equity derivative contracts were valued by the counterparties based on year-end market interest rates, implied Company volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange.

Carrying value and fair value of financial instruments

The following table provides a comparison of carrying and fair values of financial instruments as at January 1, 2011 and January 2, 2010:

(\$ in millions)							2010
	Held for trading (Fair value)	Available for sale (Fair value)	Held to maturity investments (Amortized cost)	Loans and receivables (Amortized cost)	Other financial liabilities (Amortized cost)	Total carrying amount	Fair value
Cash and cash equivalents	\$ 554.3	\$ –	\$ –	\$ –	\$ –	\$ 554.3	\$ 554.3
Short-term investments	195.9	–	–	–	–	195.9	195.9
Accounts receivable ¹	–	–	13.0	792.1	–	805.1	805.3
Loans receivable	–	–	–	2,481.2	–	2,481.2	2,481.0
Deposits (recorded in prepaid expenses and deposits)	1.8	–	–	–	–	1.8	1.8
Long-term receivables and other assets ²	28.9	–	–	71.6	–	100.5	100.3
Other long-term investments	75.8	–	–	–	–	75.8	75.8
Bank indebtedness	\$ 118.0	\$ –	\$ –	\$ –	\$ –	\$ 118.0	\$ 118.0
Deposits	–	–	–	–	615.6	615.6	615.6
Accounts payable and other ³	46.8	–	–	–	1,339.5	1,386.3	1,386.3
Long-term debt	–	–	–	–	1,102.0	1,102.0	1,157.6
Long-term deposits	–	–	–	–	1,264.5	1,264.5	1,301.2
Other long-term liabilities ⁴	8.3	–	–	–	–	8.3	8.3

(\$ in millions)							2009
	Held for trading (Fair value)	Available for sale (Fair value)	Held to maturity investments (Amortized cost)	Loans and receivables (Amortized cost)	Other financial liabilities (Amortized cost)	Total carrying amount	Fair value
Cash and cash equivalents	\$ 869.7	\$ –	\$ –	\$ –	\$ –	\$ 869.7	\$ 869.7
Short-term investments	59.2	4.8	–	–	–	64.0	64.0
Accounts receivable ¹	4.5	–	–	834.4	–	838.9	838.9
Loans receivable	–	–	–	2,274.8	–	2,274.8	2,274.8
Deposits (recorded in prepaid expenses and deposits)	3.1	–	–	–	–	3.1	3.1
Long-term receivables and other assets ²	20.9	–	13.8	75.2	–	109.9	109.4
Other long-term investments	48.8	–	–	–	–	48.8	48.8
Bank indebtedness	\$ 83.7	\$ –	\$ –	\$ –	\$ –	\$ 83.7	\$ 83.7
Deposits	–	–	–	–	863.4	863.4	863.4
Accounts payable and other ³	80.8	–	–	–	1,304.9	1,385.7	1,385.7
Long-term debt	–	–	–	–	1,410.5	1,410.5	1,414.0
Long-term deposits	–	–	–	–	1,196.9	1,196.9	1,242.8
Other long-term liabilities ⁴	7.3	–	–	–	–	7.3	7.3

¹ The fair value and carrying amount of accounts receivable include derivative assets of \$nil as at January 1, 2011 (2009 – \$4.5 million).

² The fair value and carrying amount of long-term receivables and other assets include derivative assets of \$7.1 million as at January 1, 2011 (2009 – \$1.3 million).

³ The fair value and carrying amount of accounts payable and other include derivative liabilities of \$46.8 million as at January 1, 2011 (2009 – \$80.8 million).

⁴ The fair value and carrying amount of other long-term liabilities include derivative liabilities of \$8.3 million as at January 1, 2011 (2009 – \$7.3 million).

Fair value of assets and liabilities classified using the fair value hierarchy

The Company uses a fair value hierarchy, as described in Note 1, to categorize the inputs used to measure the fair value of assets and liabilities. The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

(\$ in millions)	2010				2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
							(Restated – Note 22)	
Financial assets								
Held for trading other than derivatives	\$ 393.5	\$ 429.2	\$ 26.9	\$ 849.6	\$ 391.9	\$ 584.4	\$ 24.1	\$ 1,000.4
Available for sale	–	–	–	–	4.8	–	–	4.8
Derivatives	–	7.1	–	7.1	–	5.8	–	5.8
Financial liabilities								
Held for trading other than derivatives	\$ 118.0	\$ –	\$ –	\$ 118.0	\$ 83.7	\$ –	\$ –	\$ 83.7
Derivatives	–	55.1	–	55.1	–	88.1	–	88.1

Changes in fair value measurement for instruments categorized in Level 3

Level 3 financial instruments include asset-backed commercial paper, the interest only strip (see Loan Securitization in Note 1) and investments held in reserve for broker deposits. The following table presents the changes in fair value measurements for these instruments:

(\$ in millions)	2010	2009
Balance, beginning of year	\$ 24.1	\$ 34.3
Additions to other assets	62.5	72.4
Fair value gains, net of losses, recognized in net income	2.3	1.9
Amortization of other assets recognized in net income	(62.0)	(84.5)
Balance, end of year	\$ 26.9	\$ 24.1

Derivative instruments

The Company enters into various cash flow hedges with approved creditworthy counterparties to manage exposure to predetermined risks. Foreign exchange contracts, primarily in U.S. dollars, hedge future purchases of foreign currency denominated goods and services. Equity derivative contracts hedge certain future stock-based compensation expenses. Interest rate swap contracts may be entered into to manage the Company's current and anticipated exposure to interest rate risk.

