
# CANADIAN TIRE CORPORATION

## 2019 REPORT TO SHAREHOLDERS

# MANAGEMENT'S DISCUSSION AND ANALYSIS

AND

# CONSOLIDATED FINANCIAL STATEMENTS

# Management's Discussion and Analysis

## Canadian Tire Corporation, Limited
## Fourth Quarter and Full-Year 2019

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# 1.0 Preface

## 1.1 Definitions

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

The financial results for the Retail segment are delivered by the businesses operated by the Company under the Company’s retail banners, which include Canadian Tire, PartSource, Petroleum, Gas+, Party City, Mark’s, Mark’s Work Wearhouse, L’Équipeur, Helly Hansen, SportChek, Sports Experts, Atmosphere, Pro Hockey Life (“PHL”), National Sports, Sports Rousseau, and Hockey Experts.

In this document:

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

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

“Consumer brands” refers to brands owned by the Company and are managed by the consumer brands division of the Retail segment.

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

“Financial Services” refers to the business carried on by the Company’s Financial Services subsidiaries, namely Canadian Tire Bank (“CTB” or “the Bank”) and CTFS Bermuda Ltd. (“CTFS Bermuda”), a Bermuda reinsurance company.

“Helly Hansen” refers to the international wholesale and retail businesses that operate under the Helly Hansen and Musto brands.

“Jumpstart” refers to Canadian Tire Jumpstart Charities.

“Mark’s” refers to the retail and commercial wholesale businesses carried on by Mark’s Work Wearhouse Ltd., and “Mark’s stores” including stores operated under the Mark’s, Mark’s Work Wearhouse, and L’Équipeur names and trademarks.

“PartSource stores” refers to stores operated under the PartSource name and trademarks.

“Party City” refers to the party supply business that operates under the Party City names and trademarks in Canada.

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

“SportChek” refers to the retail business carried on by FGL Sports Ltd., including stores operated under the SportChek, Sports Experts, Atmosphere, National Sports, Sports Rousseau, and Hockey Experts names and trademarks.

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

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

### 1.2 Forward-Looking Statements

This Management's Discussion and Analysis ("MD&A") contains statements that are forward looking and may constitute "forward-looking information" within the meaning of applicable securities legislation. Actual results or events may differ materially from those forecasted and from statements of the Company's plans or aspirations that are made in this MD&A because of the risks and uncertainties associated with the Corporation's businesses and the general economic environment. The Company cannot provide any assurance that any forecast financial or operational performance, plans, or financial aspirations will actually be achieved or, if achieved, will result in an increase in the Company's share price. Refer to section 13.0 in this MD&A for a more detailed discussion of the Company's use of forward-looking statements.

### 1.3 Review and Approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on February 12, 2020.

### 1.4 Quarterly and Annual Comparisons in the MD&A

Unless otherwise indicated, all comparisons of results for Q4 2019 (13 weeks ended December 28, 2019) are compared against results for Q4 2018 (13 weeks ended December 29, 2018) and all comparisons of results for the full year 2019 (52 weeks ended December 28, 2019) are compared against results for the full year 2018 (52 weeks ended December 29, 2018).

### 1.5 Accounting Framework

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

### 1.6 Accounting Estimates and Assumptions

The preparation of consolidated financial statements that conform to IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Refer to section 9.1 in this MD&A for further information.

### 1.7 Key Operating Performance Measures and Additional GAAP and Non-GAAP Financial Measures

The Company has identified several key operating performance measures and non-GAAP financial measures which Management believes are useful in assessing the performance of the Company; however, readers are cautioned that some of these measures may not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 9.3.1 and 9.3.2 for additional information on these metrics.

### 1.8 Rounding and Percentages

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

## 2.0 Company and Industry Overview

Canadian Tire Corporation, Limited, (TSX: CTC.A) (TSX: CTC), is a family of businesses that includes a Retail segment, a Financial Services division and CT REIT. Our retail business is led by Canadian Tire, which was founded in 1922 and provides Canadians with products for life in Canada across its Living, Playing, Fixing, Automotive and Seasonal & Gardening divisions. PartSource, Gas+ and Party City are key parts of the Canadian Tire network. The Retail segment also includes Mark's, a leading source for casual and industrial wear; Pro Hockey Life, a hockey specialty store catering to elite players; and SportChek, Hockey Experts, Sports Experts, National Sports, Intersport and Atmosphere, which offer the best active wear brands. The approximately 1,746 retail and gasoline outlets are supported and strengthened by our Financial Services division and the tens of thousands of people employed across Canada and around the world by the Company and its Canadian Tire Associate Dealers ("Dealers"), franchisees and petroleum retailers. In addition, Canadian Tire Corporation owns and operates Helly Hansen, a leading global brand in sportswear and workwear based in Oslo, Norway. A description of the Company's business and select core capabilities can be found in the Company's 2019 Annual Information Form ("2019 AIF"), including Section 2 "Description of the Business" and on the Company's Corporate (https://corp.canadiantire.ca/English/home/default.aspx) and Investor Relations (https://corp.canadiantire.ca/English/investors/default.aspx) websites.

## 3.0 Historical Performance Highlights

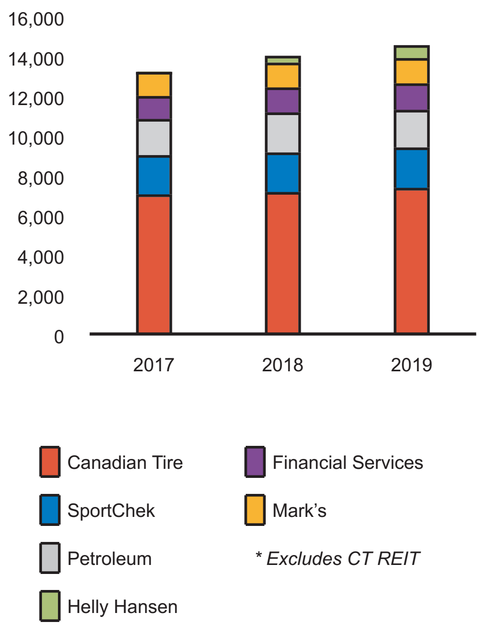
### 3.1 Selected Annual Consolidated Financial Trends

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

| (C$ in millions, except per share amounts and number of retail locations) | **2019** | 2018 | 2017 |
|---|---|---|---|
| Consolidated comparable sales growth[1] | **3.6%** | 2.2% | 2.7% |
| Revenue[2] | **$ 14,534.4** | $ 14,058.7 | $ 13,276.7 |
| Net income | **894.8** | 783.0 | 818.8 |
| Normalized[3] net income | **923.3** | 870.4 | 818.8 |
| Basic EPS | **12.60** | 10.67 | 10.70 |
| Diluted EPS | **12.58** | 10.64 | 10.67 |
| Normalized[3] diluted EPS | **13.04** | 11.95 | 10.67 |
| Total assets | **19,518.3** | 17,286.8 | 15,627.0 |
| Total non-current financial liabilities[4] | **7,535.3** | 7,597.1 | 6,311.8 |
| Financial Services gross average accounts receivables (total portfolio) | **6,253.5** | 5,825.3 | 5,263.9 |
| Number of retail locations | **1,746** | 1,700 | 1,702 |
| Cash dividends declared per share | **$ 4.2500** | $ 3.7375 | $ 2.8500 |
| Stock price (CTC.A)[5] | **140.63** | 142.08 | 163.90 |

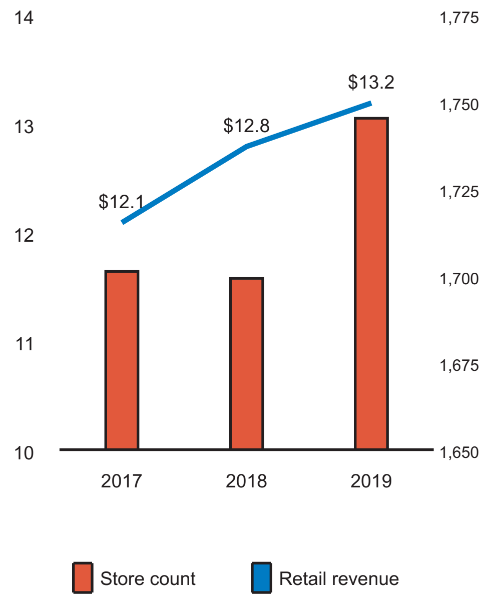
1 *Does not include Helly Hansen.*
2 *Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2 of the consolidated financial statements).*
3 *Refer section 5.1.1 for details on normalized items.*
4 *Includes short and long-term deposits, long-term debt including the current portion, long-term derivative liabilities included in other long-term liabilities, and the redeemable financial instrument.*
5 *Closing share price as of the date closest to the Company's fiscal year end.*

**REVENUE BY BANNER/UNIT***
($ millions)

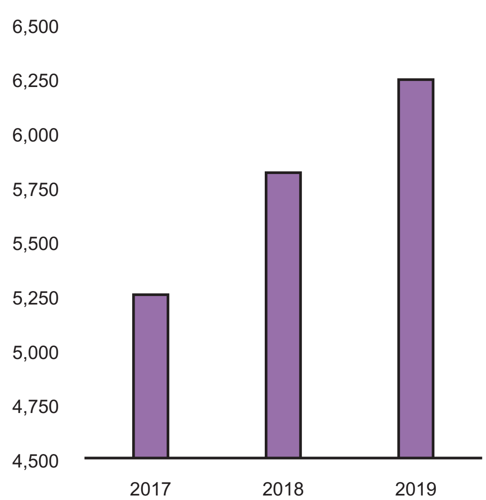



** Excludes CT REIT*

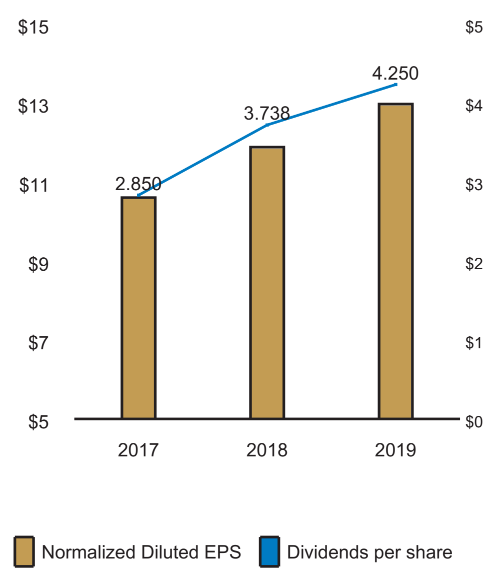
**STORES AND RETAIL REVENUE**
Retail revenue
($ billions)
Number of stores




**FINANCIAL SERVICES GROSS AVERAGE ACCOUNTS RECEIVABLE**
($ millions)




**NORMALIZED DILUTED EPS AND DIVIDENDS PER SHARE**
($ per share)
(Dividends $ per share)



## 4.0 Three-Year (2018 to 2020) Financial Aspirations

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

The Company has established its financial aspirations for fiscal years 2018 to 2020. Achievement of these aspirations would contribute to the consistent increase of total shareholder return over the three years.

The financial aspirations and a discussion of the underlying material assumptions and risks that might impact the achievement of the aspirations are outlined below. In addition, achievement of the aspirations may be impacted by the risks identified in section 10.0.

### Consolidated Comparable Sales Growth (excluding Petroleum) 3%+

*Material assumptions*

- Individual business units contribute positively to Consolidated Comparable Sales Growth.
- Sales growth driven by an innovative assortment and an optimized mix of owned and national brands.
- Customers engaged through compelling loyalty and credit card programs.
- Customer base will grow across all banners utilizing a 'One Company serving One Customer' strategy.

*Material risks*

- Pricing pressure driven by growing competition from new and existing market players.
- Accelerated disruption from eCommerce competitors.
- Decline in economic growth, consumer confidence, and household spending.
- The introduction of unfavourable foreign-trade policies.

### Average Annual Diluted EPS Growth 10%+

*Material assumptions*

- Realization of the Consolidated Comparable Sales Growth aspiration.
- Successful rollout of operational efficiency programs and initiatives.
- Continued GAAR growth and positive contribution to earnings by the Financial Services segment.
- No major changes to the Company's financial leverage and capital allocation approach.

*Material risks*

- Risks associated with the Consolidated Comparable Sales Growth aspiration described below.
- Short-term effect on EPS from the Company's capital-allocation initiatives, including the potential impact of organic and inorganic growth initiatives designed to create long-term growth.
- Negative impacts due to unfavourable commodity prices, foreign exchange fluctuations, protectionist foreign policies and legislative changes.
- Adverse economic or regulatory conditions which negatively impact GAAR growth and increases volatility of the impairment allowance for credit card receivables.
- Lower or lesser contribution from operational efficiencies.

### Retail ROIC 10%+

*Material assumptions*

- Realization of Consolidated Comparable Sales Growth and average annual Diluted EPS growth aspirations.
- Prudent management of working capital.
- Disciplined approach to selecting growth projects and initiatives which yield improved asset productivity.
- Effective management of the Company's capital allocation priorities.

*Material risks*

- Lower than anticipated earnings growth; refer to risks associated with the Average Annual Diluted EPS Growth aspiration.
- Short-term effects from the Company's capital-allocation initiatives, including the potential impact of organic and inorganic growth initiatives designed to create long-term growth.

The Company's performance in 2019 and 2018 on the financial aspirations outlined above is summarized in the table below:

| Financial Measure | 2018 | 2019 | Status |
|---|---|---|---|
| Consolidated Comparable Sales Growth (excluding Petroleum) of +3 percent annually | 2.2% in year | 3.6% in year | Achieved |
| Average Annual Diluted EPS[1] Growth of 10+ percent over the three-year period | 12.0% | 2 year average of 10.6% | On Track |
| Retail ROIC[2] of 10+ percent by 2020 | 9.2% as at December 29, 2018 | 9.0% as at December 28, 2019 | Actively Pursuing |

[1] *Based on normalized results.*
[2] *Retail ROIC is calculated on a rolling 12-month basis based on normalized earnings. Refer to section 9.3.1 in this MD&A for additional information.*

Management is committed to achieving its financial aspirations. Retail ROIC is the Company's most ambitious aspiration. The Company continues to actively pursue Retail ROIC of 10+ percent; however, due to recent acquisitions, including Helly Hansen, additional time may be required to achieve this aspiration. While accretive to earnings, the Helly Hansen acquisition has had a dilutive impact on ROIC in the short term. Refer to section 5.0 Financial Performance of this MD&A for details on Company's financial performance in 2019 and 2018.

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

### Operational Efficiency

Since launching our One Company, One Customer strategy we have invested heavily in our banners, brands, talent, loyalty program and digital infrastructure to drive our long-term and ambitious growth agenda. These investments have generated strong financial performance, an enhanced customer experience and key insights on meeting our customers' needs. But importantly, we have built the foundation supporting the most critical parts of our strategy to drive long-term growth.

These investments, including in our consumer brands, Triangle Rewards, analytics, Ship to Home, and enhancements of physical locations, have provided tremendous uplift to our revenue. While this work was underway, other than our focus to achieve significant cost of goods/sourcing savings at Canadian Tire, we maintained most of our traditional processes as these new ways of doing business gained traction. We are now in the position, as planned, to drive operational efficiencies.

Our Operational Efficiency program will target $200+ million in annualized savings by 2022. Management is committed to its financial aspirations and driving long-term sustainable growth, and believes this program, will allow us to:

1. Eliminate duplicate systems and processes across our multiple banners as we begin operating as One Company;
2. Drive enterprise-wide efficiencies by decommissioning legacy infrastructure; and
3. Continue our extensive program to target internal and external expense reduction.

In order to support the Operational Efficiency program and realize savings, management expects to record one-time costs, reported quarterly as an adjustment to EBITDA, for items such as severance, retraining, systems development, and real estate related closure costs. We recorded the first of these costs in Q2 2019. Management may also make capital investments to accelerate the program, which are included as part of our 2020 capital spending guidance.

During the quarter, the Company recorded $6.5 million for severance, store closure and program-related expenses. On a year-to-date basis, the Company has recorded $34.4 million.

In furtherance of the Company's financial aspirations described above and its goal to become the #1 retail brand in Canada by 2022, the Company executed against a number of strategic initiatives during 2019 (see section 6 of the 2018 Annual MD&A for an overview of the 2019 key initiatives). Developments with respect to these initiatives are discussed in this MD&A, the 2019 AIF and on the Company's Corporate (https://corp.canadiantire.ca/English/home/default.aspx) and Investor Relations (https://corp.canadiantire.ca/English/investors/default.aspx) websites.