The notional principal amounts of these outstanding financial instruments are not recorded on the Consolidated Balance Sheets. The fair value of these contracts is included in the Consolidated Balance Sheets as accounts payable and other, other long-term liabilities, accounts receivable or long-term receivables and other assets depending on the derivative's maturity and value. Changes in fair value of these contracts are included in other comprehensive income (loss) for cash flow hedges to the extent the hedges continue to be effective. The related other comprehensive income (loss) amounts are reclassified to net earnings in the same period in which the hedged item affects net earnings or in the period in which it is determined that the originally anticipated transaction will not occur.

The Company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities. The maximum length of time over which the Company is hedging its exposure to future cash flow variability for anticipated transactions is six years.

The following table presents the fair values of all derivative instruments categorized by their hedging relationships, as well as derivatives that are not designated in hedging relationships:

(\$ in millions)	2010 ¹			2009 ¹		
	Designated as hedging instruments in hedging relationships		Not designated in a hedging relationship	Designated as hedging instruments in hedging relationships		Not designated in a hedging relationship
	Cash flow hedges	Fair value hedges		Cash flow hedges	Fair value hedges	
Assets	\$ –	\$ –	\$ 7.1	\$ 0.3	\$ 4.5	\$ 1.0
Liabilities	52.1	–	3.0	78.8	1.3	8.0

¹ The assets and liabilities in this table represent the in-the-money and out-of-the-money positions, respectively, of derivative instruments, the majority of which relate to foreign exchange contracts and options.

No non-derivative financial instruments were designated as hedging instruments during the year.

The Company has estimated that the net amount of gains and losses reported in accumulated other comprehensive income, which is currently expected to be reclassified to net earnings within the next 12 months, is a loss of \$30.5 million (net of tax).

Interest rate risk

The following table identifies the Company's financial assets and liabilities that are exposed to interest rate price risk, which is the risk that the fair value of the asset or liability will change when interest rates change, or to interest rate cash flow risk, which is the risk that the cash flows of the asset or liability will change when interest rates change.

(\$ in millions)	2010				2009			
	Interest rate price risk	Interest rate cash flow risk	No interest rate risk	Total	Interest rate price risk	Interest rate cash flow risk	No interest rate risk	Total
Cash and cash equivalents	\$ 150.7	\$ 6.0	\$ 397.6	\$ 554.3	\$ 479.7	\$ 13.6	\$ 376.4	\$ 869.7
Short-term investments	195.9	–	–	195.9	59.2	–	4.8	64.0
Accounts receivable	–	–	805.1	805.1	4.5	–	834.4	838.9
Loans receivable	2,469.9	11.3	–	2,481.2	2,274.8	–	–	2,274.8
Deposits (recorded in prepaid expenses and deposits)	–	–	1.8	1.8	–	–	3.1	3.1
Long-term receivables and other assets	93.4	–	7.1	100.5	106.1	–	3.8	109.9
Other long-term investments	70.7	5.1	–	75.8	44.3	4.5	–	48.8
Bank indebtedness	\$ –	\$ –	\$ 118.0	\$ 118.0	\$ –	\$ –	\$ 83.7	\$ 83.7
Accounts payable and other	–	–	1,386.3	1,386.3	2.9	–	1,382.8	1,385.7
Deposits	162.0	453.6	–	615.6	358.9	504.5	–	863.4
Long-term debt	1,102.0	–	–	1,102.0	1,410.3	0.2	–	1,410.5
Long-term deposits	1,264.5	–	–	1,264.5	1,196.9	–	–	1,196.9
Other long-term liabilities	–	–	8.3	8.3	1.3	–	6.0	7.3

The Company has minimal cash flow interest rate exposure as the indebtedness of the corporation is predominantly at fixed rates. A one per cent change in interest rates would not materially affect the Company's earnings, cash flow or financial position. The Company has a policy in place whereby a minimum of 75 per cent of its long-term debt (term greater than one year) and lease obligations must be at fixed versus floating interest rates and the Company may use interest rate derivatives to manage this ratio. The Company is in compliance with this policy.

As at January 1, 2011, the Company was not counterparty to any interest rate derivative contracts. Interest rate swaps outstanding as at January 2, 2010, totaling \$150 million, expired during the year upon maturity of the underlying debt. Interest rate swaps outstanding as at January 2, 2010, totaling \$100 million with an expiry of June 2016, were terminated during the year. Forward rate agreements outstanding at January 2, 2010 matured during the year.

The following table presents interest revenue, interest expense and net fee revenue related to financial assets and financial liabilities that were not classified as held for trading:

(\$ in millions)	2010	2009
Interest revenue ¹	\$ 589.0	\$ 553.4
Interest expense	139.7	165.3
Fee revenue ²	21.0	20.6
Fee expense ²	4.0	3.6

¹ The amount of interest revenue reported in gross operating revenue is \$581.4 million (2009 – \$546.3 million) and the amount of interest revenue reported in net interest expense is \$7.2 million (2009 – \$7.1 million).

² Fee revenues and expenses are reported in gross operating revenue.

Credit risk

The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Dealers spread across Canada who, individually, generally comprise less than one per cent of the total balance outstanding. Similarly, loans receivable are generated by credit card, personal loan and line of credit customers, a large and geographically dispersed group. Maximum credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

The credit exposure with respect to hedges and similar financial instruments is spread across ten financial institutions and represents the current replacement value of only those contracts which are in a gain position.