# 5.0 Financial Performance

## 5.1 Consolidated Financial Performance

### 5.1.1 Consolidated Financial Results

| (C$ in millions, except where noted) | Q4 2019 | Q4 2018 | Change | 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Retail sales[1] | $ 4,838.2 | $ 4,637.7 | 4.3% | $ 15,879.0 | $ 15,494.7 | 2.5 % |
| Revenue | $ 4,316.7 | $ 4,131.7 | 4.5% | $ 14,534.4 | $ 14,058.7 | 3.4 % |
| Gross margin dollars | $ 1,503.0 | $ 1,418.0 | 6.0% | $ 4,873.8 | $ 4,711.3 | 3.4 % |
| Gross margin as a % of revenue | 34.8% | 34.3% | 50 bps | 33.5% | 33.5% | 2 bps |
| Other expense (income) | $ 2.0 | $ (2.5) | NM[2] | $ (13.4) | $ (26.0) | (48.7)% |
| Selling, general and administrative expenses | 943.7 | 938.9 | 0.5% | 3,437.5 | 3,467.6 | (0.9)% |
| Net finance costs | 66.0 | 44.7 | 48.0% | 266.8 | 151.5 | 76.2 % |
| Change in fair value of redeemable financial instrument | — | 50.0 | NM[2] | — | 50.0 | NM[2] |
| Income before income taxes | $ 491.3 | $ 386.9 | 27.0% | $ 1,182.9 | $ 1,068.2 | 10.7 % |
| Income taxes | 125.4 | 108.7 | 15.2% | 288.1 | 285.2 | 1.0 % |
| Effective tax rate | 25.5% | 28.1% | | 24.4% | 26.7% | |
| Net income | $ 365.9 | $ 278.2 | 31.6% | $ 894.8 | $ 783.0 | 14.3 % |
| Net income attributable to: | | | | | | |
| Shareholders of Canadian Tire Corporation | $ 334.1 | $ 254.3 | 31.4% | $ 778.4 | $ 692.1 | 12.5 % |
| Non-controlling interests | 31.8 | 23.9 | 33.4% | 116.4 | 90.9 | 28.0 % |
| | $ 365.9 | $ 278.2 | 31.6% | $ 894.8 | $ 783.0 | 14.3 % |
| Basic EPS | $ 5.42 | $ 4.00 | 35.7% | $ 12.60 | $ 10.67 | 18.1 % |
| Diluted EPS | $ 5.42 | $ 3.99 | 35.7% | $ 12.58 | $ 10.64 | 18.3 % |
| Weighted average number of Common and Class A Non-Voting Shares outstanding: | | | | | | |
| Basic | 61,592,583 | 63,611,964 | NM[2] | 61,794,565 | 64,887,724 | NM[2] |
| Diluted | 61,669,335 | 63,707,558 | NM[2] | 61,861,486 | 65,062,581 | NM[2] |

[1] *Key operating performance measures. Refer to section 9.3.1 in this MD&A for additional information.*
[2] *Not meaningful.*

### Non-Controlling Interests

The following table outlines the net income attributable to the Company's non-controlling interests. For additional details, refer to Note 15 to the Company's 2019 Consolidated Financial Statements.

| (C$ in millions) | Q4 2019 | Q4 2018 | 2019 | 2018 |
|---|---|---|---|---|
| Financial Services<br>Non-controlling interest percentage 20.0% (2018 – 20.0%) | $ 15.9 | $ 13.4 | $ 61.7 | $ 56.6 |
| CT REIT<br>Non-controlling interest percentage 30.6% (2018 – 23.8%) | 15.2 | 9.8 | 51.3 | 30.2 |
| Retail segment subsidiary<br>Non-controlling interest percentage 50.0% (2018 – 50.0%) | 0.7 | 0.7 | 3.4 | 4.1 |
| Net income attributable to non-controlling interests | $ 31.8 | $ 23.9 | $ 116.4 | $ 90.9 |

## Normalizing Items

The results of operations include two normalizing items in 2019 and three in 2018. These items include:

| | | |
|---|---|---|
| **2019** | | |
| **1.** | Acquisition of Party City in Canada ("Party City") | • Cost incurred relating to the acquisition of Party City of $2.3 million in Q3 2019 and $2.4 million in Q4 2019 (2019: $4.7 million). |
| **2.** | Operational Efficiency program | • Costs incurred of $8.1 million in Q2 2019, $19.8 million in Q3 2019 and $6.5 million in Q4 2019 in relation to the Company's Operational Efficiency program for severance, store-closure and program-related expenses (2019: $34.4 million). |
| **2018** | | |
| **1.** | Triangle Rewards Program | • One-time costs related to the roll-out of the Triangle Rewards program and associated credit cards of $17.3 million recorded in Q2 2018. |
| **2.** | Acquisition of Helly Hansen | • Costs incurred relating to the acquisition of Helly Hansen of $5.3 million in Q2 2018 and $22.4 million in Q3 2018 (2018: $27.7 million). |
| **3.** | Fair value adjustment to Scotiabank's 20% interest in Financial Services | • A $50.0 million fair value adjustment to Scotiabank's interest in the Financial Services business (a 20% stake was sold for $500.0 million in 2014, it is now valued at $567.0 million) in Q4 2018. Refer to Note 33.1 in the consolidated annual financial statements for further details. |

Normalized results are non-GAAP measures and do not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. For further information and a reconciliation to GAAP measures, refer to section 9.3.2 in this MD&A.

## Selected Normalized Metrics – Consolidated

| (C$ in millions, except where noted) | **Q4 2019** | **Normalizing Items**[1] | **Normalized Q4 2019** | Q4 2018 | Normalizing Items[1] | Normalized Q4 2018 | Change[2] |
|---|---|---|---|---|---|---|---|
| Revenue | **$ 4,316.7** | **$ —** | **$ 4,316.7** | $ 4,131.7 | $ — | $ 4,131.7 | 4.5 % |
| Cost of producing revenue | **2,813.7** | **(2.4)** | **2,811.3** | 2,713.7 | — | 2,713.7 | 3.6 % |
| Gross margin | **1,503.0** | **2.4** | **1,505.4** | 1,418.0 | — | 1,418.0 | 6.2 % |
| Gross margin rate | **34.8%** | **6bps** | **34.9%** | 34.3% | — | 34.3% | 55bps |
| Other expense (income) | **2.0** | **(1.3)** | **0.7** | (2.5) | — | (2.5) | NM[3] |
| Selling, general and administrative expenses | **943.7** | **(5.2)** | **938.5** | 938.9 | — | 938.9 | — % |
| Net finance costs | **66.0** | **—** | **66.0** | 44.7 | — | 44.7 | 47.7 % |
| Change in fair value of redeemable financial instrument | **—** | **—** | **—** | 50.0 | (50.0) | — | — % |
| Income before income taxes | **$ 491.3** | **8.9** | **$ 500.2** | $ 386.9 | 50.0 | $ 436.9 | 14.5 % |
| Income taxes | **125.4** | **2.4** | **127.8** | 108.7 | — | 108.7 | 17.6 % |
| Net income | **365.9** | **6.5** | **372.4** | 278.2 | 50.0 | 328.2 | 13.5 % |
| Net income attributable to Shareholders of CTC | **334.1** | **6.5** | **340.6** | 254.3 | 50.0 | 304.3 | 11.9 % |
| Diluted EPS | **$ 5.42** | **$ 0.11** | **$ 5.53** | $ 3.99 | $ 0.79 | $ 4.78 | 15.7 % |

[1] *Refer to Normalizing Items table in this section for more details.*
[2] *Change is between normalized results.*
[3] *Not meaningful*

| (C$ in millions, except where noted) | **2019** | **Normalizing Items**[1] | **Normalized 2019** | 2018 | Normalizing Items[1] | Normalized 2018 | Change[2] |
|---|---|---|---|---|---|---|---|
| Revenue | **$14,534.4** | **$ —** | **$ 14,534.4** | $14,058.7 | $ — | $ 14,058.7 | 3.4 % |
| Cost of producing revenue | **9,660.6** | **(2.4)** | **9,658.2** | 9,347.4 | (5.0) | 9,342.4 | 3.4 % |
| Gross margin | **4,873.8** | **2.4** | **4,876.2** | 4,711.3 | 5.0 | 4,716.3 | 3.4 % |
| Gross margin rate | **33.5%** | **2bps** | **33.5%** | 33.5% | 4bps | 33.5% | —bps |
| Other expense (income) | **(13.4)** | **(1.3)** | **(14.7)** | (26.0) | — | (26.0) | (43.5 )% |
| Selling, general and administrative expenses | **3,437.5** | **(35.4)** | **3,402.1** | 3,467.6 | (40.0) | 3,427.6 | (0.7 )% |
| Net finance costs | **266.8** | **—** | **266.8** | 151.5 | — | 151.5 | 76.1 % |
| Change in fair value of redeemable financial instrument | **—** | **—** | **—** | 50.0 | (50.0) | — | — % |
| Income before income taxes | **$ 1,182.9** | **39.1** | **$ 1,222.0** | $ 1,068.2 | $ 95.0 | $ 1,163.2 | 5.1 % |
| Income taxes | **288.1** | **10.6** | **298.7** | 285.2 | 7.6 | 292.8 | 2.0 % |
| Net income | **894.8** | **28.5** | **923.3** | 783.0 | 87.4 | 870.4 | 6.1 % |
| Net income attributable to Shareholders of CTC | **778.4** | **28.5** | **806.9** | 692.1 | 85.4 | 777.5 | 3.8 % |
| Diluted EPS | **$ 12.58** | **$ 0.46** | **$ 13.04** | $ 10.64 | $ 1.31 | $ 11.95 | 9.1 % |

1 *Refer to Normalizing Items table in this section for more details.*
2 *Change is between normalized results.*

## Consolidated Results Commentary

| | Q4 | Full Year |
|---|---|---|
| **Earnings Summary** | ▲ **Diluted EPS: $1.43 per share, or 35.7%** | ▲ **Diluted EPS: $1.94 per share, or 18.3%** |
| | • Consolidated revenue increased $185.0 million, or 4.5 percent. Excluding Petroleum, consolidated revenue increased 5.1 percent. Consolidated revenue was primarily driven by revenue growth at the Retail banners and continued receivable growth resulting in higher revenue in the Financial Services segment. | • Consolidated revenue increased $475.7 million, or 3.4 percent. Excluding Petroleum, consolidated revenue increased 5.0 percent due to the inclusion of a full year of Helly Hansen, growth across all Retail segment banners, and higher revenue in the Financial Services segment. |
| | • Consolidated gross margin dollars increased $85.0 million or 6.0 percent, normalized gross margin increased $87.4 million or 6.2 percent. The increase in the gross margin dollars is driven by sales growth across the Retail segment, led by Canadian Tire, an improvement in the Retail segment's gross margin rate and revenue growth in the Financial Services segment. | • Consolidated gross margin dollars increased $162.5 million, or 3.4 percent, normalized gross margin increased $159.9 million or 3.4 percent. Gross margin increases were attributable to revenue growth across the Retail banners and in the Financial Services segment. |
| | • Consolidated selling, general and administrative expenses increased by $4.8 million or 0.5 percent. Normalized consolidated selling, general and administrative expenses decreased by $0.4 million due to the impact of IFRS 16. Excluding the impact of IFRS 16, normalized selling, general and administrative expenses increased primarily in the Retail segment driven by higher variable compensation expenses and higher occupancy costs. | • Consolidated selling, general and administrative expenses decreased by $30.1 million or 0.9 percent. Normalized consolidated selling, general and administrative expenses decreased by $25.5 million or 0.7 percent due to the impact of IFRS 16. Excluding the impact of IFRS 16, normalized selling, general and administrative expenses increased primarily in the Retail segment driven by higher personnel costs and higher occupancy costs. |
| | • Income taxes for the quarter were $125.4 million an increase of $16.7 million compared to 2018. The effective tax rate for the quarter decreased to 25.5 percent compared to 28.1 percent in 2018, primarily due to the absence of a non-deductible fair value change in the redeemable financial instrument in 2019, partially offset by lower tax benefits relating to capital property dispositions and changes in tax rates in the period. | • Income taxes for the year were $288.1 million an increase of $2.9 million compared to 2018. The effective tax rate decreased to 24.4 percent compared to 26.7 percent in 2018, primarily due to favourable adjustments to tax estimates and prior years' tax settlements, the absence of a non-deductible fair value change in the redeemable financial instrument in 2019, and higher non-controlling interest related to CT REIT in the period. |
| | • Normalized diluted EPS in the quarter was $5.53, an increase of $0.75 or 15.7 percent. The growth in earnings was primarily driven by growth in revenue in both Retail and Financial Services segments. Refer to section 5.2 and 5.3 for further information regarding earnings in the Retail and Financial Services segments. | • Normalized diluted EPS of $13.04 increased by $1.09 or 9.1 percent, driven by strong revenue growth in all Retail banners (except Petroleum), strong revenue and earnings growth in the Financial Services segment and the impact of share repurchases associated with the Company's share buy back program. This was partially offset by lower earnings contribution from the Retail segment, attributable to the performance in the first half of the year due to the impact of the Company's cost and margin sharing agreement with its Dealers and unseasonable spring weather performance. Lower contribution from the Petroleum business, the impact of IFRS 16, and higher non-operational foreign exchange losses recognized in Helly Hansen and higher net finance costs, excluding the impact of IFRS 16, mainly due to higher interest expense in the Retail segment also negatively impacted normalized diluted EPS. Refer to section 5.2 and 5.3 for further information regarding earnings in the Retail and Financial Services segments. |

## IFRS 16 – Impact

The Company's financial performance reporting was impacted by the adoption of IFRS 16 – *Leases* ("IFRS 16") in 2019. Certain lease-related expenses previously recorded in occupancy costs on a straight-line basis are now recorded as depreciation on a right-of-use asset and interest expense on a lease liability. The depreciation expense is recognized on a straight-line basis, while the interest expense declines over the life of the lease, as the liability is repaid. When compared to the previous accounting method, under IFRS 16, lease-related expenses are higher in the first half of the lease term, and lower in the second half. This change in pattern of expense recognition is expected to result in a positive year-over-year variance in income before tax in the consolidated statements but a negative year-over-year variance in the Retail segment. The change in classification of expense results in an increase in EBITDA. Additionally, IFRS 16 has changed the presentation of revenue and expenses relating to certain subleases to our SportChek franchisees, which are now reflected as finance income on a lease receivable and finance costs on the lease liability.

The following table provides the estimated impact of the adoption of IFRS 16:

| (C$ in millions) increase/(decrease) | Q4 2019 Consolidated | 2019 Consolidated | Explanation |
|---|---|---|---|
| Financial Statement line item: | | | |
| Revenue and gross margin | **$ (5)** | **$ (21)** | Franchise rental income now reflected as interest income |
| Rent/Occupancy expense | **(100)** | **(384)** | Rent now represented as depreciation and interest expense |
| Depreciation expense | **67** | **252** | Relating to right-of-use assets |
| Net finance costs – on lease liabilities | **23** | **94** | Lease interest expense net of interest income |
| Income before income taxes | **5** | **17** | Net pre-tax impact of IFRS 16 |

The depreciation and interest expense on right-of-use ("ROU") assets and lease liabilities respectively, is disclosed in Note 30 and 31 to the consolidated financial statements.

The following table provides the year-over-year analysis of occupancy and lease-related costs reported in Note 30 and 31 to the consolidated financial statements:

| (C$ in millions) | Q4 2019 | Q4 2018 | Change | Impact of IFRS 16 | Change (ex IFRS 16) |
|---|---|---|---|---|---|
| Occupancy | **$ 103.9** | $ 193.2 | $ (89.3) | $ (100) | $ 10.7 |
| Depreciation on ROU assets / assets under finance lease[1] | **69.8** | 2.4 | 67.4 | 67 | 0.4 |
| Net finance costs related to leases[1] | **24.8** | 1.7 | 23.1 | 23 | 0.1 |
| | **$ 198.5** | $ 197.3 | $ 1.2 | $ (10) | $ 11.2 |

[1] *$2.4 million and $1.7 million relates to depreciation and finance cost on assets/liabilities under finance lease under IAS 17.*

| (C$ in millions) | 2019 | 2018 | Change | Impact of IFRS 16 | Change (ex IFRS 16) |
|---|---|---|---|---|---|
| Occupancy | **$ 417.6** | $ 748.0 | $ (330.4) | $ (384) | $ 53.6 |
| Depreciation on ROU assets / assets under finance lease[1] | **262.3** | 10.0 | 252.3 | 252 | 0.3 |
| Net finance costs related to leases[1] | **101.0** | 7.1 | 93.9 | 94 | (0.1) |
| | **$ 780.9** | $ 765.1 | $ 15.8 | $ (38) | $ 53.8 |

[1] *$10.0 million and $7.1 million relates to depreciation and finance cost on assets/liabilities under finance lease under IAS 17.*

Occupancy and lease-related costs in the quarter increased approximately $11.2 million excluding the impact of IFRS 16 (2019 – $53.8 million). Refer to the Retail segment results commentary in section 5.2.1 for an explanation of the increase in occupancy and lease-related costs.

Refer to section 9.2 of this MD&A for further details regarding the adoption of IFRS 16.