As at January 1, 2011, the Company's maximum exposure to credit risk includes the following:

	2010	2009 (Restated – Note 22)
Assets held for trading	\$ 856.7	\$ 1,006.2
Assets held to maturity	13.0	13.8
Loans and receivables	3,344.9	3,184.4
Undrawn loan commitments	14,710.7	16,062.7
Securitized receivables	1,570.7	1,732.9
Guarantees (Note 17)	236.6	236.6
Total	\$ 20,732.6	\$ 22,236.6

The Company believes that the risk of all counterparties defaulting at the same time with respect to these instruments is not significant.

Allowance for credit losses

The Company's allowances for receivables are maintained at levels which are considered adequate to absorb future credit losses. A continuity of the Company's allowances for credit losses is as follows:

(\$ in millions)	Credit card loans		Other loans ¹		Accounts receivable		Total	
	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010
Balance, beginning of period	\$ 83.9	\$ 51.8	\$ 2.1	\$ 3.5	\$ 3.5	\$ 3.3	\$ 89.5	\$ 58.6
Provision for credit losses	175.5	175.6	2.0	5.6	4.0	3.0	181.5	184.2
Recoveries	27.8	19.8	1.1	0.8	0.2	0.2	29.1	20.8
Write-offs	(207.4)	(163.3)	(4.7)	(7.8)	(0.4)	(3.0)	(212.5)	(174.1)
Balance, end of period	\$ 79.8	\$ 83.9	\$ 0.5	\$ 2.1	\$ 7.3	\$ 3.5	\$ 87.6	\$ 89.5

¹ Other loans include personal loans and line of credit loans.

Foreign currency risk

The Company has significant demand for foreign currencies, primarily United States dollars, due to global sourcing. However, it manages its exposure to foreign exchange rate risk through a comprehensive Foreign Exchange Risk Management Policy that sets forth specific guidelines and parameters, including monthly hedge percentage guidelines, for entering into foreign exchange hedge transactions for anticipated U.S. dollar-denominated purchases. The Company's exposure to a sustained movement in the currency markets is impacted by competitive forces and future prevailing market conditions.

Liquidity risk

The following table summarizes the Company's contractual maturity for its financial liabilities. The table includes both interest and principal cash flows.

(\$ in millions)	1 year	2 years	3 years	4 years	5 years	Thereafter	Total
Non-derivatives							
Bank indebtedness	\$ 118.0	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 118.0
Deposits	623.6	253.2	482.4	348.9	180.0	–	1,888.1
Accounts payable and other	1,278.4	–	–	–	–	–	1,278.4
Long-term debt	22.6	10.1	7.6	4.0	303.5	755.7	1,103.5
Interest payments ¹	115.6	109.0	100.7	79.6	58.7	581.3	1,044.9
Derivatives	46.8	5.2	3.1	–	–	–	55.1
Total	\$ 2,205.0	\$ 377.5	\$ 593.8	\$ 432.5	\$ 542.2	\$ 1,337.0	\$ 5,488.0

¹ Includes interest payments on deposits and long-term debt.

20. Segmented Information

The Company's reportable operating segments are strategic business units that offer different products and services. The Company has four reportable operating segments: Canadian Tire Retail (CTR), Canadian Tire Financial Services (Financial Services), Canadian Tire Petroleum (Petroleum) and Mark's Work Wearhouse (Mark's). CTR derives its revenue primarily from shipments of merchandise to Dealers and PartSource franchisees. Financial Services, which has a wholly-owned bank, is primarily engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards and also derives revenue from personal loans, line of credit portfolios and from ancillary products such as extended warranty contracts. Petroleum revenue arises primarily from the sale of petroleum products through its agents. Mark's revenue arises from the sale of merchandise to customers from its corporate-owned stores.

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

(\$ in millions)	CTR		Financial Services		Petroleum		Mark's		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Gross operating revenue ¹	\$ 5,620.9	\$ 5,552.2	\$ 946.0	\$ 909.9	\$ 1,664.8	\$ 1,515.1	\$ 872.2	\$ 833.8	\$ (123.1)	\$ (124.5)	\$ 8,980.8	\$ 8,686.5
Earnings before income taxes	321.6	261.6	199.1	131.9	22.2	24.2	54.1	61.5	-	-	597.0	479.2
Income taxes											(143.4)	(144.2)
Net earnings											\$ 453.6	\$ 335.0
Interest revenue ¹	\$ -	\$ -	\$ 584.7	\$ 548.0	\$ -	\$ -	\$ -	\$ -	\$ (1.0)	\$ (1.5)	\$ 583.7	\$ 546.5
Net interest expense ^{2,3}	40.3	82.9	62.2	62.4	-	-	0.8	1.7	-	-	103.3	147.0
Depreciation and amortization	189.9	191.2	6.6	11.0	18.2	18.0	32.6	27.3	-	-	247.3	247.5
Total assets ⁴	6,030.2	5,888.3	3,166.8	3,319.0	363.7	279.7	516.3	498.7	(1,312.9)	(1,113.2)	8,764.1	8,872.5
Capital expenditures ⁵	228.5	215.5	12.4	6.4	44.0	23.3	33.5	27.9	-	-	318.4	273.1

¹ Gross operating revenue includes dividend and operating interest revenue.

² Interest expense is not allocated to Petroleum.

³ Net interest expense includes interest on short-term and long-term debt, offset by passive interest income. Interest on long-term debt for the year ended January 1, 2011 was \$111.2 million (2009 - \$130.0 million).

⁴ Total assets for 2009 have been restated (see Note 22).

⁵ Capital expenditures are presented on an accrual basis and include intangible software (see Note 15).