### 5.1.2 Consolidated Key Operating Performance Measures, Excluding Petroleum

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 9.3.1 in this MD&A for definitions and further information.

| (C$ in millions) increase/(decrease) | **Q4 2019** | Q4 2018 | Change | Impact of IFRS 16 | Change (ex IFRS 16) |
|---|---|---|---|---|---|
| Normalized[1] selling, general and administrative expenses (excluding depreciation and amortization[2]) as a % of revenue, excluding Petroleum | **20.0%** | 22.8% | (280 bps) | (260 bps) | (20 bps) |
| Normalized EBITDA[1,3] as a % of revenue, excluding Petroleum[4] | **18.2%** | 14.9% | 330 bps | 249 bps | 81 bps |

[1] *Refer to section 5.1.1 for a description of normalizing items.*
[2] *Selling, general and administrative expenses exclude depreciation and amortization of $170.5 million (2018 – $105.1 million).*
[3] *Normalized EBITDA is a non-GAAP measure; refer to section 9.3.2 in this MD&A for a reconciliation of normalized EBITDA to net income attributable to shareholders of Canadian Tire Corporation and additional information.*
[4] *Revenue excludes Petroleum, EBITDA excludes Petroleum gross margin.*

| (C$ in millions) increase/(decrease) | **2019** | 2018 | Change | Impact of IFRS 16 | Change (ex IFRS 16) |
|---|---|---|---|---|---|
| Normalized[1] selling, general and administrative expenses (excluding depreciation and amortization[2]) as a % of revenue, excluding Petroleum | **21.8%** | 25.0% | (320 bps) | (304 bps) | (16 bps) |
| Normalized EBITDA[1,3] as a % of revenue, excluding Petroleum[4] | **15.7%** | 13.0% | 270 bps | 289 bps | (19 bps) |

[1] *Refer to section 5.1.1 for a description of normalizing items.*
[2] *Selling, general and administrative expenses exclude depreciation and amortization of $647.4 million (2018 – $421.8 million).*
[3] *Normalized EBITDA is a non-GAAP measure; refer to section 9.3.2 in this MD&A for a reconciliation of normalized EBITDA to net income attributable to shareholders of Canadian Tire Corporation and additional information.*
[4] *Revenue excludes Petroleum, EBITDA excludes Petroleum gross margin.*

### Consolidated Results Commentary

| | Q4 | Full Year |
|---|---|---|
| **Normalized SG&A (excluding depreciation and amortization) as a % of Revenue, excluding Petroleum** | ▼ **280 bps**<br>• Excluding the impact of IFRS 16, normalized SG&A (excluding depreciation and amortization) as a percentage of Revenue, excluding Petroleum improved by 20 bps compared to the prior year. The improvement was mainly driven by the growth in revenue and continued focus on lowering expenses. | ▼ **320 bps**<br>• Excluding the impact of IFRS 16, normalized SG&A (excluding depreciation and amortization) as a percentage of Revenue, excluding Petroleum improved by 16 bps compared to the prior year attributable to revenue growth and cost containment. |
| **Normalized EBITDA as a % of Revenue, excluding Petroleum** | ▲ **330 bps**<br>• Excluding the impact of IFRS 16, normalized EBITDA as a percentage of Revenue, excluding Petroleum increased 81 bps attributable to revenue growth outpacing the increased in operating expenses during the quarter. | ▲ **270 bps**<br>• Excluding the impact of IFRS 16, normalized EBITDA as a percentage of Revenue, excluding Petroleum decreased 19 bps attributable to the performance of the Retail segment in the first half of the year. |

### 5.1.3 Seasonal Trend Analysis

The following table shows the consolidated financial performance of the Company by quarter for the last two years. The quarterly trend could be impacted by non-operational items.

| (C$ in millions, except per share amounts) | **Q4 2019** | Q3 2019 | Q2 2019 | Q1 2019 | **Q4 2018** | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | **$ 4,316.7** | $ 3,636.7 | $ 3,686.6 | $ 2,894.4 | **$ 4,131.7** | $ 3,631.3 | $ 3,480.8 | $ 2,814.9 |
| Net income | **365.9** | 227.7 | 203.8 | 97.4 | **278.2** | 231.3 | 174.4 | 99.1 |
| Normalized[1] net income | **372.4** | 243.8 | 209.7 | 97.4 | **328.2** | 252.1 | 191.0 | 99.1 |
| Diluted EPS | **5.42** | 3.20 | 2.87 | 1.12 | **3.99** | 3.15 | 2.38 | 1.18 |
| Normalized[1] diluted EPS | **5.53** | 3.46 | 2.97 | 1.12 | **4.78** | 3.47 | 2.61 | 1.18 |

[1] *Refer to section 5.1.1 for a description of normalizing items.*

## 5.2 Retail Segment Performance

### 5.2.1 Retail Segment Financial Results

| (C$ in millions) | **Q4 2019** | Q4 2018 | Change | **2019** | 2018 | Change |
|---|---|---|---|---|---|---|
| Retail sales[1] | **$ 4,838.2** | $ 4,637.7 | 4.3 % | **$ 15,879.0** | $ 15,494.7 | 2.5 % |
| Revenue | **$ 3,989.2** | $ 3,816.9 | 4.5 % | **$ 13,209.8** | $ 12,813.5 | 3.1 % |
| Gross margin dollars | **$ 1,304.2** | $ 1,237.7 | 5.4 % | **$ 4,075.8** | $ 3,948.4 | 3.2 % |
| Gross margin as a % of revenue | **32.7%** | 32.4% | 26 bps | **30.9%** | 30.8% | 4 bps |
| Other (income) | **$ (28.3)** | $ (35.1) | (19.6)% | **$ (138.8)** | $ (157.1) | (11.7)% |
| Selling, general and administrative expenses | **923.0** | 939.6 | (1.8)% | **3,326.6** | 3,439.8 | (3.3)% |
| Net finance costs (income) | **57.9** | 4.4 | NM[2] | **240.2** | (2.7) | NM[2] |
| Income before income taxes | **$ 351.6** | $ 328.8 | 6.9 % | **$ 647.8** | $ 668.4 | (3.1)% |

[1] *Retail sales is a key operating performance measure. Refer to section 9.3.1 in this MD&A for additional information.*
[2] *Not meaningful.*

Normalized results are non-GAAP measures and do not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. For further information and a reconciliation to GAAP measures, refer to section 9.3.2 in this MD&A.

### Selected Normalized Metrics – Retail

| (C$ in millions, except where noted) | Q4 2019 | **Normalizing Items[1]** | **Normalized Q4 2019** | Q4 2018 | Normalizing Items[1] | Normalized Q4 2018 | Change[2] |
|---|---|---|---|---|---|---|---|
| Revenue | **$ 3,989.2** | **—** | **$ 3,989.2** | $ 3,816.9 | — | $ 3,816.9 | 4.5 % |
| Cost of producing revenue | **2,685.0** | **(2.4)** | **2,682.6** | 2,579.2 | — | 2,579.2 | 4.0 % |
| Gross margin | **1,304.2** | **2.4** | **1,306.6** | 1,237.7 | — | 1,237.7 | 5.6 % |
| Gross margin rate | **32.7%** | **6bps** | **32.8%** | 32.4% | — | 32.4% | 40bps |
| Other expense (income) | **(28.3)** | **(1.3)** | **(29.6)** | (35.1) | — | (35.1) | (15.7 )% |
| Selling, general and administrative expenses | **923.0** | **(5.2)** | **917.8** | 939.6 | — | 939.6 | (2.3 )% |
| Net finance costs | **57.9** | **—** | **57.9** | 4.4 | — | 4.4 | NM[3] |
| Income before income taxes | **$ 351.6** | **8.9** | **$ 360.5** | $ 328.8 | — | $ 328.8 | 9.6 % |

[1] *Refer to section 5.1.1 for a description of normalizing items.*
[2] *Change is between normalized results.*
[3] *Not meaningful.*

| (C$ in millions, except where noted) | 2019 | Normalizing Items[1] | Normalized 2019 | 2018 | Normalizing Items[1] | Normalized 2018 | Change[2] |
|---|---|---|---|---|---|---|---|
| Revenue | **$13,209.8** | **—** | **$ 13,209.8** | $12,813.5 | — | $ 12,813.5 | 3.1 % |
| Cost of producing revenue | **9,134.0** | **(2.4)** | **9,131.6** | 8,865.1 | (5.0) | 8,860.1 | 3.1 % |
| Gross margin | **4,075.8** | **2.4** | **4,078.2** | 3,948.4 | 5.0 | 3,953.4 | 3.2 % |
| Gross margin rate | **30.9%** | **2bps** | **30.9%** | 30.8% | 4bps | 30.9% | 0bps |
| Other expense (income) | **(138.8)** | **(1.3)** | **(140.1)** | (157.1) | — | (157.1) | (10.8 )% |
| Selling, general and administrative expenses | **3,326.6** | **(35.4)** | **3,291.2** | 3,439.8 | (26.5) | 3,413.3 | (3.6 )% |
| Net finance costs (income) | **240.2** | **—** | **240.2** | (2.7) | — | (2.7) | NM[3] |
| Income before income taxes | **$ 647.8** | **39.1** | **$ 686.9** | $ 668.4 | 31.5 | $ 699.9 | (1.9 )% |

*1 Refer to section 5.1.1 for a description of normalizing items.*
*2 Change is between normalized results.*
*3 Not meaningful.*

## IFRS 16 impact

As discussed in section 5.1.1, the adoption of IFRS 16 is expected to result in a negative year-over-year variance in income before taxes and a positive year-over-year variance in EBITDA in the Retail segment. The following table provides the estimated impact of the adoption of IFRS 16 on the Retail segment:

| (C$ in millions) increase/(decrease) | Q4 2019 | 2019 | Explanation |
|---|---|---|---|
| Financial Statement line item: | | | |
| Revenue and gross margin | **$ (5)** | **$ (21)** | Franchise rental income now reflected as interest income |
| Rent/Occupancy expense | **(182)** | **(720)** | Rent now represented as depreciation and interest expense |
| Depreciation expense | **126** | **486** | Relating to right-of-use assets |
| Net finance costs – on lease liabilities | **56** | **230** | Lease interest expense net of interest income |
| Income before income taxes | **(5)** | **(17)** | Net pre-tax impact of IFRS 16 |

## IFRS 16 Impact to Normalized Metrics – Retail

| (C$ in millions) | Q4 2019 | Q4 2018 | Change | Impact of IFRS 16 | Change (ex IFRS 16) |
|---|---|---|---|---|---|
| Normalized[1] gross margin dollars | **$ 1,306.6** | $ 1,237.7 | $ 68.9 | $ (5) | $ 73.9 |
| Normalized[1] gross margin dollars, excluding Petroleum | **1,265.9** | 1,194.0 | 71.9 | (5) | 76.9 |
| Normalized[1] gross margin as a % of revenue | **32.8%** | 32.4% | 40 bps | (13 bps) | 53 bps |
| Normalized[1] gross margin as a % of revenue, excluding Petroleum | **36.0%** | 35.7% | 30 bps | (19 bps) | 49 bps |
| Normalized[1] selling, general and administrative expenses | **917.8** | 939.6 | (21.8) | (56) | 34.2 |
| Normalized[1] EBITDA[2] | **635.2** | 423.4 | 211.8 | 177 | 34.8 |
| Normalized[1] income before taxes | **360.5** | 328.8 | 31.7 | (5) | 36.7 |

[1] *Refer to section 5.1.1 for a description of normalizing items.*
[2] *EBITDA is a non-GAAP measure; refer to section 9.3.2 in this MD&A for a reconciliation of EBITDA to net income attributable to shareholders of Canadian Tire Corporation and additional information.*

| (C$ in millions) | 2019 | 2018 | Change | Impact of IFRS 16 | Change (ex IFRS 16) |
|---|---|---|---|---|---|
| Normalized[1] gross margin dollars | **$ 4,078.2** | $ 3,953.4 | $ 124.8 | $ (21) | $ 145.8 |
| Normalized[1] gross margin dollars, excluding Petroleum | **3,910.0** | 3,771.4 | 138.6 | (21) | 159.6 |
| Normalized[1] gross margin as a % of revenue | **30.9%** | 30.9% | 0 bps | (16 bps) | 16 bps |
| Normalized[1] gross margin as a % of revenue, excluding Petroleum | **34.6%** | 34.9% | (38 bps) | (25 bps) | (13 bps) |
| Normalized[1] selling, general and administrative expenses | **3,291.2** | 3,413.3 | (122.1) | (234) | 111.9 |
| Normalized[1] EBITDA[2] | **1,750.2** | 1,057.5 | 692.7 | 699 | (6.3) |
| Normalized[1] income before taxes | **686.9** | 699.9 | (13.0) | (17) | 4.0 |

[1] *Refer to section 5.1.1 for a description of normalizing items.*
[2] *EBITDA is a non-GAAP measure; refer to section 9.3.2 in this MD&A for a reconciliation of EBITDA to net income attributable to shareholders of Canadian Tire Corporation and additional information.*

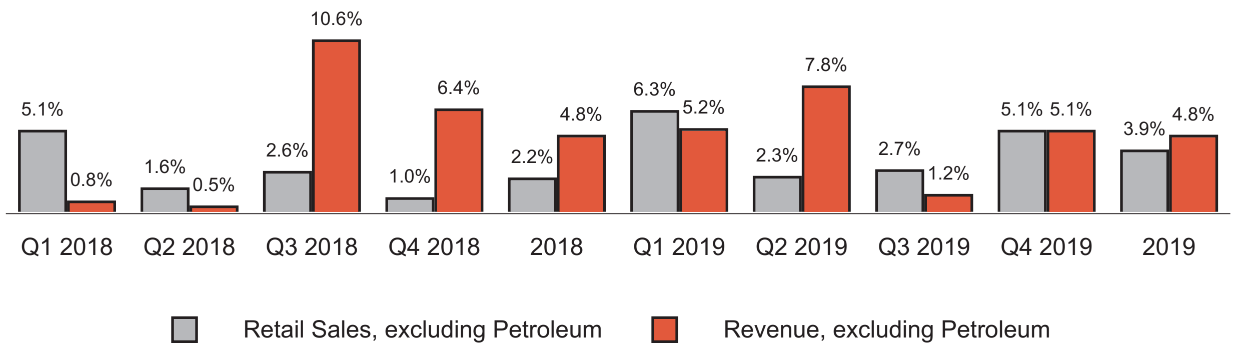
### 5.2.2 Retail Segment Key Operating Performance Measures

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 9.3.1 in this MD&A for further information.

| (Year-over-year percentage change, C$ in millions, except as noted) | | **Q4 2019** | Q4 2018 | Change | **2019** | 2018 | Change |
|---|---|---|---|---|---|---|---|
| **Total Retail** | Revenue[1] | **$ 3,989.2** | $ 3,816.9 | 4.5 % | **$13,209.8** | $12,813.5 | 3.1 % |
| | Revenue, excluding Petroleum | **3,520.8** | 3,348.3 | 5.1 % | **11,315.3** | 10,797.0 | 4.8 % |
| | Store count | **1,746** | 1,700 | | | | |
| | Retail sales growth | **4.3 %** | 0.8 % | | **2.5 %** | 3.4 % | |
| | Retail sales growth, excluding Petroleum | **5.1 %** | 1.0 % | | **3.9 %** | 2.2 % | |
| | Consolidated comparable sales growth[2] | **3.9 %** | 0.8 % | | **3.6 %** | 2.2 % | |
| | Retail ROIC[3] | **9.0 %** | 9.2 % | | **n/a** | n/a | |
| CANADIAN TIRE | Revenue[1, 4] | **$ 2,233.7** | $ 2,121.7 | 5.3 % | **$ 7,418.0** | $ 7,209.0 | 2.9 % |
| | Store count[5] | **667** | 608 | | | | |
| | Sales per square foot[6] | **$ 441** | $ 424 | 4.0 % | **n/a** | n/a | |
| | Retail sales growth[7] | **6.6 %** | 0.6 % | | **4.5 %** | 2.4 % | |
| | Comparable sales growth[2, 7] | **4.8 %** | 0.2 % | | **3.8 %** | 2.1 % | |
| SPORTCHEK | Revenue[1] | **$ 619.4** | $ 602.5 | 2.8 % | **$ 2,036.3** | $ 1,993.4 | 2.2 % |
| | Store count | **402** | 409 | | | | |
| | Sales per square foot[8] | **$ 305** | $ 298 | 2.3 % | **n/a** | n/a | |
| | Retail sales growth[9] | **1.3 %** | 1.9 % | | **2.6 %** | 1.1 % | |
| | Comparable sales growth[2, 9] | **2.0 %** | 2.5 % | | **3.3 %** | 2.0 % | |
| Mark's | Revenue[1, 10] | **$ 476.3** | $ 469.0 | 1.6 % | **$ 1,274.3** | $ 1,247.2 | 2.2 % |
| | Store count | **380** | 386 | | | | |
| | Sales per square foot[11] | **$ 360** | $ 356 | 1.2 % | **n/a** | n/a | |
| | Retail sales growth[12] | **1.5 %** | 1.8 % | | **2.4 %** | 3.0 % | |
| | Comparable sales growth[2, 12] | **1.8 %** | 1.8 % | | **2.5 %** | 2.8 % | |
| HH HELLY HANSEN | Revenue[1] | **$ 199.7** | $ 165.9 | 20.4 % | **$ 650.8** | $ 347.6 | NM[13] |
| | Revenue - Canada[1] | **38.4** | 26.9 | 42.8 % | **137.5** | 52.1 | NM[13] |
| | Revenue - Foreign | **161.3** | 139.0 | 16.0 % | **513.3** | 295.5 | NM[13] |
| GAS+ | Revenue[1] | **$ 468.4** | $ 468.6 | — % | **$ 1,894.5** | $ 2,016.5 | (6.0)% |
| | Gas bar locations | **297** | 297 | | | | |
| | Gross margin dollars | **$ 40.7** | $ 43.7 | (6.9)% | **$ 168.2** | $ 182.0 | (7.6)% |
| | Retail sales growth | **(1.1)%** | (0.3)% | | **(5.7)%** | 10.7 % | |
| | Gasoline volume growth in litres | **(2.4)%** | 0.4 % | | **(0.6)%** | (0.4)% | |
| | Comparable store gasoline volume growth in litres[2] | **(2.7)%** | 0.3 % | | **(0.5)%** | — % | |