21. Legal Matters

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 and that the ultimate disposition of the proceedings will not have a material effect on its consolidated earnings, cash flows, or financial position.

The Company's wholly-owned subsidiary, Canadian Tire Bank (the Bank), is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank believes it has a solid defense to both actions on the basis that banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the present total aggregate exposure to the Bank is expected to be approximately \$22.5 million.

22. Comparative Figures

Certain of the prior period's figures have been reclassified to correspond to the current year presentation. Debt issuance costs previously included in long-term receivables and other assets is presented with long-term debt. Bank overdrafts previously included in cash and cash equivalents is now presented as current liabilities. As a result, total assets have been restated by \$83.0 million at January 2, 2010, with a corresponding increase in total liabilities.

Supplementary Information: Interest Coverage

The Company's long-term interest requirements for the 52 weeks ended January 1, 2011, after annualizing interest on long-term debt issued and retired during this period, amounted to \$109.2 million. The Company's earnings before interest on long-term debt and income taxes for the 52 weeks ended January 1, 2011 were \$716.8 million, which is 6.6 times the Company's long-term interest requirements for this period.

2010 Quarterly Information

(\$ in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (January 3, 2010 to April 3, 2010)	Second Quarter (April 4, 2010 to July 3, 2010)	Third Quarter (July 4, 2010 to October 2, 2010)	Fourth Quarter (October 3, 2010 to January 1, 2011)	Total
Canadian Tire Retail					
Gross operating revenue	\$ 1,092.2	\$ 1,597.2	\$ 1,408.9	\$ 1,522.6	\$ 5,620.9
Earnings before income taxes	26.9	107.2	89.6	97.9	321.6
Canadian Tire Petroleum					
Gross operating revenue	386.9	413.9	414.2	449.8	1,664.8
Earnings before income taxes	5.4	7.6	5.6	3.6	22.2
Mark's Work Wearhouse					
Gross operating revenue	153.8	195.4	173.5	349.5	872.2
Earnings (loss) before income taxes	(4.7)	3.8	(3.1)	58.1	54.1
Canadian Tire Financial Services					
Gross operating revenue	225.4	237.9	234.3	248.4	946.0
Earnings before income taxes	44.1	55.0	51.3	48.7	199.1
Total					
Gross operating revenue ³	\$ 1,830.1	\$ 2,414.1	\$ 2,201.0	\$ 2,535.6	\$ 8,980.8
Cost of merchandise sold and all other operating expenses except for the undernoted items	1,662.2	2,139.7	1,954.6	2,243.7	8,000.2
Net interest expense	32.0	29.4	30.6	11.3	103.3
Depreciation and amortization	59.7	61.1	62.2	64.3	247.3
Employee profit sharing plan	4.5	10.3	10.2	8.0	33.0
Earnings before income taxes	71.7	173.6	143.4	208.3	597.0
Income taxes	22.3	53.7	40.2	27.2	143.4
Net earnings	49.4	119.9	103.2	181.1	453.6
Basic and diluted earnings per share ¹	0.61	1.47	1.27	2.22	5.56
Canadian Tire Retail					
Retail sales growth	2.1%	1.3%	2.0%	0.5%	1.4%
Same store sales growth	1.7%	0.8%	1.4%	(0.4%)	0.8%
Net shipments growth (year-over-year)	(0.6%)	3.1%	(0.3%)	1.4%	1.0%
Number of expanded and updated stores	363	326	326	306	
Number of traditional stores	70	68	68	64	
Number of Small Market stores	10	11	11	12	
Number of Smart stores	37	77	77	103	
Cumulative number of Canadian Tire Retail stores	480	482	482	485	
Number of PartSource stores	87	87	87	87	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	406.4	430.8	445.2	454.4	1,736.7
Number of gas bars	273	273	283	287	
Number of car washes	73	73	73	76	
Number of convenience stores	268	268	278	282	
Mark's Work Wearhouse					
Retail sales growth	3.8%	6.2%	4.5%	1.9%	3.7%
Same store sales growth	1.5%	4.0%	2.8%	0.7%	1.9%
Number of Mark's Work Wearhouse stores	382	383	383	383	
Canadian Tire Financial Services²					
Average number of account with a balance (thousands)	1,730	1,729	1,727	1,731	1,729
Average account balance (\$)	2,328	2,343	2,345	2,334	2,337
Gross average receivables (millions)	4,026.3	4,051.1	4,049.3	4,038.3	4,041.2
Class A Non-Voting Shares					
High	\$ 58.62	\$ 59.63	\$ 59.12	\$ 68.93	\$ 68.93
Low	51.13	50.86	53.00	55.73	50.86
Close	55.75	54.93	56.79	68.19	68.19
Volume (thousands of shares)	12,447	11,545	10,049	11,957	45,997
Common Shares					
High	\$ 66.89	\$ 70.00	\$ 67.99	\$ 75.99	\$ 75.99
Low	60.00	64.10	63.72	63.23	60.00
Close	65.01	64.55	66.97	75.00	75.00
Volume (thousands of shares)	23	37	13	47	120

¹ Quarterly basic and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the quarter, while annual basic and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the full year.

² Total portfolio of loans receivable.

³ After intercompany eliminations.

2009 Quarterly Information

(\$ in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (January 4, 2009 to April 4, 2009)	Second Quarter (April 5, 2009 to July 4, 2009)	Third Quarter (July 5, 2009 to October 3, 2009)	Fourth Quarter (October 4, 2009 to January 2, 2010)	Total
Canadian Tire Retail					
Gross operating revenue	\$ 1,099.3	\$ 1,550.0	\$ 1,408.5	\$ 1,494.4	\$ 5,552.2
Earnings before income taxes	32.8	95.2	95.6	38.0	261.6
Canadian Tire Petroleum					
Gross operating revenue	321.9	390.8	403.6	398.8	1,515.1
Earnings before income taxes	6.0	7.8	8.5	1.9	24.2
Mark's Work Wearhouse					
Gross operating revenue	147.1	182.2	164.2	340.3	833.8
Earnings (loss) before income taxes	(4.9)	7.1	(3.8)	63.1	61.5
Canadian Tire Financial Services					
Gross operating revenue	217.3	232.9	222.0	237.7	909.9
Earnings before income taxes	32.5	42.3	18.7	38.4	131.9
Total					
Gross operating revenue ³	\$ 1,758.1	\$ 2,324.8	\$ 2,165.9	\$ 2,437.7	\$ 8,686.5
Cost of merchandise sold and all other operating expenses except for the undernoted items	1,597.8	2,065.9	1,939.8	2,184.6	7,788.1
Net interest expense	30.4	36.6	37.3	42.7	147.0
Depreciation and amortization	59.3	61.1	62.5	64.6	247.5
Employee profit sharing plan	4.2	8.8	7.3	4.4	24.7
Earnings before income taxes	66.4	152.4	119.0	141.4	479.2
Income taxes	16.7	48.7	33.6	45.2	144.2
Net earnings	49.7	103.7	85.4	96.2	335.0
Basic and diluted earnings per share ¹	0.61	1.27	1.04	1.18	4.10
Canadian Tire Retail					
Retail sales growth	4.0%	(1.0%)	(2.3%)	(3.1%)	(1.1%)
Same store sales growth	2.5%	(2.7%)	(3.8%)	(4.1%)	(2.6%)
Net shipments growth (year-over-year)	2.0%	(1.4%)	0.3%	(8.6%)	(2.4%)
Number of expanded and updated stores	392	388	388	363	
Number of traditional stores	75	73	72	71	
Number of Small Market stores	5	5	6	9	
Number of Smart stores	4	9	10	36	
Cumulative number of Canadian Tire Retail stores	476	475	476	479	
Number of PartSource stores	87	88	87	87	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	408.8	435.1	433.5	431.3	1,708.8
Number of gas bars	274	273	273	272	
Number of car washes	74	73	73	73	
Number of convenience stores	267	267	268	267	
Mark's Work Wearhouse					
Retail sales growth	(2.3%)	(9.8%)	(2.5%)	0.7%	(3.5%)
Same store sales growth	(4.1%)	(11.3%)	(3.7%)	(0.2%)	(4.7%)
Number of Mark's Work Wearhouse stores	374	375	374	378	
Canadian Tire Financial Services²					
Average number of account with a balance (thousands)	1,804	1,799	1,791	1,781	1,794
Average account balance (\$)	2,222	2,250	2,308	2,300	2,270
Gross average receivables	4,009.1	4,047.9	4,132.6	4,096.5	4,071.5
Class A Non-Voting Shares					
High	\$ 48.74	\$ 56.99	\$ 60.75	\$ 58.70	\$ 60.75
Low	38.12	43.80	49.50	52.10	38.12
Close	45.79	54.94	56.47	57.50	57.50
Volume (thousands of shares)	17,347	12,101	11,784	11,396	52,628
Common Shares					
High	\$ 60.00	\$ 68.99	\$ 65.99	\$ 66.50	\$ 68.99
Low	48.05	55.01	61.65	60.01	48.05
Close	57.26	65.00	64.23	61.74	61.74
Volume (thousands of shares)	23	25	18	23	89

¹ Quarterly basic and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the quarter, while annual basic and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the full year.

² Total portfolio of loans receivable.

³ After intercompany eliminations.

Ten-Year Financial Review

(\$ in millions except per share amounts)	2010	2009 ¹
Consolidated Statements of Earnings		
Gross operating revenue ⁴	\$ 8,980.8	\$ 8,686.5
Earnings before interest, income taxes, depreciation & amortization and non-controlling interest ⁴	947.6	873.7
Earnings before income taxes and non-controlling interest	597.0	479.2
Income taxes	143.4	144.2
Net earnings before non-controlling interest	453.6	335.0
Non-controlling interest	–	–
Net earnings	453.6	335.0
Cash generated from operations (before changes in other working capital components) ⁵	820.5	694.7
Cash generated from operating activities ⁵	991.2	418.8
Earnings retained and reinvested	379.8	266.3
Capital expenditures	318.4	273.1
Consolidated Balance Sheets		
Current Assets	\$ 5,004.6	\$ 5,196.2
Long-term receivables and other assets ⁶	539.7	495.9
Property and equipment	3,219.8	3,180.4
Total assets	8,764.1	8,872.5
Current liabilities	2,112.1	2,647.8
Long-term debt (excludes current portion)	1,079.4	1,101.2
Long-term deposits (excludes current portion)	1,264.5	1,196.9
Other long-term liabilities	186.8	188.9
Future income taxes	54.6	49.8
Non-controlling interest	–	–
Shareholders' equity ³	4,066.7	3,687.9
Consolidated per Share⁷		
Basic earnings per share	\$ 5.56	\$ 4.10
Diluted earnings per share	5.56	4.10
Cash generated from operations (before changes in other working capital components) ⁵	10.07	8.51
Cash generated from operating activities ⁵	12.17	5.13
Dividends declared	0.905	0.840
Shareholders' equity ³	49.93	45.19
Statistics at Year End		
Number of Canadian Tire stores	485	479
Number of PartSource stores ⁸	87	87
Number of gas bars	287	272
Number of car washes	76	73
Number of Mark's Work Wearhouse stores ⁹	383	378

¹ 2009 figures have been restated for debt issuance costs previously included in long-term receivables and other assets, now presented with long-term debt. Bank indebtedness has been reclassified from current assets to current liabilities.