*1 Revenue reported for Canadian Tire, SportChek, Mark's, Petroleum, and Helly Hansen includes inter-segment revenue. Therefore, in aggregate, revenue for Canadian Tire, SportChek, Mark's, Petroleum, and Helly Hansen will not equal total revenue for the Retail segment.*
*2 Comparable sales growth excludes Petroleum. Refer to section 9.3.1 in this MD&A for additional information on comparable sales growth.*
*3 Retail ROIC is calculated on a rolling 12-month basis based on normalized earnings. Refer to section 9.3.1 in this MD&A for additional information.*
*4 Revenue includes revenue from Canadian Tire, PartSource, PHL, Party City and Franchise Trust.*
*5 Stores count includes stores from Canadian Tire, and other banner stores of 163 (2018: 105 stores). Other banners include PartSource, PHL and Party City.*
*6 Sales per square foot figures are calculated on a rolling 12-month basis. Retail space does not include seasonal outdoor garden centres, auto service bays, or warehouse and administrative space.*
*7 Retail sales growth includes sales from Canadian Tire stores, PartSource stores, PHL stores, and the labour portion of Canadian Tire's auto service sales.*
*8 Sales per square foot figures are calculated on a rolling 12-month basis, include both corporate and franchise stores and warehouse and administrative space.*
*9 Retail sales growth includes sales from both corporate and franchise stores.*
*10 Revenue includes the sale of goods to Mark's franchise stores, retail sales from Mark's corporate stores, Mark's wholesale revenue from its commercial division, and includes ancillary revenue relating to embroidery and alteration services.*
*11 Sales per square foot figures are calculated on a rolling 12-month basis, include sales from both corporate and franchise stores and exclude ancillary revenue. Sales per square foot does not include warehouse and administrative space.*
*12 Retail sales growth includes retail sales from Mark's corporate and franchise stores, but excludes ancillary revenue relating to alteration and embroidery services.*
*13 Not meaningful due to the fact that Helly Hansen was acquired on July 3, 2018, therefore the comparative period includes only six months of operations.*

### Year-over-year Retail Sales and Revenue Growth




## Retail Segment Commentary

| | Q4 | Full Year |
|---|---|---|
| **Retail Sales** | ▲ **$200.5 million or 4.3%**<br>▲ **3.9% in comparable sales growth** | ▲ **$384.3 million or 2.5%**<br>▲ **3.6% in comparable sales growth** |
| | • The fourth-quarter results reflected strong retail sales and comparable sales growth across all banners driven by the continued success of targeted promotional and pricing strategies, eCommerce penetration growth and favourable weather conditions. Consolidated retail sales include Party City. | • Consolidated comparable retail sales increased across all Retail banners, which is reflective of the success of the Company's strategic initiatives, with its brands and retail offerings resonating with the consumer in Canada. |
| | • **Canadian Tire** retail sales increased by 6.6 percent while comparable sales grew 4.8 percent. This strong growth was primarily driven by non-seasonal categories such as Kitchen and Personal Care, Outdoor tools and Cleaning categories, which were partially offset by Electronics. The inclusion of Party City also contributed to the increase in retail sales. | • **Canadian Tire** retail sales increased by 4.5 percent while comparable sales increased 3.8 percent. Growth was driven by strength in product assortment, particularly in Kitchen and Personal Care and Cleaning which were the largest contributors to sales growth. The inclusion of Party City also contributed to the increase in retail sales. |
| | • SportChek retail sales growth of 1.3 percent and comparable sales growth of 2.0 percent were driven by the newly expanded Accessories and Wellness categories along with continued growth in Footwear. Owned brands had strong sales driven largely by Helly Hansen, Ripzone, and Sherwood. | • SportChek retail sales increased 2.6 percent and comparable sales increased 3.3 percent driven by expanded assortments and efficient promotional strategies. Footwear, Accessories and Wellness were the top performing categories. |
| | • Mark's retail sales increased 1.5 percent and comparable sales increased 1.8 percent attributable to sales growth in all categories, in particular, casual footwear, casual wear, and winter commodities. | • Mark's retail sales increased 2.4 percent and comparable sales increased 2.5 percent. The increases in sales was driven by increases across all channels and regions with promotions benefiting casual footwear and casual wear categories. |
| | • GAS+ **Petroleum** retail sales decreased 1.1 percent due to a decrease in year-over-year gas volume and lower non-gas sales which were partially offset by higher per litre gas prices. | • GAS+ **Petroleum** retail sales decreased by 5.7 percent attributable to lower per litre gas prices, lower gas volume and lower non-gas sales. |

### Retail Segment Commentary *(continued)*

| | Q4 | Full Year |
|---|---|---|
| **Revenue** | ▲ **$172.3 million or 4.5%**<br>▲ **5.1% excluding Petroleum**<br>• Revenue grew across all banners due to strong shipments at Canadian Tire, retail sales growth at SportChek and Mark's, strong sales at Helly Hansen and the inclusion of Party City in 2019. | ▲ **$396.3 million or 3.1%**<br>▲ **4.8% excluding Petroleum**<br>• Retail revenue increased primarily driven by shipment growth at Canadian Tire as well as sales growth across other Retail banners. Retail revenue was also positively impacted by the inclusion of Party City and the full-year impact of Helly Hansen. |
| **Gross Margin** | ▲ **$66.5 million or 5.4%**<br>▲ **26 bps in gross margin rate**<br>▲ **5.8% excluding Petroleum**<br>• Excluding Petroleum, normalized gross margin rate improvement of 30 bps was driven by Canadian Tire due to favourable product costs, favourable product mix and the inclusion of Party City, partially offset by a decline in gross margin rate at Mark's attributable to growth in the eCommerce businesses. | ▲ **$127.4 million or 3.2%**<br>▲ **4 bps in gross margin rate**<br>▲ **3.7% excluding Petroleum**<br>• Excluding Petroleum, normalized gross margin dollars increased by $138.6 million, which was mainly attributable to higher revenue across all Retail banners. Excluding Petroleum, normalized gross margin rate declined by 38 bps, driven by Canadian Tire due to the impact from the Company's margin sharing arrangement with the Dealers in the first half of the year and lower margin rates for Mark's and SportChek due to growth in eCommerce businesses. |
| **Other Income** | ▼ **$6.8 million or 19.6%**<br>• The decrease in other income is primarily driven by lower real estate gains compared to the prior year. | ▼ **$18.3 million or 11.7%**<br>• The decrease in other income is attributable to non-operational foreign exchange losses recognized in Helly Hansen, partially offset by higher real estate gains during the year compared to prior year. |
| **Selling, General & Administrative Expenses** | ▼ **$16.6 million or 1.8%**<br>• Normalized selling, general and administrative expenses are lower by $21.8 million or 2.3 percent, primarily due to IFRS 16.<br>• Excluding the impact of IFRS 16, increases in selling, general and administrative expenses were attributable to higher variable compensation-related expenses and higher occupancy costs primarily due to new builds at Canadian Tire which were partially offset by lower marketing spend during the quarter. | ▼ **$113.2 million or 3.3%**<br>• Normalized selling, general and administrative expenses are lower by $122.1 million or 3.6 percent, primarily due to IFRS 16.<br>• Excluding the impact of IFRS 16, increases in selling, general and administrative expenses were attributable to higher personnel costs in part due to higher variable compensation-related expenses and higher occupancy due to new builds at Canadian Tire. |
| **Net Finance Cost** | ▲ **$53.5 million**<br>• Net finance cost increased primarily due to an increase in long-term debt compared to the prior year and the impact of IFRS 16. | ▲ **$242.9 million**<br>• Net finance costs increased primarily due to the impact of IFRS 16 and higher interest expense related long-term and short-term debt. |

**Retail Segment Commentary** *(continued)*

| | Q4 | Full Year |
|---|---|---|
| **Earnings Summary** | ▲ **$22.8 million or 6.9%**<br>• Normalized income before income taxes increased $31.7 million or 9.6 percent. Income before income taxes benefited from strong shipments at Canadian Tire and sales growth at SportChek, Mark's, and Helly Hansen, which were partially offset by higher selling, general and administrative expenses primarily driven by higher variable compensation expenses and the impact of IFRS 16. | ▼ **$20.6 million or 3.1%**<br>• Normalized income before income taxes decreased by $13.0 million of 1.9 percent. Normalized income before taxes in the second half of the year increased by $35.3 million, driven by strong results in the fourth quarter in revenue and gross margin. The performance in the first half of the year more than offset this due to the Company's cost and margin sharing agreement with its Dealers and unseasonable spring weather. Full year normalized income before taxes was also negatively impacted by $16.2 million related to the gross margin in Petroleum, higher selling, general and administrative expenses mainly due to personnel expenses, the impact of IFRS 16, $9.9 million non-operational foreign exchange losses recognized in Helly Hansen and higher net finance costs, excluding IFRS 16. |

### 5.2.3 Retail Segment Seasonal Trend Analysis

Quarterly operating net income and revenue are affected by seasonality. The fourth quarter typically generates the greatest contribution to revenues and earnings, and the first quarter the least. The following table shows the retail segment financial performance of the Company by quarter for the last two years. The quarterly trend could be impacted by non-operational items.

| (C$ in millions, except per share amounts) | **Q4 2019** | Q3 2019 | Q2 2019 | Q1 2019 | **Q4 2018** | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|---|---|---|---|
| Retail sales | **$ 4,838.2** | $ 3,904.3 | $ 4,303.7 | $ 2,832.8 | **$ 4,637.7** | $ 3,865.3 | $ 4,250.1 | $ 2,741.6 |
| Revenue | **3,989.2** | 3,296.3 | 3,360.3 | 2,564.0 | **3,816.9** | 3,309.9 | 3,179.8 | 2,506.9 |
| Income before income taxes | **351.6** | 170.6 | 139.1 | (13.5) | **328.8** | 166.7 | 149.9 | 23.0 |
| Normalized[1] income before income taxes | **360.5** | 192.7 | 147.2 | (13.5) | **328.8** | 189.1 | 159.0 | 23.0 |

[1] *Refer to section 5.1.1 for a description of normalizing items.*

## 5.3 Financial Services Segment Performance

### 5.3.1 Financial Services Segment Financial Results

| (C$ in millions) | Q4 2019 | Q4 2018 | Change | 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Revenue | $ 333.0 | $ 322.8 | 3.2 % | $ 1,334.1 | $ 1,259.9 | 5.9 % |
| Gross margin dollars | 186.5 | 170.7 | 9.2 % | 737.2 | 717.2 | 2.8 % |
| Gross margin as a % of revenue | 56.0% | 52.9% | 309 bps | 55.3% | 56.9% | (168) bps |
| Other expense (income) | 0.5 | 0.6 | NM[1] | 1.9 | (0.3) | NM[1] |
| Selling, general and administrative expenses | 76.8 | 78.3 | (1.9)% | 310.0 | 326.1 | (4.9)% |
| Net finance (income) | (0.3) | (0.3) | (12.7)% | (1.0) | (1.1) | (10.7)% |
| Income before income taxes | $ 109.5 | $ 92.1 | 18.9 % | $ 426.3 | $ 392.5 | 8.6 % |

[1] *Not meaningful.*

Normalized results are non-GAAP measures and do not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. For further information and a reconciliation to GAAP measures, refer to section 9.3.2 in this MD&A.

### Selected Normalized Metrics – Financial Services

| (C$ in millions, except where noted) | Q4 2019 | Normalizing Items[1] | Normalized Q4 2019 | Q4 2018 | Normalizing Items[1] | Normalized Q4 2018 | Change[2] |
|---|---|---|---|---|---|---|---|
| Revenue | $ 333.0 | — | $ 333.0 | $ 322.8 | — | $ 322.8 | 3.2 % |
| Gross margin | 186.5 | — | 186.5 | 170.7 | — | 170.7 | 9.3 % |
| Gross margin rate | 56.0% | — | 56.0% | 52.9% | — | 52.9% | 5.9 % |
| Other expense (income) | 0.5 | — | 0.5 | 0.6 | — | 0.6 | (16.7)% |
| Selling, general and administrative expenses | 76.8 | — | 76.8 | 78.3 | — | 78.3 | (1.9)% |
| Net finance costs | (0.3) | — | (0.3) | (0.3) | — | (0.3) | — % |
| Income before income taxes | $ 109.5 | — | $ 109.5 | $ 92.1 | — | $ 92.1 | 18.9 % |

[1] *Refer to section 5.1.1 for a description of normalizing items.*
[2] *Change is between normalized results.*

| (C$ in millions, except where noted) | 2019 | Normalizing Items[1] | Normalized 2019 | 2018 | Normalizing Items[1] | Normalized 2018 | Change[2] |
|---|---|---|---|---|---|---|---|
| Revenue | $ 1,334.1 | — | $ 1,334.1 | $ 1,259.9 | — | $ 1,259.9 | 5.9 % |
| Gross margin | 737.2 | — | 737.2 | 717.2 | — | 717.2 | 2.8 % |
| Gross margin rate | 55.3% | — | 55.3% | 56.9% | — | 56.9% | (2.8)% |
| Other expense (income) | 1.9 | — | 1.9 | (0.3) | — | (0.3) | — % |
| Selling, general and administrative expenses | 310.0 | — | 310.0 | 326.1 | (13.5) | 312.6 | (0.8)% |
| Net finance costs | (1.0) | — | (1.0) | (1.1) | — | (1.1) | — % |
| Income before income taxes | $ 426.3 | — | $ 426.3 | $ 392.5 | (13.5) | $ 406.0 | 5.0 % |

[1] *Refer to section 5.1.1 for a description of normalizing items.*
[2] *Change is between normalized results.*

## Financial Services Segment Commentary

| | Q4 | Full Year |
|---|---|---|
| **Revenue** | ▲ **$10.2 million or 3.2%**<br>• Increase due to higher credit charges resulting from GAAR growth, partially offset by lower insurance revenue. GAAR increased 5.0 percent driven by a 1.6 percent increase in the number of average active accounts and an increase in the average balance per account. | ▲ **$74.2 million or 5.9%**<br>• Primarily driven by higher credit charges due to GAAR growth and interchange revenue due to higher credit card sales, partially offset by lower insurance revenue. GAAR increased 7.4 percent driven by a 3.8 percent increase in the number of average active accounts and an increased average balance per account. |
| **Gross Margin** | ▲ **9.2% in gross margin dollars**<br>▲ **309 bps in gross margin rate**<br>• Increase due to higher credit charges driven by GAAR growth. | ▲ **2.8% in gross margin dollars**<br>▼ **168 bps in gross margin rate**<br>• Increase due to higher revenue offset by increased net write-offs resulting from 2018 operational initiatives that led to a significant portfolio growth. The increase in the net write-offs resulted in a decrease in gross margin rate. |
| **SG&A Expenses** | ▼ **$1.5 million or 1.9%**<br>• Overall, relatively in line to the prior year. | ▼ **$16.1 million or 4.9%**<br>• Normalized selling, general and administrative expenses are lower by $2.6 million, mainly due to lower marketing acquisition costs. |
| **Earnings Summary** | ▲ **$17.4 million or 18.9%**<br>• Primarily due to higher revenue driven by strong GAAR growth of 5.0 percent for the quarter, along with lower cost of producing revenue and selling, general and administrative expenses. | ▲ **$33.8 million or 8.6%**<br>• Normalized income before taxes increased $20.3 million or 5.0 percent primarily driven by strong revenue growth due to GAAR growth of 7.4 percent for the full year. |

### 5.3.2 Financial Services Segment Key Operating Performance Measures

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 9.3.1 in this MD&A for definitions and further information on performance measures.

| (C$ in millions) except where noted | **Q4 2019** | Q4 2018 | Change | **2019** | 2018 | Change |
|---|---|---|---|---|---|---|
| Credit card sales growth[1] | **3.3%** | 11.5% | | **5.4%** | 10.3% | |
| GAAR | **$ 6,398.3** | $ 6,093.0 | 5.0% | **$ 6,253.5** | $ 5,825.3 | 7.4% |
| Revenue[2] (as a % of GAAR) | **21.33%** | 21.63% | | **n/a** | n/a | |
| Average number of accounts with a balance[3] (thousands) | **2,148** | 2,113 | 1.6% | **2,112** | 2,035 | 3.8% |
| Average account balance[3] (whole $) | **$ 2,978** | $ 2,882 | 3.3% | **$ 2,959** | $ 2,862 | 3.4% |
| Net credit card write-off rate[2, 3, 4] | **6.20%** | 5.43% | | **n/a** | n/a | |
| Past due credit card receivables[3, 5] ("PD2+") | **2.77%** | 2.64% | | **n/a** | n/a | |
| Allowance rate[6] | **12.18%** | 12.24% | | **n/a** | n/a | |
| Operating expenses[2, 7] (as a % of GAAR) | **4.96%** | 5.60% | | **n/a** | n/a | |
| Return on receivables[2] | **6.82%** | 6.75% | | **n/a** | n/a | |

1 *Credit card sales growth excludes balance transfers. Represents year-over-year percentage change.*
2 *Figures are calculated on a rolling 12-month basis.*
3 *Credit card portfolio only.*
4 *The net credit card write-off rate was favourably impacted by 41 bps in Q4 2018 due to a change in Management's estimate of the present value of regular recoveries.*
5 *Credit card receivables more than 30 days past due as a percentage of total-ending credit card receivables.*
6 *The allowance rate was calculated based on the total-managed portfolio of loans receivable.*
7 *IFRS 16 impact was insignificant on this metric.*

## Financial Services Scorecard

To evaluate the overall financial performance of the Financial Services segment, the following scorecard provides a balanced view on how Financial Services segment is moving towards achieving its strategic objectives.

| Q4 2019 vs Q4 2018 | |
|---|---|
| **Growth** | ▲ **5.0% in GAAR**<br>▲ **3.3% in credit card sales growth**<br>▲ **1.6% in average number of accounts with a balance**<br>▲ **3.3% in average account balance**<br>• Growth was created through continued strong earnings driven by higher credit charges as a result of GAAR growth of 5.0 percent over prior year.<br>• The growth of receivables in 2019 was the result of a balanced approach, with gains in both average active accounts and average account balances compared to Q4 2018. |
| **Performance** | ▲ **7 bps in return on receivables**<br>▼ **29 bps in revenue as a % of GAAR**<br>▼ **64 bps in OPEX as a % of GAAR**<br>• Return on receivables for Q4 2019 outperformed the prior year by 7 bps driven by growth in income before income taxes of 18.9 percent, which outpaced GAAR growth.<br>• Operating expenses remained well controlled during the quarter as OPEX as a percentage of GAAR measured 64 bps better than prior year. |
| **Credit metrics** | ▲ **13 bps in PD2+ rate**<br>▲ **77 bps in net credit card write-off rate**<br>▼ **12.18% allowance rate, down 5 bps**<br>• Approximately half of the increase in the rolling twelve month net credit card write off rate is due to the previously disclosed accounting change in Q3 2018, the remainder is due to the maturation of balances added following the Triangle launch in 2018 and a moderation of the growth rate of the portfolio. In addition, the industry wide increase in insolvency rates had a modest impact on the rate.<br>• The allowance rate is in line with the prior year and is within the previously disclosed range of 11.5 to 13.5 percent. |

## 5.3.3 Financial Services Segment Seasonal Trend Analysis

Quarterly operating net income and revenue are affected by seasonality. In the first quarter, the Financial Services segment contributes the majority of consolidated earnings. The following table shows the consolidated financial performance of the Company by quarter for the last two years. The quarterly trend could be impacted by non-operational items.

| (C$ in millions, except per share amounts) | **Q4 2019** | Q3 2019 | Q2 2019 | Q1 2019 | **Q4 2018** | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | **$ 333.0** | $ 343.0 | $ 329.3 | $ 328.8 | **$ 322.8** | $ 325.6 | $ 306.4 | $ 305.1 |
| Income before income taxes | **109.5** | 108.9 | 95.5 | 112.4 | **92.1** | 131.9 | 71.4 | 97.1 |
| Normalized[1] income before income taxes | **109.5** | 108.9 | 95.5 | 112.4 | **92.1** | 131.9 | 84.9 | 97.1 |

[1] *Refer to section 5.1.1 for a description of normalizing items.*

## 5.4 CT REIT Segment Performance

### 5.4.1 CT REIT Segment Financial Results

| (C$ in millions) | Q4 2019 | Q4 2018 | Change | 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Property revenue | **$ 123.7** | $ 119.3 | 3.7 % | **$ 489.0** | $ 472.5 | 3.5 % |
| Property expense | **26.8** | 26.8 | (0.2)% | **106.1** | 108.6 | (2.3)% |
| General and administrative expense | **3.5** | 3.4 | 5.6 % | **14.2** | 12.2 | 17.2 % |
| Net finance costs | **27.1** | 26.1 | 3.6 % | **108.8** | 104.4 | 4.2 % |
| Fair value (gain) adjustment | **(10.6)** | (11.5) | (7.6)% | **(47.3)** | (53.6) | (11.8)% |
| Income before income taxes | **$ 76.9** | $ 74.5 | 3.2 % | **$ 307.2** | $ 300.9 | 2.1 % |

### CT REIT Segment Commentary

| | Q4 | Full Year |
|---|---|---|
| **Property Revenue** | ▲ **$4.4 million or 3.7%**<br>• The $4.4 million increase was mainly attributable to contractual rent escalations and additional base rent related to properties acquired and intensification completed during 2019 and 2018. | ▲ **$16.5 million or 3.5%**<br>• The $16.5 million increase was attributable to contractual rent escalations and additional base rent related to properties acquired and intensification completed during 2019 and 2018. |
| **Property Expense** | **$— Flat to prior year**<br>• Property expense was in line with last year. | ▼ **$2.5 million or 2.3%**<br>• Property expense was 2.3 percent lower primarily due to reduced ground rent expense as a result of the adoption of IFRS 16. |
| **SG&A Expenses** | ▲ **$0.1 million or 5.6%**<br>• Increase was mainly driven by fair value adjustments on unit based awards included as part of personnel compensation and trustee fees. | ▲ **$2.0 million or 17.2%**<br>• Increase was mainly driven by fair value adjustments on unit based awards included as part of personnel compensation and trustee fees. |
| **Net Finance Cost** | ▲ **$1.0 million or 3.6%**<br>• Increase was mainly due to increased interest expense on lease liabilities as a result of the adoption of IFRS 16 and decreased interest capitalization on development projects in 2019. | ▲ **$4.4 million or 4.2%**<br>• Increase was mainly due to increased interest expense on lease liabilities as a result of IFRS 16, decreased interest capitalization on development projects in 2019 and higher interest on debentures issued in February 2018. |
| **Fair Value Adjustment on Investment Properties** | ▼ **$0.9 million or 7.6%**<br>• The decrease was primarily due to higher increases in property values across the portfolio in Q4 2018. | ▼ **$6.3 million or 11.8%**<br>• The decrease was primarily due to higher increases in property values across the portfolio in 2018. |
| **Earnings Summary** | ▲ **$2.4 million or 3.2%**<br>• Increase in earnings was primarily due to steady growth of business activity resulting in property revenue increase, which was 3.7 percent (or approximately $4 million). | ▲ **$6.3 million or 2.1%**<br>• Increase in earnings was primarily due to steady growth of business activity resulting in property revenue increase, which was 3.5 percent. |

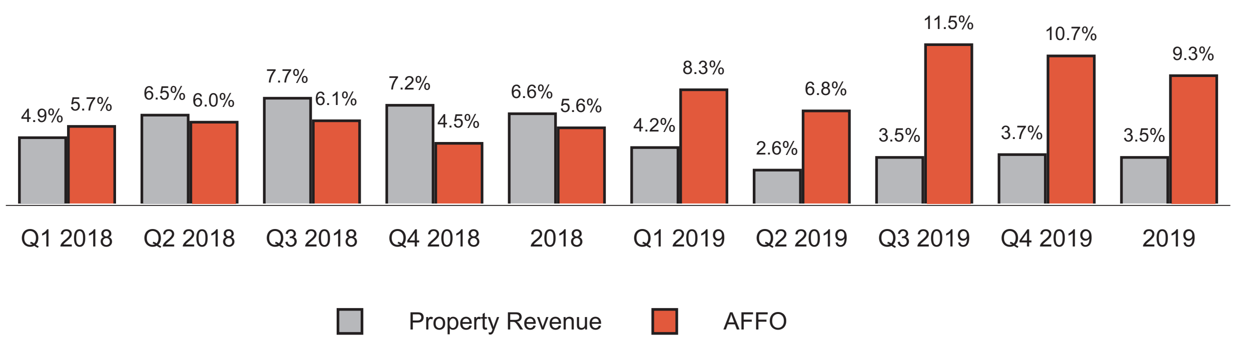
### 5.4.2 CT REIT Segment Key Operating Performance Measures

Key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 9.3.1 in this MD&A for definitions and further information on performance measures.

| (C$ in millions) | Q4 2019 | Q4 2018 | Change | 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| Net operating income[1] | $ **93.4** | $ 88.9 | 5.1% | $ **368.8** | $ 349.2 | 5.6% |
| Funds from operations[1] | **66.6** | 62.0 | 7.7% | **261.9** | 246.0 | 6.4% |
| Adjusted funds from operations[1] | **57.3** | 51.8 | 10.7% | **224.3** | 205.2 | 9.3% |

[1] *Non-GAAP measures, refer to section 9.3.2 in this MD&A for additional information.*

**Year-over-year Property Revenue and AFFO Growth**




**Net operating income (NOI)**

NOI for the quarter increased by 5.1 percent compared to the prior year and increased of 5.6 percent for the full year primarily attributable to the acquisition of income-producing properties and properties under development completed in 2019 and 2018. NOI is a non-GAAP measure. Refer to section 9.3.2 for additional information.

**Funds from operations (FFO)**

FFO for the quarter increased by 7.7 percent compared to the prior year and increased by 6.4 percent for the full year primarily attributable to the impact of NOI increases partially offset by higher interest expense. FFO is a non-GAAP measure. Refer to section 9.3.2 for additional information.

**Adjusted funds from operations (AFFO)**

AFFO for the quarter increased by 10.7 percent and increased of 9.3 percent for the full year primarily attributable to the impact of NOI increases partially offset by higher interest expense. AFFO is a non-GAAP measure. Refer to section 9.3.2 for additional information.

# 6.0 Balance Sheet Analysis, Liquidity, and Capital Resources

## 6.1 Balance Sheet Highlights

### 6.1.1 Selected Balance Sheet Highlights

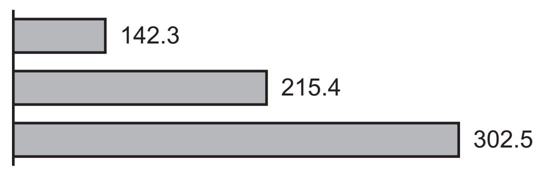
The Company's reported results were impacted by the adoption of IFRS 16 in 2019. Refer to section 9.2 of this MD&A for the impacts to the consolidated balance sheet as a result of the adoption of IFRS 16.

Selected line items from the Company's assets and liabilities, as at December 28, 2019 and December 29, 2018, are noted below:

**Total change excluding IFRS 16 transition adjustments ▲ $ 472.1**

| Selected Asset | 2019 Balance |
|---|---|
| Goodwill and intangible assets | 2,414.3 |
| Merchandise inventories | 2,212.9 |
| Loans receivable | 5,813.8 |

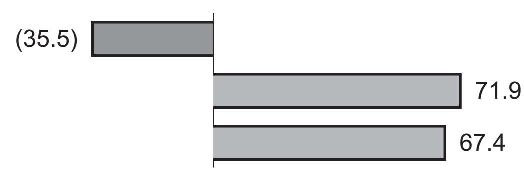
**Year-over-year change in assets**




**Total change excluding IFRS 16 transition adjustments ▲ $ 135.4**

| Selected Liability | 2019 Balance |
|---|---|
| Long-term debt (current and long-term portion) | 4,518.4 |
| Short-term borrowings | 450.0 |
| Trade and other payables | 2,492.4 |

**Year-over-year change in liabilities**




| **Assets** | | | |
|---|---|---|---|
| Goodwill and intangible assets | ▲ | **$142.3 million** | Primarily due to the acquisition of Party City in October 2019 and additions to the portfolio of owned brands during the year. |
| Merchandise inventory | ▲ | **$215.4 million** | Due to the inclusion of Party City, increased inventory positions at SportChek in order to better meet customer needs and at Helly Hansen to support increased sales. |
| Loans receivable | ▲ | **$302.5 million** | Due to increased GAAR growth in the Financial Services segment resulting from the continued success of the 2018 Triangle loyalty program expansion initiatives. |

| **Liabilities** | | | |
|---|---|---|---|
| Long-term debt (current and long-term portion) | ▼ | **$35.5 million** | Excluding the initial impact of IFRS 16 ($108 million), long term debt increased as a repayment of $500.0 million in Glacier Credit Card Trust ("GCCT") senior and subordinated notes in September 2019 was more than offset by the issuance of $560.0 million in GCCT senior and subordinated notes in June 2019. |
| Short-term borrowings | ▲ | **$71.9 million** | The increase in short-term borrowings is mainly attributable to the timing of borrowings outstanding at Canadian Tire Bank under its committed bank line of credit. |
| Trade and other payables | ▲ | **$67.4 million** | Excluding the initial impact of IFRS 16 ($95.1 million), trade and other payables increased due to the timing of payments made to vendors. |

## 6.2 Summary Cash Flows

The Company's cash and cash equivalents position, net of bank indebtedness, was $195.1 million as at December 28, 2019. Selected line items from the Company's Consolidated Statements of Cash Flows for the quarters and years ended December 28, 2019 and December 29, 2018 are noted in the following tables:

| (C$ in millions) | **Q4 2019** | Q4 2018 | Change | Impact of IFRS 16 | Change (ex IFRS 16) |
|---|---|---|---|---|---|
| Cash generated from operating activities | **$ 1,106.8** | $ 807.0 | $ 299.8 | $ 227.7 | $ 72.1 |
| Cash (used for) investing activities | **(354.0)** | (166.7) | (187.3) | 11.2 | (198.5) |
| Cash (used for) financing activities | **(744.3)** | (593.3) | (151.0) | (238.9) | 87.9 |
| Cash generated in the period | **$ 8.5** | $ 47.0 | $ (38.5) | $ — | $ (38.5) |

| (C$ in millions) | **2019** | 2018 | Change | Impact of IFRS 16 | Change (ex IFRS 16) |
|---|---|---|---|---|---|
| Cash generated from operating activities | **$ 1,087.6** | $ 807.4 | $ 280.2 | $ 280.9 | $ (0.7) |
| Cash (used for) investing activities | **(758.7)** | (1,308.6) | 549.9 | 16.4 | 533.5 |
| Cash (used for) generated from financing activities | **(604.2)** | 534.6 | (1,138.8) | (297.3) | (841.5) |
| Cash (used) generated in the period | **$ (275.3)** | $ 33.4 | $ (308.7) | $ — | $ (308.7) |

| | **Q4** | **Full Year** |
|---|---|---|
| **Operating activities** | ▲ **$299.8 million change**<br>• The increase in cash generated from operating activities was due to IFRS 16, the timing of trade and other payables and lower growth in loans receivable in the Financial Services segment, partially offset by higher interest payments. | ▲ **$280.2 million change**<br>• The increase in cash generated from operating activities was primarily attributable to IFRS 16 and lower growth in loans receivable in the Financial Services segment, partially offset by higher interest payments and the timing of tax installments. |
| **Investing activities** | ▲ **$187.3 million change**<br>• Cash used for investing activities increased primarily due to the acquisition of Party City in the fourth quarter and higher capital expenditures. | ▼ **$549.9 million change**<br>• Change in cash used for investing activities decreased primarily due to the acquisition of Helly Hansen in the third quarter of the prior year, partially offset in 2019 by the acquisition of Party City and higher investments in owned brands and the retail network. |
| **Financing activities** | ▲ **$151.0 million change**<br>• Excluding the impact of IFRS 16, cash used for financing activities decreased due to a repayment of GCCT senior and subordinated notes in Q4 2018 as well as lower spend in connection with the Company's share repurchase program compared to the prior year. These decreases were partially offset by net proceeds from sale and issuance of CT REIT units in Q4 2018. | ▲ **$1,138.8 million change**<br>• Excluding the impact of IFRS 16, change in cash used for financing activities increased due to less net debt being issued in 2019 (2018 included $674.0 million higher debt issued by CTC and $200.0 million by CT REIT) partially offset by lower spend during the year in connection with the Company's share repurchase program. |

## 6.3 Capital Management

In order to support its growth agenda and pursue its key initiatives, the Company actively manages its capital. The definition of capital varies from company to company, from industry to industry, and for different purposes. In the process of managing the Company's capital, Management includes the following items in its definition of capital and includes GCCT indebtedness but excludes Franchise Trust indebtedness:

| (C$ in millions) | | 2019 | % of total | | 2018 | % of total |
|---|---|---|---|---|---|---|
| **Capital components** | | | | | | |
| Deposits | **$** | **790.8** | **6.4%** | $ | 964.5 | 7.8% |
| Short-term borrowings | | **450.0** | **3.7%** | | 378.1 | 3.1% |
| Current portion of long-term debt | | **788.2** | **6.5%** | | 553.6 | 4.5% |
| Long-term debt | | **3,730.2** | **30.3%** | | 4,000.3 | 32.6% |
| Long-term deposits | | **1,653.4** | **13.4%** | | 1,506.7 | 12.3% |
| Total debt | **$** | **7,412.6** | **60.3%** | $ | 7,403.2 | 60.3% |
| Redeemable financial instrument | | **567.0** | **4.6%** | | 567.0 | 4.6% |
| Share capital | | **588.0** | **4.8%** | | 591.5 | 4.8% |
| Contributed surplus | | **2.9** | **—%** | | 2.9 | —% |
| Retained earnings | | **3,729.6** | **30.3%** | | 3,720.7 | 30.3% |
| **Total capital under management** | **$** | **12,300.1** | **100.0%** | $ | 12,285.3 | 100.0% |

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

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

In order to maintain or adjust the capital structure, the Company has the flexibility to adjust the amount of shares purchased under its normal course issuer bid ("NCIB") program, adjust the amount of dividends paid to shareholders, repay debt, issue new debt and equity, monetize various assets, engage in additional sale and leaseback transactions of real estate properties and increase or decrease the amount of sales of co-ownership interests in loans receivable to GCCT.