² 53-week period

³ 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and CICA HB 1000 – Financial Statement Concepts. Data required to reclassify the information prior to 2008 is not available.

⁴ Gross operating revenue and EBITDA for 2007 and prior years have been restated for the reclassification of passive interest income to short-term interest expense.

⁵ Certain 2006 cash flow figures have been reclassified to conform to the 2007's year presentation with respect to securitizations and net provision for loans receivable. Data required to reclassify the information prior to 2006 is not available.

⁶ Includes other assets, other long-term investments (net), goodwill and intangible assets.

⁷ Per share numbers are calculated using total shares outstanding as at the Company's year-end date, except for basic and diluted earnings per share, which is calculated using the weighted average number of shares during the year.

⁸ Total in 2005 includes three unbranded PartSource stores purchased in December 2005 which were branded in 2006.

⁹ Mark's Work Wearhouse was acquired on February 1, 2002.

2008 ^{2,3}	2007	2006	2005	2004	2003 ²	2002	2001
\$ 9,121.3	\$ 8,606.1	\$ 8,252.9	\$ 7,713.9	\$ 7,062.1	\$ 6,486.8	\$ 5,888.9	\$ 5,321.8
891.8	881.2	809.0	789.1	702.0	597.0	546.3	487.0
543.0	611.2	557.8	527.7	460.9	365.9	311.3	272.1
167.6	199.5	200.8	190.0	162.5	116.0	103.0	98.0
375.4	411.7	357.0	337.7	298.4	249.9	208.3	174.1
-	-	2.4	7.6	6.9	8.7	7.4	0.6
375.4	411.7	354.6	330.1	291.5	241.2	200.9	173.5
588.4	528.7	410.1	700.7	630.4	534.5	460.1	362.4
181.5	61.6	395.3	413.5	413.1	520.1	442.0	189.4
307.0	351.3	300.8	282.7	251.0	208.7	169.3	142.0
471.9	592.7	557.4	391.1	340.7	278.9	249.8	358.4
\$ 3,979.0	\$ 3,138.2	\$ 2,541.0	\$ 2,973.1	\$ 2,434.6	\$ 2,291.5	\$ 2,303.1	\$ 1,985.0
605.9	343.0	382.3	238.6	223.4	156.7	211.5	134.4
3,198.9	3,283.6	2,881.3	2,743.9	2,585.2	2,444.9	2,351.1	2,245.0
7,783.8	6,764.8	5,804.6	5,955.6	5,243.2	4,893.1	4,865.7	4,364.4
1,999.7	2,113.7	1,663.6	1,821.0	1,487.4	1,612.0	1,577.0	1,106.5
1,373.5	1,341.8	1,168.4	1,171.3	1,081.8	886.2	1,125.2	1,310.0
598.7	3.8	-	-	-	-	-	-
202.2	125.6	112.4	63.2	55.6	46.9	43.7	38.6
44.7	71.8	75.0	89.0	67.2	30.9	23.7	15.0
-	-	-	300.0	300.0	300.0	300.0	300.0
3,565.0	3,108.1	2,785.2	2,511.1	2,251.2	2,017.1	1,796.1	1,594.3
\$ 4.60	\$ 5.05	\$ 4.35	\$ 4.04	\$ 3.60	\$ 2.99	\$ 2.54	\$ 2.21
4.60	5.05	4.31	3.98	3.53	2.95	2.51	2.19
7.21	6.49	5.03	8.57	7.78	6.63	5.82	4.61
2.22	0.76	4.85	5.06	5.10	6.45	5.59	2.41
0.840	0.740	0.660	0.580	0.500	0.400	0.400	0.400
43.69	38.15	34.19	30.83	27.75	24.98	22.49	20.29
475	473	468	462	457	452	451	450
86	71	63	57	47	39	33	30
273	266	260	259	253	232	212	203
74	74	74	67	58	47	33	20
372	358	339	334	333	322	306	-

Asset-backed commercial paper (ABCP)

A secured short-term debt obligation. Traditionally, the underlying assets of ABCP are made up of consumer loans and receivables.

Associate Dealer/Dealer

The independent business owners who operate our Canadian Tire retail stores.

Bank card

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

Basis point

One hundredth of a percentage point.

Broker deposits

Cash deposits raised through the sale of guaranteed investment certificates through broker networks that are offered in 30-day to five-year terms and are non-redeemable prior to maturity, except under rare circumstances.

Comprehensive income

A component of the shareholders' equity financial statement comprised of net income and other comprehensive income (see also other comprehensive income).

Concept 20/20 store

Canadian Tire store format that was introduced in 2003 and rolled out through 2008. These stores are bigger, brighter and have, among other features, wider aisles and displays that draw attention to featured merchandise than our previous store formats. This store format is now referred to as an "updated and expanded" store. A Concept 20/20 store may include a Mark's Work Wearhouse store.

Credit risk

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

Debenture

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

Debt covenants

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

Delayed-start interest rate swap

A regular interest rate swap with the exception that the start date is not immediate (see also interest rate swap).

Derivative

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

Derivative equity contract

A financial instrument used to hedge the anticipated exposure relating to certain stock-based compensation plans.