### 6.3.1 Canadian Tire Bank's Regulatory Environment

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

The Bank's objectives include:

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

As at December 31, 2019 and 2018, the Bank complied with all regulatory capital guidelines established by OSFI, its internal targets as determined by its ICAAP and all financial covenants under its bank credit agreement.

## 6.4 Investing

### 6.4.1 Capital Expenditures

The Company's capital expenditures for periods ended December 28, 2019 and December 29, 2018 were as follows:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Real estate | **$** | **232.0** | $ | 179.0 |
| Information technology | | **124.1** | | 151.0 |
| Other operating | | **88.1** | | 118.4 |
| **Operating capital expenditures** | | **444.2** | | 448.4 |
| CT REIT acquisitions and developments excluding vend-ins from CTC | | **93.1** | | 116.6 |
| Distribution capacity | **$** | **—** | $ | 2.0 |
| **Total capital expenditures**[1] | **$** | **537.3** | $ | 567.0 |

[1] *Capital expenditures are presented on an accrual basis and include software additions, but exclude right-of-use asset additions, acquisitions relating to business combinations, intellectual properties, and tenant allowances received.*

| | Full Year |
|---|---|
| **Total CAPEX** | ▼ **$29.7 million**<br>• Total capital expenditure decreased by $29.7 million year over year primarily attributable to lower IT spend mainly due to the timing of projects, lower other operating spend and lower CT REIT acquisitions which were partially offset by an increase in real estate spend due to an increased volume of projects and investments in land. |

Operating capital expenditures of $444.2 million were slightly below the previously disclosed range of $475 million to $550 million, due primarily to the timing of certain real estate and IT projects.

### Capital Commitments

The Company had commitments of approximately $201.5 million as at December 28, 2019 (2018 – $158.3 million) for the acquisition of tangible and intangible assets.

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

### Operating Capital Expenditures

As previously announced, the Company expects its three-year average annual operating capital expenditures to be within the range of $450 million to $500 million from 2018 to 2020.

The Company expects its 2020 annual operating capital expenditures to be within the range of $450 million to $500 million, including capital required to fund the Company's Operational Efficiency program. The Company expects 2020 operating capital spend to increase slightly over the prior year, attributable to planned investments in its retail store network. This forecast also includes spending for operational efficiency initiatives that may be identified.

These annual and average operating capital expenditures do not include spending relating to the cost of third-party acquisitions by CT REIT as part of its growth strategy or spending relating to distribution capacity.

### 6.4.2 Business Acquisition

As part of its growth strategy, the Company actively pursues acquisition candidates that strategically fit with its retail businesses. Major acquisitions are only considered where the Company expects to strengthen its market position and create long-term value for shareholders.

On October 1, 2019, the Company acquired the brand, store network, leaseholds, and fixed assets of Party City for $178.0 million.  Party City is a leading, one-stop shopping destination for party supplies, and an expert in seasonal and micro-seasonal celebrations, with 65 Canadian retail stores in seven provinces.

The fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

| (C$ in millions) | | |
|---|---|---|
| Cash and cash equivalents | $ | **0.7** |
| Merchandise inventories | | **47.6** |
| Prepaid expenses and deposits | | **2.7** |
| Intangible assets | | **57.0** |
| Property and equipment | | **20.4** |
| Right-of-use assets | | **76.1** |
| Trade and other payables | | **(0.8)** |
| Lease liabilities | | **(74.1)** |
| **Total net identifiable assets** | **$** | **129.6** |

Goodwill was recognized as a result of the acquisition as follows:

| (C$ in millions) | | |
|---|---|---|
| Total consideration transferred | $ | **178.0** |
| Less: Total net identifiable assets | | **(129.6)** |
| **Goodwill** | **$** | **48.4** |

The goodwill recognized on acquisition is attributable mainly to the expected future growth potential from the expanded operations and customer base. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred acquisition-related costs of $2.3 million to date which is recorded in selling, general and administrative expenses. The Company also recorded $2.4 million as fair value adjustment for inventory acquired, which is recorded in cost of producing revenue.

As a result of the acquisition, the Company is exposed to certain additional risks. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost synergies subsequent to the acquisition. Subsequent changes in the exchange rates, economic, political, regulatory environment and other unanticipated factors, may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of the acquisition is dependent upon retaining processes, customers, and key employees of the company acquired.

## 6.5 Liquidity and Financing

The Company is in a strong liquidity position with the ability to access capital from multiple sources. A number of alternative financing sources are available to the Company, CT REIT, and CTB to help ensure an appropriate level of liquidity is available to meet the Company's key initiatives.

| **Financing Source** | |
|---|---|
| Committed Bank Lines of Credit | • Provided by a syndicate of seven Canadian and three international financial institutions, $1.975 billion in a committed bank line is available to CTC for general corporate purposes, expiring in August 2024. CTC had no borrowings under its bank lines as at December 28, 2019.<br>• Provided by a syndicate of seven Canadian financial institutions, $300.0 million in a committed bank line is available to CT REIT for general business purposes, expiring in December 2024. CT REIT had no borrowings under its bank lines as at December 28, 2019.<br>• Scotiabank has provided CTB with a $250.0 million unsecured revolving committed credit facility and $2.0 billion in note purchase facilities for the purchase of senior and subordinated notes issued by GCCT, each of which expire in October 2022. CTB had $216.0 million of borrowings under its bank lines as at December 28, 2019, and no borrowings other than a nominal balance on a note purchase facility to maintain GCCT's ownership interest.<br>• Helly Hansen has a 350.0 million Norwegian Krone ("NOK") secured revolving committed credit facility and a NOK 350.0 million factoring facility (both $51.9 million C$ equivalent) provided by a Norwegian bank which expire in October 2022. Helly Hansen had a total of $67.0 million of C$ equivalent borrowings (452.0 million NOK) outstanding on its bank lines as at December 28, 2019. |
| Commercial Paper Programs | • During 2019, the Company established a commercial paper program that allows it to issue up to a maximum aggregate principal amount of US$1.0 billion of short-term promissory notes in the United States. This program was established to increase funding flexibility and to decrease funding costs. Terms to maturity for the promissory note range from one to 270 days. Notes are issued at a discount and rank equally in right of payment with all other present and future unsecured and unsubordinated obligations to creditors of the Company.<br>• As at December 28, 2019, the Company had no U.S. commercial paper outstanding.<br>• Concurrent with the Company's commercial paper issuances, the Company entered into foreign exchange derivatives to hedge the foreign currency risk associated with the principal and interest component of the borrowings under the program. The Company has not designated these debt derivatives as hedges for accounting purposes.<br>• As at December 28, 2019, GCCT had $166.9 million of asset-backed commercial paper notes outstanding. |
| Medium-Term Notes and Debentures | • As at December 28, 2019, CTC had an aggregate principal amount of $1.2 billion of medium-term notes outstanding.<br>• As at December 28, 2019, CT REIT had an aggregate principal amount of $1.075 billion of senior unsecured debentures outstanding. |
| Senior and Subordinated Notes | • On June 12, 2019, GCCT completed the issuance of $560.0 million series 2019-1 term notes that have an expected repayment date of June 6, 2024, consisting of $523.6 million principal amount of senior term notes that bear an interest rate of 2.28 percent per annum and $36.4 million principal amount of subordinated term notes that bear an interest rate of 3.43 percent per annum.<br>• On September 20, 2019, GCCT fully repaid $472.5 million of series 2014-1 senior term notes, which bore an interest rate of 2.568 percent per annum as well as $27.5 million of series 2014-1 subordinated term notes, which bore an interest rate of 3.068 percent per annum. |
| Broker GIC Deposits | • Funds continue to be readily available to CTB through broker networks. As at December 28, 2019, CTB held $1,916.7 million in broker guaranteed investment certificate ("GIC") deposits. |
| Retail Deposits | • Retail deposits consist of HIS and retail GIC deposits held by CTB, available both within and outside a Tax-free savings account. As at December 28, 2019, CTB held $527.6 million in retail deposits. |
| Real Estate | • The Company can undertake strategic real estate transactions involving properties not owned by CT REIT. It also owns an investment in CT REIT in the form of publicly traded CT REIT Units.<br>• Additional sources of funding are available to CT REIT as appropriate, including the ability to access equity and other debt markets, subject to the terms and conditions of CT REIT's Declaration of Trust and all applicable regulatory requirements. |

## Credit Ratings

A credit rating generally provides an indication of the risk that the borrower will not fulfill its full obligations in a timely manner with respect to both interest and principal commitments. Due to the establishment of a U.S. commercial paper program in 2019, the Company obtained a short-term rating from S&P and Moody's. Ratings for long-term debt instruments range from highest credit quality (generally "AAA") to default in payment (generally "D"). Ratings for short-term debt instruments range from A-1+ (S&P), P-1 (Moody's), or F1+ (Fitch), representing the highest credit quality to C (S&P and Fitch), and not prime (Moody's) for the lowest quality of securities rated.

| **Credit rating summary** | | **DBRS Morningstar** | **S&P** | **Moody's** | **Fitch** |
|---|---|---|---|---|---|
| **Canadian Tire Corporation** | | | | | |
| Issuer rating | Short-term | — | A-2 | — | — |
| | Long-term | BBB (high) | BBB+ | — | — |
| Medium-term notes | Long-term | BBB (high) | BBB+ | — | — |
| U.S. Commercial Paper | Short-term | — | A-2 | P-2 | — |
| Trend or outlook | | Stable | Stable | Stable | — |
| **Glacier Credit Card Trust** | | | | | |
| Asset-backed commercial paper | Short-term | R-1 (high) (sf) | — | — | F1+ (sf) |
| Asset-backed senior term notes | Long-term | AAA (sf) | AAA (sf) - Series 2015-1, 2017-1 & 2019-1 | — | AAA (sf) - Series 2018-1 |
| Asset-backed subordinated term notes | Long-term | A (sf) | A (sf) - Series 2015-1, 2017-1 & 2019-1 | — | A (sf) - Series 2018-1 |
| **CT REIT** | | | | | |
| Issuer rating | Long-term | BBB (high) | BBB+ | — | — |
| Senior unsecured debentures | Long-term | BBB (high) | BBB+ | — | — |
| Trend or outlook | — | Stable | Stable | — | — |

### 6.5.1 Contractual Obligations, Guarantees, and Commitments

The Company funds capital expenditures, working capital needs, dividend payments, and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under an NCIB program, from a combination of sources. The following table shows the Company's contractual obligations required to be paid over the next five years and beyond. The Company believes it has sufficient liquidity available to meet its contractual obligations as at December 28, 2019.

## Contractual Obligations Due by Period

| (C$ in millions) | **Total** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025 & beyond** |
|---|---|---|---|---|---|---|---|
| Current and long-term debt[1, 3] | **$ 2,323.1** | $ 288.0 | $ 150.4 | $ 159.7 | $ 400.0 | $ — | $ 1,325.0 |
| Glacier Credit Card Trust debt[2, 3] | **2,204.0** | 500.0 | — | 560.0 | 584.0 | 560.0 | — |
| Lease obligations[4] | **2,261.0** | 410.3 | 364.7 | 313.2 | 264.5 | 207.7 | 700.6 |
| Purchase obligations | **3,477.9** | 2,285.2 | 227.2 | 152.6 | 131.5 | 124.9 | 556.5 |
| Financial Services' deposits[3] | **2,453.8** | 800.3 | 244.5 | 562.3 | 409.7 | 437.0 | — |
| Other obligations | **137.4** | 67.1 | 33.4 | 18.5 | 11.9 | 6.0 | 0.5 |
| | **$ 12,857.2** | $ 4,350.9 | $ 1,020.2 | $ 1,766.3 | $ 1,801.6 | $ 1,335.6 | $ 2,582.6 |

[1] *Excludes senior and subordinated notes at GCCT.*
[2] *Represents senior and subordinated notes.*
[3] *Excludes interest obligations on debt or deposits.*
[4] *Excludes reasonably certain options of $517.3 million and excludes $269.4 million (2018 – $240.1 million) commitment for lease agreements signed but not yet commenced.*

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee. For a discussion of the Company's significant guarantees and commitments, refer to Note 34 of the Company's 2019 consolidated financial statements. The Company's maximum exposure to credit risk with respect to such guarantees and commitments is provided in Note 5 of the Company's 2019 consolidated financial statements.

## 6.6 Funding Costs

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

| (C$ in millions) | **2019** | 2018 |
|---|---|---|
| Interest expense[1] | **$ 161.2** | $ 141.8 |
| Cost of debt[2] | **3.14%** | 3.40% |

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

For a discussion of the liquidity and credit risks associated with the Company's ability to generate sufficient resources to meet its financial obligations, refer to section 10.1 in this MD&A.

# 7.0 Equity

## 7.1 Shares Outstanding

| (C$ in millions) | **2019** | 2018 |
|---|---|---|
| **Authorized** | | |
| 3,423,366 Common Shares | | |
| 100,000,000 Class A Non-Voting Shares | | |
| **Issued** | | |
| 3,423,366 Common Shares (2018 – 3,423,366) | **$ 0.2** | $ 0.2 |
| 58,096,958 Class A Non-Voting Shares (2018 – 59,478,460) | **587.8** | 591.3 |
| | **$ 588.0** | $ 591.5 |

Each year, the Company files a NCIB with the Toronto Stock Exchange ("TSX") which allows it to purchase its Class A Non-Voting Shares on the open market.

On November 8, 2018, the Company announced its intention to repurchase $300 million to $400 million of its Class A Non-Voting Shares, in excess of the amount required for anti-dilutive purposes, by the end of fiscal 2019. On February 19, 2019, the TSX accepted the Company's notice of intention to make an NCIB to purchase up to 5.5 million Class A Non-Voting Shares during the period from March 2, 2019 through March 1, 2020.

During the year, the Company entered into an Automatic Share Purchase Plan ("ASPP") with a broker that allows the broker to purchase Class A Non-Voting Shares for cancellation under the NCIB during the Company's blackout periods. As at December 28, 2019, an obligation to repurchase $49.1 million of shares (2018 – n/a) was recognized under the ASPP in trade and other payables.

The following table summarizes the Company's purchases relating to the November 8, 2018 announcement:

| (C$ in millions) | |
|---|---|
| Share buy-back intention announced on November 8, 2018 | **$300.0 – $400.0** |
| Shares repurchased in 2018 under the November 8, 2018 announcement | **127.0** |
| Shares repurchased in 2019 under the November 8, 2018 announcement | **189.5** |
| Total shares repurchased under the November 8, 2018 announcement | **$ 316.5** |

In September 2019, the Company completed the repurchases under the November 8, 2018 announcement.

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

On November 7, 2019, the Company announced its intention to repurchase a further $350 million of its Class A Non-Voting Shares, in excess of the amount required for anti-dilutive purposes, by the end of fiscal 2020, subject to regulatory approval of the renewal of the Company's NCIB.

The following table summarizes the Company's purchases related to the November 7, 2019 announcement:

| (C$ in millions) | |
|---|---|
| Share buy-back intention announced on November 7, 2019 | **$ 350.0** |
| Shares repurchased in 2019 under the November 7, 2019 announcement | **11.4** |
| Total shares repurchased under the November 7, 2019 announcement | **$ 11.4** |

### 7.2 Dividends

The Company has a consistent record of increasing its annual dividend and has a payout ratio target of approximately 30 to 40 percent of the prior year normalized earnings, after giving consideration to the period-end cash position, future cash flow requirements, capital market conditions, and investment opportunities.

The Company declared dividends payable to holders of Class A Non-Voting Shares and Common Shares at a rate of 1.1375 per share, an increase of $0.10 or 9.6 percent per share, payable on June 1, 2020 to shareholders of record as of April 30, 2020. The dividend is considered an "eligible dividend" for tax purposes.

### 7.3 Equity Derivative Contracts

The Company enters into equity derivative contracts to partially offset its exposure to fluctuations in stock option, performance share unit plan, and deferred share unit plan expenses. The Company currently uses floating-rate equity forwards.

During the year, equity forwards that hedged 980,000 stock option and performance share units settled and resulted in a cash payment to the counterparties of approximately $10.2 million. Also during the year, the Company entered into 1,010,000 floating-rate equity forwards at a weighted average purchase price of $147.18 to offset its exposure to stock options and performance share units.

## 8.0 Tax Matters

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

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

During the second quarter of 2019, the Company reached an agreement with the Ontario Ministry of Finance relating to the tax treatment of income earned by a foreign affiliate of the Company for the 2004 and 2005 taxation years. As a result of the settlement, the Company recorded an income tax recovery of $3.3 million and pre-tax interest income earned on the overpayment of taxes of $6.9 million, in 2018, no such agreements occurred.

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

Income taxes for the quarter ended December 28, 2019 were $125.4 million, compared to $108.7 million in 2018. The effective tax rate for the quarter ended December 28, 2019 decreased to 25.5 percent from 28.1 percent in 2018 primarily due to the absence of non-deductible fair value change in the redeemable financial instrument in 2019 compared to in 2018, partially offset by lower tax benefits relating to capital property dispositions and changes in tax rates in the period.

Income taxes for the full year ended December 28, 2019 were $288.1 million, compared to $285.2 million in 2018. The effective tax rate for the full year ended December 28, 2019 decreased to 24.4 percent from 26.7 percent in 2018 primarily due to favourable adjustments to tax estimates and prior years' tax settlements, the absence of a non-deductible fair value change in the redeemable financial instrument in 2019, and higher non-controlling interest related to CT REIT in the period.

The effective tax rate decreased to 24.4 percent from the previously disclosed tax rate of approximately 25.0 percent due to lower non-deductible stock option expense in the period.

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

In Q3 2019, the Company announced the annual effective tax rate, excluding any impact for a potential change in fair value of the redeemable financial instrument, for fiscal 2020, to be approximately 26.0 percent.

# 9.0 Accounting Policies, Estimates, and Non-GAAP Measures

## 9.1 Critical Accounting Estimates

The Company estimates certain amounts reflected in its consolidated financial statements using detailed financial models based on historical experience, current trends, and other assumptions, to be reasonable. Actual results could differ from those estimates. In Management's judgment, the accounting estimates and policies detailed in Note 2 and Note 3 to the Company's 2019 Consolidated Financial Statements do not require Management to make assumptions about matters that are highly uncertain and, accordingly, none of those estimates are considered a "critical accounting estimate" as defined in Form 51-102F1 – *Management Discussion and Analysis,* published by the Canadian Securities Administrators, except for the allowance for loan impairment in the Financial Services segment.

## 9.2 Changes in Accounting Policies

### Standards, Amendments and Interpretations Issued and Adopted

Effective in the first quarter 2019, the Company adopted IFRS 16, issued in January 2016 and the related consequential amendments. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 – *Leases* ("IAS 17"), with the distinction between operating leases and finance leases being retained. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for all operating leases where the Company is a lessee. Assets and liabilities relating to finance leases on the date of transition remain unchanged. The Company transitioned to IFRS 16 in accordance with the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings on December 30, 2018. The prior year's figures were not adjusted. Refer to Note 2 of the consolidated financial statements for further details of these changes.

The following table summarizes the major adjustments to opening balances resulting from the initial adoption of IFRS 16:

| (C$ in millions) | As previously reported under IAS 17, December 29, 2018 | IFRS 16 transition adjustments | Balance at December 30, 2018 | Explanation |
|---|---|---|---|---|
| **Assets** | | | | |
| Trade and other receivables | $ 933.3 | $ 14.8 | $ 948.1 | Short-term portion of net investment in finance sublease receivable |
| Long-term receivables and other assets | 742.6 | 85.0 | 827.6 | Long-term portion of net investment in finance sublease receivable and write off initial direct cost and straight-line rent balances |
| Goodwill and intangible assets | 2,272.0 | (0.7) | 2,271.3 | Write-off of market lease intangible assets on transition |
| Investment property | 364.7 | 4.6 | 369.3 | Right-of-use asset recognized on transition relating to investment properties |
| Property and equipment | 4,283.2 | (122.6) | 4,160.6 | Reclassification of finance leases and asset retirement obligations ("AROs") on leased properties to right-of-use assets |
| Right-of-use assets | — | 1,704.3 | 1,704.3 | Right-of-use asset recognized on transition, this includes AROs on leased assets, finance leases under IAS 17, tenant incentives, and onerous lease provisions |
| Deferred income taxes | 215.8 | 74.0 | 289.8 | Deferred tax impact on transition |
| **Liabilities and equity** | | | | |
| Trade payables and other liabilities | $ 2,425.0 | $ (95.1) | $ 2,329.9 | Straight-line rent balances written off and reclassified tenant incentives to the right of use asset on transition |
| Current portion of lease liabilities | — | 311.4 | 311.4 | Short-term portion of lease liability |
| Provisions | 171.8 | (1.1) | 170.7 | Onerous lease provisions reclassified to the right of use asset to approximate the impairment on the right of use assets |
| Current portion of long-term debt | 553.6 | (15.4) | 538.2 | Short-term portion of finance lease liability reclassified to current portion of lease liability |
| Long-term lease liabilities | — | 2,034.9 | 2,034.9 | Lease liability recognized on transition |
| Long-term debt | 4,000.3 | (92.6) | 3,907.7 | Long-term portion of finance lease liability reclassified to Long-term portion of lease liability |
| Deferred income taxes | 184.5 | (16.1) | 168.4 | Deferred tax impact on transition |
| Other long-term liabilities | 872.3 | (119.6) | 752.7 | Tenant incentives reclassified to the right of use asset and to write-off straight-line rent balances |
| Retained earnings | 3,720.7 | (246.9) | 3,473.8 | After tax retained earnings impact on transition of the modified retrospective measurement of the right of use asset, the write-off of straight line rent balances and initial direct costs |
| Non-controlling interest | 1,048.8 | (0.1) | 1,048.7 | Impact of transition on CT REIT and others to the non-controlling interest |

## Standards, Amendments and Interpretations Issued but not yet Adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 28, 2019 and, accordingly, have not been applied in preparing the consolidated financial statements.

### *Insurance Contracts*

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 – *Insurance Contracts* ("IFRS 17"), that replaces IFRS 4 – *Insurance Contracts* and establishes a new model for recognizing insurance policy obligations, premium revenue, and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021. In June 2019, the IASB proposed an amendment to IFRS 17 providing a deferral of one year of the effective date to January 1, 2022. Early adoption is permitted. The Company is assessing the potential impact of this standard.

### *Interest Rate Benchmark Reform: Amendments to IFRS 9 and IFRS 7*

In September 2019, IASB issued Phase 1 of its amendments to IFRS 9 – *Financial Instruments* and IFRS 7 – *Financial Instruments: Disclosures*, to amend certain requirements for hedge accounting and provide relief during the period of uncertainty arising from the phase out of interest rate benchmarks (e.g. interbank offered rates [“IBOR”s]). These amendments modify hedge accounting requirements, allowing entities to assume that the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are based are not altered as a result of IBOR reform, thereby allowing hedge accounting to continue. Mandatory application of the amendments ends at the earlier of when the uncertainty regarding the timing and amount of interest rate benchmark-based cash flows is no longer present and the discontinuation of the hedging relationship. Phase 2 of the IASB’s project on IBOR is underway and will address transition from IBOR. The Phase 1 amendments will be effective for annual periods beginning on or after January 1, 2020, with early adoption permitted. The Company is assessing the potential impact of these amendments on hedge accounting relationships.

## 9.3 Key Operating Performance Measures and Non-GAAP Financial Measures

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

### 9.3.1 Key Operating Performance Measures

### Retail Sales

Retail sales refers to the POS value of all goods and services sold to retail customers at stores operated by Dealers, Mark’s and SportChek franchisees, and Petroleum retailers, at corporately-owned stores across all retail banners, services provided as part of the Home Services offering, and of goods sold through the Company’s online sales channels, and in aggregate do not form a part of the Company’s consolidated financial statements. Retail sales has been included as one of the Company’s financial aspirations. Sales descriptions for the retail banners can be found in the footnotes to the table contained within section 5.2.2 of this MD&A. Retail sales excludes Helly Hansen retail sales at its retail stores.

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

### Comparable Sales

Comparable sales is a metric used by Management and is also commonly used in the retail industry to identify sales growth generated by a Company’s existing store network and removes the effect of opening and closing stores in the period. The calculation includes sales from all stores that have been open for a minimum of one year and one week, as well as eCommerce sales. The Company also reviews consolidated comparable sales which include comparable sales at Canadian Tire (including PartSource and PHL), SportChek, and Mark’s but excludes comparable sales at Petroleum and Helly Hansen. Additional information on comparable sales and retail sales growth descriptions for Canadian Tire, Mark’s, and SportChek can be found in section 5.2.2 of this MD&A.

Prior period comparable sales calculation for Canadian Tire stores excludes stores that have been retrofitted, replaced, or expanded where the percentage change in square footage exceeds 25 percent of the original store size. Effective Q1 2019, the calculation of comparable sales no longer excludes such stores. The change in definition had no material impact on the metric’s calculation for the current or prior period.

### Sales per Square Foot

Management and investors use comparisons of sales per square foot metrics over several periods to help identify whether existing assets are being made more productive by the Company’s introduction of new store layouts and merchandising strategies. Sales per square foot descriptions for Canadian Tire, Mark’s, and SportChek can be found in section 5.2.2 of this MD&A.

### Retail Return on Invested Capital

The Company believes that Retail ROIC is useful in assessing the return on capital invested in its retail assets. Retail ROIC is calculated as the rolling 12-month retail earnings divided by average invested retail capital. Retail earnings are defined as Retail segment after-tax earnings excluding interest expense, lease-related depreciation expense (IFRS 16), inter-segment earnings, minimum lease payments (for periods prior to IFRS 16 adoption), non-controlling interests, and any normalizing items. Average invested capital is defined as Retail segment total assets (excluding IFRS 16-related ROU assets), including operating leases capitalized at a factor of eight, less Retail segment current liabilities (excluding IFRS 16 lease liabilities) and inter-segment balances for the current and prior year. A three-year Retail ROIC aspiration has been included as one of the Company's financial aspirations.

### Return on Receivables ("ROR")

ROR is used by Management to assess the profitability of the Financial Services' total portfolio of receivables. ROR is calculated by dividing income before income tax and gains/losses on disposal of property and equipment by the average total-managed portfolio over a rolling 12-month period.

### 9.3.2 Non-GAAP Financial Measures

### Consolidated Normalized EBITDA and EBITDA

The following table reconciles the consolidated normalized income before income taxes, net finance costs, depreciation and amortization and certain one-time normalizing items, or normalized EBITDA, to net income attributable to shareholders of Canadian Tire Corporation, which is a GAAP measure reported in the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018. Management uses normalized EBITDA, which includes normalized gross margin and normalized selling, general and administrative expenses, as a supplementary measure when assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital expenditures.

| (C$ in millions) | **Q4 2019** | Q4 2018 | **2019** | 2018 |
|---|---|---|---|---|
| Normalized EBITDA | **$ 739.9** | $ 588.1 | **$ 2,146.3** | $ 1,742.7 |
| Less normalizing items: | | | | |
| Party City: | | | | |
| Acquisition-related costs | **—** | — | **2.3** | — |
| Fair value adjustment for inventories acquired[1] | **2.4** | — | **2.4** | — |
| Operational Efficiency program | **6.5** | — | **34.4** | — |
| The rollout of the Triangle Rewards program and associated credit cards | **—** | — | **—** | 17.3 |
| Helly Hansen: | | | | |
| Acquisition-related costs | **—** | — | **—** | 22.7 |
| Fair value adjustment for inventories acquired[2] | **—** | — | **—** | 5.0 |
| Change in fair value of redeemable financial instrument | **—** | 50.0 | **—** | 50.0 |
| EBITDA | **$ 731.0** | $ 538.1 | **$ 2,107.2** | $ 1,647.7 |
| Less: | | | | |
| Depreciation and amortization, other than right-of-use assets[3] and assets under finance lease | **103.9** | 104.1 | **395.2** | 418.0 |
| Depreciation of right-of-use assets / assets under finance lease | **69.8** | 2.4 | **262.3** | 10.0 |
| Net finance costs, other than related to leases | **41.2** | 43.0 | **165.8** | 144.4 |
| Net finance costs, related to leases | **24.8** | 1.7 | **101.0** | 7.1 |
| Income before income taxes | **$ 491.3** | $ 386.9 | **$ 1,182.9** | $ 1,068.2 |
| Income taxes | **125.4** | 108.7 | **288.1** | 285.2 |
| Effective tax rate | **25.5%** | 28.1% | **24.4%** | 26.7% |
| Net income | **$ 365.9** | $ 278.2 | **$ 894.8** | $ 783.0 |
| Net income attributable to non-controlling interests | **31.8** | 23.9 | **116.4** | 90.9 |
| Net income attributable to shareholders of Canadian Tire Corporation | **$ 334.1** | $ 254.3 | **$ 778.4** | $ 692.1 |

1 *Relates to the fair value adjustment to Party City's inventory recorded as part of the acquisition on October 1, 2019.*
2 *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*
3 *Depreciation and amortization reported in cost of producing revenue for the 13 and 52 weeks ended December 28, 2019 was $3.2 million (2018 – $1.4 million) and $10.1 million (2018 – $6.2 million), respectively.*

## Retail Segment Normalized EBITDA

The following table reconciles Retail segment normalized EBITDA to income before income taxes which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018.

| (C$ in millions) | **Q4 2019** | Q4 2018 | **2019** | 2018 |
|---|---|---|---|---|
| Normalized EBITDA | **$ 635.2** | $ 423.4 | **$ 1,750.2** | $ 1,057.5 |
| Less normalizing items: | | | | |
| Party City: | | | | |
| Acquisition-related costs | **—** | — | **2.3** | — |
| Fair value adjustment for inventories acquired[1] | **2.4** | | **2.4** | |
| Operational Efficiency program | **6.5** | — | **34.4** | — |
| The rollout of the Triangle Rewards program and associated credit cards | **—** | — | **—** | 3.8 |
| Helly Hansen: | | | | |
| Acquisition-related costs | **—** | — | **—** | 22.7 |
| Fair value adjustment for inventories acquired[2] | **—** | — | **—** | 5.0 |
| EBITDA | **$ 626.3** | $ 423.4 | **$ 1,711.1** | $ 1,026.0 |
| Less: | | | | |
| Depreciation and amortization, other than right-of-use assets[3] and assets under finance lease | **88.1** | 87.8 | **327.6** | 350.6 |
| Depreciation of right-of-use assets / assets under finance lease | **128.7** | 2.4 | **495.5** | 9.7 |
| Net finance costs, other than related to leases | **(0.4)** | 2.7 | **3.4** | (9.7) |
| Net finance costs, related to leases | **58.3** | 1.7 | **236.8** | 7.0 |
| Income before income taxes | **$ 351.6** | $ 328.8 | **$ 647.8** | $ 668.4 |

1 *Relates to the fair value adjustment to Party City's inventory recorded as part of the acquisition on October 1, 2019.*
2 *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*
3 *Depreciation and amortization reported in cost of producing revenue for the 13 and 52 weeks ended December 28, 2019 was $3.2 million (2018 – $1.4 million) and $10.1 million (2018 – $6.2 million), respectively.*

## Helly Hansen Adjusted EBITDA

The following table reconciles Helly Hansen's income before income taxes, net finance costs, depreciation and amortization, and impact of foreign currency translation to Adjusted EBITDA. Management uses Adjusted EBITDA as a supplementary measure when assessing the performance of Helly Hansen's ongoing operations.

| (C$ in millions) | **Q4 2019** | Q4 2018 | **2019** | 2018 |
|---|---|---|---|---|
| Adjusted EBITDA | **$ 22.2** | $ 22.7 | **$ 72.1** | $ 51.7 |
| Less: | | | | |
| Impact of non-operational foreign currency translation | **(1.0)** | (0.5) | **9.6** | (0.3) |
| Depreciation and amortization, other than right-of-use assets | **2.2** | 3.1 | **8.6** | 4.9 |
| Depreciation of right-of-use assets / assets under finance lease | **3.1** | — | **13.1** | — |
| Net finance costs, other than related to leases | **0.8** | 2.2 | **4.0** | 4.7 |
| Net finance costs, related to leases | **0.6** | — | **2.5** | — |
| Income before income taxes | **$ 16.5** | $ 17.9 | **$ 34.3** | $ 42.4 |

Due to the adoption of IFRS 16, Helly Hansen's EBITDA for the 13 and 52 weeks ended December 28, 2019 was approximately $3.7 million and $15.6 million higher, respectively, than it would have been under the previous accounting standard.