Diluted earnings per share

The amount of earnings for the period available to each share outstanding during the period, including the potential impact of dilutive share options using the Treasury Stock Method, and to each share that would have been outstanding, assuming the issuance of shares for all dilutive potential shares outstanding during the period.

Discount rate

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

Documentary letter of credit

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

Earnings per share (EPS)

EPS is calculated by dividing net income by the average number of common shares outstanding.

Embedded derivative

A component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Fair value

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

Financial instrument

Any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

Foreign exchange contract

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

Hedge

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

High interest savings account

A form of savings deposit at Canadian Tire Bank which pays higher interest than a traditional chequing or saving account with no minimum balance or withdrawal restrictions.

Hub store

A PartSource store that is designed to provide a broader assortment of automotive hard parts inventory to service a particular region's Canadian Tire and PartSource customers.

IFRS

International Financial Reporting Standards.

Interest coverage

Earnings before interest and income taxes divided by interest expense.

Interest rate risk

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

Interest rate swap

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

Interest-only strip

Represents the present value of the Company's share of the spread to be earned over the collection period on the loan receivable sold.

Loans receivable

The aggregate amount of outstanding balances owed to the Company by Canadian Tire credit card holders and personal loan and line of credit customers.

Long-term debt to total capitalization

Long-term debt (including current portion of long-term debt) and long-term deposits divided by the sum of short-term debt, long-term debt, long-term deposits, future income taxes, other long-term liabilities, and shareholders' equity.

Mark-to-market

The valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Medium-term note (MTN)

Debt instrument with maturity of at least one year and a maximum of 30 years that can be offered by the Company during the term of a short form base shelf prospectus, which has a current term extending until May 8, 2011.

Net managed portfolio

The total value, after allowances, of the loans receivable portfolio, which includes credit card receivables, personal loans and line of credit loans. A significant portion of the managed loan portfolio has been securitized.

Non-controlling interest

A reference to shareholders – individuals, corporations or partnerships – that own less than 50 per cent of a subsidiary's outstanding voting common stock. In the past, the non-controlling shareholders held an interest in the subsidiary's net assets and share earnings with the majority shareholder. The Company had non-controlling interest between 2001 and 2006.

Notional amount

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

Off-balance sheet financial instrument

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

Other comprehensive income (OCI)

An amount representing changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

Projected benefit method

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

Rebranding

In the context of Canadian Tire Petroleum's strategy, rebranding is the conversion of a competitor's gas bar and kiosk (in most cases) to the Canadian Tire brand. Generally, Petroleum incurs relatively low costs to convert the site. In exchange for the conversion, the rebranding partner participates in the profits of the converted site or is paid a fixed rent, depending upon the agreement.

Related party

Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include members of the Board of Directors, management and immediate family members.

Retained interest

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

Return on equity

Net earnings divided by average shareholders' equity.

Retail return on invested capital

Retail after-tax earnings before interest, divided by average invested capital. Invested capital is the sum of total assets less current liabilities (excluding current portion of long-term debt).

Same calendar week basis

Fiscal 2010 retail sales and same store sales were based on a 13-week period for the fourth quarter and a 52-week period for the year compared to a 13-week period for the fourth quarter in 2009 and a 52-week period for the year in 2009.

Same store sales (CTR)

Include sales from stores that have been open for more than 53 weeks.

Same store sales (Mark's Work Wearhouse)

Include sales from stores that have been open for more than 12 months. Stores in transition (eg: renovation or relocation) to a newer format are not closed and thus their store sales are included in the same store sales calculation.

Securitization

The process by which financial assets are sold to a third party. At Financial Services, credit card loan receivables are routinely financed through a co-ownership interest sold to Glacier Credit Card Trust. These transactions are recorded as a sale, and as a result, these assets are not included in the Consolidated Balance Sheet.

Servicing

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

Servicing liability

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

Small Market store

A Canadian Tire store that has a smaller format and focuses on meeting the needs of underserved rural markets. This store format was introduced in 2008. The Small Market store may include a Mark's store.

Smart store

The Canadian Tire store format which replaced the Concept 20/20 store and was introduced in 2008. This store format focuses on growth and improving productivity and is less capital intensive than the former Concept 20/20 store format. The Smart store may include a Mark's Work Wearhouse store.

Standby letter of credit

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

Total managed portfolio

The total value, before allowances, of the loans receivable portfolio, which includes credit card receivables, personal loans and line of credit loans.

Trademarks

Certain brands mentioned in this report are the trade-marks of Canadian Tire Corporation, Limited, Mark's Work Wearhouse Ltd. or used under license. Others are the property of their respective owners.

Traditional store

A Canadian Tire store that is not an "updated and expanded", Small Market or Smart store. Traditional stores were built prior to the introduction of the new-format store in 1994.

Treasury stock method

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

Undivided co-ownership interest

A partial legal or beneficial ownership of account assets.

Updated and expanded stores

A single term used to describe our 20/20 and new-format stores when reporting on their various metrics and statistics.

Variable interest entity (VIE)

An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

Weighted average number of shares

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

DIRECTORS

Maureen J. Sabia

Ontario, Canada

Non-Executive Chairman of the Board of the Company; President, Maureen Sabia International, a consulting firm; and Corporate Director

Iain C. Aitchison⁴

New Jersey, U.S.A.

Corporate Director

Martha G. Billes^{2,3}

Alberta, Canada

President, Albikin Management Inc., an investment holding company

Owen G. Billes⁴

Ontario, Canada

President, Sandy McTyre Retail Ltd., which operates a Canadian Tire Store

Peter W. Currie¹

Ontario, Canada

Corporate Director

Brian G. Domelle⁴

Ontario, Canada

President, Brian Domelle Enterprises Limited, which operates a Canadian Tire Store

H. Garfield Emerson, Q.C.³

Ontario, Canada

Principal, Emerson Advisory, an independent advisory firm; and Corporate Director

Robert M. Franklin^{1,2,4}

Ontario, Canada

President, Signalta Capital Corporation, a private investment holding company; and Corporate Director

James L. Goodfellow

Ontario, Canada

Corporate Director

Keith E. Gostlin⁴

British Columbia, Canada

President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire Store

Frank Potter^{2,3}

Ontario, Canada

Corporate Director

Timothy R. Price¹

Ontario, Canada

Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company

James A. Riley^{2,3}

Ontario, Canada

Managing Director and Chief Operating Officer, The Catalyst Capital Group Inc., a private equity firm

Peter B. Saunders³

Florida, U.S.A.

Corporate Director

Graham W. Savage^{1,2}

Ontario, Canada

Corporate Director

Stephen G. Wetmore

Ontario, Canada

President and Chief Executive Officer of the Company

¹ Audit Committee

Chairman, Graham W. Savage

² Governance Committee

Chairman, James A. Riley

³ Management Resources and Compensation Committee

Chairman, Frank Potter

⁴ Social Responsibility Committee

Chairman, Robert M. Franklin

Further information on Canadian Tire's corporate governance is provided in the Company's Management Information Circular which is available on the System for Electronic Document Analysis and Retrieval at www.sedar.com, or in the investor relations section of Canadian Tire's website at <http://corp.canadiantire.ca/en/investors>

OFFICERS

Maureen J. Sabia

Non-Executive Chairman of the Board

Stephen G. Wetmore

President and Chief Executive Officer

Marco Marrone

Chief Financial Officer and Executive Vice-President, Finance

G. Michael Arnett

Executive Vice-President, Canadian Tire and President, Canadian Tire Retail

Dean McCann

President, Canadian Tire Financial Services Limited

Glenn Butt

Executive Vice-President, Customer Experience and Automotive

Patrick R. Sinnott

Executive Vice-President, Technology and Supply Chain

Paul Wilson

President, Mark's Work Wearhouse Ltd.

Robyn A. Collver

Senior Vice-President, Secretary and General Counsel

Kristine Freudenthaler

Senior Vice-President, Information Technology and Chief Information Officer

Sharon Patterson

Senior Vice-President, Human Resources

Kenneth Silver

Senior Vice-President, Corporate Strategy and Real Estate

Candace A. MacLean

Vice-President and Treasurer

Shareholder and Corporate Information

HOME OFFICE

CANADIAN TIRE CORPORATION, LIMITED

2180 Yonge Street
 P.O. Box 770, Station K
 Toronto, Ontario M4P 2V8
 Canada
 Telephone: 416-480-3000
 Fax: 416-544-7715
 Website: <http://corp.canadiantire.ca>

SHAREHOLDER CONTACTS

ANGELA McMONAGLE

Vice President, Investor Relations
angela.mcmonagle@cantire.com

Investor Relations email:
investor.relations@cantire.com

MEDIA CONTACT

ROB NICOL

Associate Vice-President,
 Corporate Communications
 and Government Relations
robert.nicol@cantire.com

ANNUAL MEETING OF SHAREHOLDERS

MaRS COLLABORATION CENTRE

101 College Street
 Toronto, Ontario
 Thursday, May 12, 2011
 10:00 a.m. (EDT)

EXCHANGE LISTINGS

THE TORONTO STOCK EXCHANGE

Common Shares (CTC)
 Class A Non-Voting Shares (CTC.A)

AUDITORS

DELOITTE & TOUCHE LLP

Chartered Accountants

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BANKERS

Canadian Imperial Bank of Commerce
 Bank of Montreal
 Royal Bank of Canada
 The Bank of Nova Scotia
 The Toronto-Dominion Bank
 National Bank of Canada
 HSBC Bank Canada
 BNP Paribas (Canada)
 The Royal Bank of Scotland
 (Canada) Branch
 Alberta Treasury Branches

REGISTRAR AND TRANSFER AGENT

COMPUTERSHARE TRUST COMPANY OF CANADA

100 University Avenue
 Toronto, Ontario M5J 2Y1
 Canada
 Telephone: 514-982-7555
 Toll-free: 1-800-564-6253
 Fax: 1-866-249-7775
 Email: service@computershare.com

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

2010 DIVIDENDS DECLARED

Declaration date	Record date	Payable date	Amount payable per share
March 11, 2010	April 30, 2010	June 1, 2010	\$0.21
May 13, 2010	July 30, 2010	September 1, 2010	\$0.21
October 7, 2010	October 29, 2010	December 1, 2010	\$0.21
November 11, 2010	January 31, 2011	March 1, 2011	\$0.275

DISCLOSURE DOCUMENTS

Corporate governance disclosure and other investor information are available online from the investor relations pages of the Company's website at <http://corp.canadiantire.ca/en/investors>.

Additional copies of the Annual Report and other disclosure documents, such as the Company's Management Information Circular, the Annual Information Form and quarterly reports can be downloaded or requested in print form from the same website.

VERSION FRANÇAISE DU RAPPORT

Pour télécharger la version française du rapport annuel de Canadian Tire ou en demander un exemplaire, veuillez consulter le site Web de Canadian Tire, à l'adresse <http://corp.canadiantire.ca/fr/investors>.





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<http://corp.canadiantire.ca/en/investors>