## Normalized Gross Margin

The following table reconciles normalized gross margin to gross margin which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018.

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Normalized gross margin | $ | **4,876.2** | $ | 4,716.3 |
| Less normalizing items: | | | | |
| Party City – Inventory fair value adjustment[1] | | **2.4** | | — |
| Helly Hansen – Inventory fair value adjustment[2] | | **—** | | 5.0 |
| Gross margin | $ | **4,873.8** | $ | 4,711.3 |

[1] *Relates to the fair value adjustment to Party City's inventory recorded as part of the acquisition on October 1, 2019.*
[2] *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*

## Normalized Other Expense (Income)

The following table reconciles normalized other expense (income) to other expense (income) which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018.

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Normalized other expense (income) | $ | **(14.7)** | $ | (26.0) |
| Add normalizing items: | | | | |
| Operational Efficiency program | | **1.3** | | — |
| Other expense (income) | $ | **(13.4)** | $ | (26.0) |

## Normalized Selling, General and Administrative Expenses

The following table reconciles normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018.

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Normalized selling, general and administrative expenses | $ | **3,402.1** | $ | 3,427.6 |
| Add normalizing items: | | | | |
| Party City – Acquisition-related costs | | **2.3** | | — |
| Operational Efficiency program | | **33.1** | | — |
| The rollout of the Triangle Rewards program and associated credit cards | | **—** | | 17.3 |
| Helly Hansen – Acquisition-related costs | | **—** | | 22.7 |
| Selling, general and administrative expenses | $ | **3,437.5** | $ | 3,467.6 |

## Retail Normalized Gross Margin

The following table reconciles Retail normalized gross margin to Retail gross margin which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018.

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Retail normalized gross margin | $ | **4,078.2** | $ | 3,953.4 |
| Less normalizing items: | | | | |
| Party City – Inventory fair value adjustment[1] | | **2.4** | | — |
| Helly Hansen – Inventory fair value adjustment[2] | | **—** | | 5.0 |
| Retail gross margin | $ | **4,075.8** | $ | 3,948.4 |

[1] *Relates to the fair value adjustment to Party City's inventory recorded as part of the acquisition on October 1, 2019.*
[2] *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*

## Retail Normalized Selling, General and Administrative Expenses

The following table reconciles Retail normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018.

| (C$ in millions) | 2019 | 2018 |
|---|---|---|
| Normalized selling, general and administrative expenses | $ 3,291.2 | $ 3,413.3 |
| Add normalizing items: | | |
| Party City – Acquisition-related costs | 2.3 | — |
| Operational Efficiency program | 33.1 | — |
| The rollout of the Triangle Rewards program and associated credit cards | — | 3.8 |
| Helly Hansen – Acquisition-related costs | — | 22.7 |
| Selling, general and administrative expenses | $ 3,326.6 | $ 3,439.8 |

## Financial Services Normalized Selling, General and Administrative Expenses

The following table reconciles Financial Services normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018.

| (C$ in millions) | 2019 | 2018 |
|---|---|---|
| Normalized selling, general and administrative expenses | $ 310.0 | $ 312.6 |
| Add normalizing items: | | |
| The rollout of the Triangle Rewards program and associated credit cards | — | 13.5 |
| Selling, general and administrative expenses | $ 310.0 | $ 326.1 |

## Normalized Net Income

The following table reconciles normalized net income to net income which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended December 28, 2019 and December 29, 2018.

Management believes that normalizing GAAP net income provides a useful method for assessing the Company's underlying operating performance and assists in making decisions regarding the ongoing operations of its business.

| (C$ in millions) | Q4 2019 | Q4 2018 | 2019 | 2018 |
|---|---|---|---|---|
| Normalized net income | $ 374.8 | $ 328.2 | $ 933.9 | $ 870.4 |
| Less normalizing items: | | | | |
| Party City: | | | | |
| Acquisition-related costs | — | — | 2.3 | — |
| Fair value adjustment for inventories acquired[1] | 2.4 | | 2.4 | |
| Operational Efficiency program | 6.5 | — | 34.4 | — |
| The rollout of the Triangle Rewards program and associated credit cards | — | — | — | 12.7 |
| Helly Hansen: | | | | |
| Acquisition related costs | — | — | — | 20.5 |
| Fair value adjustment for inventories acquired[2] | — | — | — | 4.2 |
| Change in fair value of redeemable financial instrument | — | 50.0 | — | 50.0 |
| Net income | $ 365.9 | $ 278.2 | $ 894.8 | $ 783.0 |

*[1] Relates to the fair value adjustment to Party City's inventory recorded as part of the acquisition on October 1, 2019.*
*[2] Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*

## Normalized Net Income Attributable to Shareholders and Earnings per Share

Management believes that normalizing GAAP net income attributable to shareholders of the Company and basic EPS for non-operating items provides a useful method for assessing the Company's underlying operating performance and assists in making decisions regarding the ongoing operations of its business.

The following table is a reconciliation of normalized net income attributable to shareholders of the Company and normalized basic and diluted EPS to the respective GAAP measures:

| (C$ in millions, except per share amounts) | **Q4 2019** | **EPS** | Q4 2018 | EPS | **2019** | **EPS** | 2018 | EPS |
|---|---|---|---|---|---|---|---|---|
| Net income/basic EPS | **$334.1** | **$ 5.42** | $254.3 | $ 4.00 | **$778.4** | **$12.60** | $692.1 | $10.67 |
| Add the after-tax impact of the following, attributable to shareholders of the Company: | | | | | | | | |
| Party City – Acquisition related costs and fair value adjustment[1] | **1.8** | **0.03** | — | — | **3.4** | **0.06** | — | — |
| Operational Efficiency program | **4.7** | **0.08** | — | — | **25.1** | **0.40** | — | — |
| The rollout of the Triangle Rewards program and associated credit cards | **—** | **—** | — | — | **—** | **—** | 10.7 | 0.17 |
| Helly Hansen – Acquisition related costs and fair value adjustment[2] | **—** | **—** | — | — | **—** | **—** | 24.7 | 0.38 |
| Change in fair value of redeemable financial instrument | **—** | **—** | 50.0 | 0.78 | **—** | **—** | 50.0 | 0.77 |
| Normalized net income/normalized basic EPS | **$340.6** | **$ 5.53** | $304.3 | $ 4.78 | **$806.9** | **$13.06** | $777.5 | $11.99 |
| Normalized net income/normalized diluted EPS | **$340.6** | **$ 5.53** | $304.3 | $ 4.78 | **$806.9** | **$13.04** | $777.5 | $11.95 |

1 *Relates to the fair value adjustment to Party City's inventory recorded as part of the acquisition on October 1, 2019.*
2 *Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.*

## Adjusted Net Debt

The following tables reconcile adjusted net debt to GAAP measures. The Company believes that adjusted net debt is relevant in assessing the amount of financial leverage employed.

| As at December 28, 2019<br>(C$ in millions) | **Consolidated** | **Retail** | **CT REIT** | **Financial Services** |
|---|---|---|---|---|
| Consolidated net debt | | | | |
| Bank indebtedness | **$ 10.4** | **$ 2.0** | **$ —** | **$ 8.4** |
| Short-term deposits | **790.8** | **—** | **—** | **790.8** |
| Long-term deposits | **1,653.4** | **—** | **—** | **1,653.4** |
| Short-term borrowings | **450.0** | **67.0** | **—** | **383.0** |
| Current portion of long-term debt | **788.2** | **250.5** | **37.7** | **500.0** |
| Long-term debt | **3,730.2** | **950.8** | **1,081.4** | **1,698.0** |
| Debt | **7,423.0** | **1,270.3** | **1,119.1** | **5,033.6** |
| Liquid assets[1] | **(546.1)** | **(129.2)** | **(9.7)** | **(407.2)** |
| Net debt (cash) | **6,876.9** | **1,141.1** | **1,109.4** | **4,626.4** |
| Inter-company debt | **—** | **(1,737.7)** | **1,453.6** | **284.1** |
| Adjusted net debt (cash) | **$ 6,876.9** | **$ (596.6)** | **$ 2,563.0** | **$ 4,910.5** |

1 *Liquid assets include cash and cash equivalents, short-term investments and long-term investments.*

As at December 29, 2018

| (C$ in millions) | Consolidated | Retail | CT REIT | Financial Services |
|---|---|---|---|---|
| Consolidated net debt | | | | |
| Bank indebtedness | $ — | $ — | $ — | $ — |
| Short-term deposits | 964.5 | — | — | 964.5 |
| Long-term deposits | 1,506.7 | — | — | 1,506.7 |
| Short-term borrowings | 378.1 | 68.8 | 15.0 | 294.3 |
| Current portion of long-term debt | 553.6 | 16.1 | 37.1 | 500.4 |
| Long-term debt | 4,000.3 | 1,290.9 | 1,069.8 | 1,639.6 |
| Debt | 7,403.2 | 1,375.8 | 1,121.9 | 4,905.5 |
| Liquid assets[1] | (806.8) | (303.5) | (5.0) | (498.3) |
| Net debt (cash) | 6,596.4 | 1,072.3 | 1,116.9 | 4,407.2 |
| Inter-company debt | — | (1,699.7) | 1,451.6 | 248.1 |
| Adjusted net debt (cash) | $ 6,596.4 | $ (627.4) | $ 2,568.5 | $ 4,655.3 |

[1] *Liquid assets include cash and cash equivalents, short-term investments and long-term investments.*

## CT REIT Non-GAAP Financial Measures

### Net Operating Income

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

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

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

| (C$ in millions) | **Q4 2019** | Q4 2018 | **2019** | 2018 |
|---|---|---|---|---|
| Property revenue | **$ 123.7** | $ 119.3 | **$ 489.0** | $ 472.5 |
| Less: | | | | |
| Property expense | **26.8** | 26.8 | **106.1** | 108.6 |
| Property straight-line rent revenue | **3.5** | 4.5 | **14.1** | 18.4 |
| Transition adjustments – IFRS 16[1] | **—** | 0.9 | **—** | 3.7 |
| Net operating income | **$ 93.4** | $ 88.9 | **$ 368.8** | $ 349.2 |

[1] *2018 net operating income has been reduced to exclude ground lease expense and straight-line expense to achieve consistency in reporting under IFRS 16.*

### Funds from Operations and Adjusted Funds from Operations

CT REIT calculates its FFO and AFFO in accordance with the *Real Property Association of Canada's* White Paper on FFO and AFFO for IFRS issued in February 2019. FFO and AFFO should not be considered as alternatives to net income or cash flow provided by operating activities determined in accordance with IFRS.

Management believes that FFO provides an operating performance measure that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and property taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS. FFO adds back items to net income that do not arise from operating activities, such as fair value adjustments. FFO, however, still includes non-cash revenues relating to accounting for straight-line rent and makes no deduction for the recurring capital expenditures necessary to sustain the existing earnings stream.

AFFO is a supplemental measure of recurring economic earnings used in the real estate industry to assess an entity's distribution capacity. CT REIT calculates AFFO by adjusting net income for all adjustments used to calculate FFO as well as adjustments for non-cash income and expense items such as amortization of straight-line rents. Net income is also adjusted by a reserve for maintaining productive capacity required to sustain property infrastructure and revenue from real estate properties and direct leasing costs. Property capital expenditures do not occur evenly during the fiscal year or from year to year. The capital expenditure reserve in the AFFO calculation is intended to reflect an average annual spending level.

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

| (C$ in millions) | **Q4 2019** | Q4 2018 | **2019** | 2018 |
|---|---|---|---|---|
| Income before income taxes | **$ 76.9** | $ 74.5 | **$ 307.2** | $ 300.9 |
| Fair value (gain) adjustment | **(10.6)** | (11.5) | **(47.3)** | (53.6) |
| Deferred taxes | **(0.5)** | (0.3) | **(0.4)** | — |
| Lease principal payments on right-of-use assets | **(0.1)** | — | **(0.1)** | — |
| Fair value of equity awards | **0.7** | (0.7) | **2.0** | (1.3) |
| Internal leasing expense | **0.2** | — | **0.5** | — |
| Funds from operations | **66.6** | 62.0 | **261.9** | 246.0 |
| Properties straight-line rent adjustment | **(3.5)** | (4.5) | **(14.1)** | (18.4) |
| Capital expenditure reserve | **(5.8)** | (5.7) | **(23.5)** | (22.4) |
| Adjusted funds from operations | **$ 57.3** | $ 51.8 | **$ 224.3** | $ 205.2 |

## 10.0 Key Risks and Risk Management

### Overview

CTC is exposed to a number of opportunities and risks through the normal course of its business activities. The effective management of risk is a key priority for the Company to support CTC in achieving its strategies and business objectives. Accordingly, CTC has adopted an Enterprise Risk Management Framework ("ERM Framework") for identifying, assessing, monitoring, mitigating and reporting risks and opportunities facing CTC. Refer to section 2.8 in the 2019 AIF for further details of CTC's ERM Framework.

### 10.1 Key Risks

The Company regularly assesses its businesses to identify and assess key risks that alone, or in combination with other interrelated risks, could have a significant adverse impact on the Company's brand, financial position, and/or ability to achieve its strategic objectives. The following section provides a high-level view of CTC's risks that have the most potential to impact its businesses and CTC's approaches to mitigate such risks.

The mitigation and management of risk is approached holistically with a view to ensuring all risk exposures are considered. Although the Company believes the measures taken to mitigate risks described below are reasonable, there can be no assurance that they will effectively mitigate risks that may have a negative impact on the Company's financial position, brand, and/or ability to achieve its strategic objectives. In addition, there are numerous other risk factors that are difficult to predict and could adversely impact financial results, plans, and objectives.

#### *Strategy*

CTC operates in a number of industries which are highly competitive and constantly evolving. The Company selects strategies intended to address opportunities and risks, and positively differentiate its performance in the marketplace. Should the Company be unable to appropriately respond to fluctuations in the external business environment as a result of inaction, ineffective strategies or poor implementation of strategies, there could be adverse impacts on CTC's financial position, brand, and/or ability to achieve its strategic objectives. Factors affecting these risks may include, but are not limited to:

- changes in the competitive landscape in the retail, banking, or real estate sectors, impacting the attractiveness of shopping at CTC's businesses and the value of its real estate holdings;
- economic recession, depression, or high inflation, impacting consumer spending;
- changes in the domestic or international political environments, impacting the cost of products and/or ability to do business;
- shifts in the buying behaviour of consumers, demographics or weather patterns, impacting the relevance of the products and services offered by CTC;
- transition and integration of significant acquisitions into the CTC business model and ability to achieve expected performance and growth plans; and
- introduction of new technologies and trends impacting the relevance of the products, channels, or services offered by CTC.

*Risk management strategy:*
The Company regularly assesses strategies to enable achievement of its financial aspirations. These strategies take the form of a number of strategic objectives. On at least a quarterly basis, the Company identifies and assesses the external and internal risks that may impede the achievement of its strategic objectives. This includes the regular monitoring of economic, political, demographic, geographic and competitive developments in Canada and other countries where CTC conducts business, as wells as the capabilities, strategic fit, and other benefits of key initiatives and acquisitions. The goal of this approach is to provide early warning and escalation within the Company regarding significant risks and to engage in appropriate Management activities to mitigate these risks. In addition to supporting strategy execution, the approach enables Management to assess the effectiveness of its strategies considering external and internal conditions and propose changes to strategic objectives as may be appropriate.

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

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

*Risk management strategy:*
The Company regularly assesses the capabilities, strategic fit, and other realized benefits of key business relationships in the context of supporting its strategies. Governance structures, including policies, processes, contracts, service agreements, and other management activities, are in place to maintain and strengthen the relationships that are critical to the success of the Company's performance and aligned with its overall strategic needs.

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

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

*Risk management strategy:*
The Company's strategies include plans and investments to protect and enhance its significant brands. All employees are expected to manage risks that can impact those brands. Most risks that could impact the Company's brand are managed through its risk frameworks. In addition, Senior Management is accountable to ensure that employees identify and escalate matters that could create brand risk. The Company's communications department monitors a variety of sources to identify publicly-reported issues that could create brand risk and supports Senior Management in managing its response to those issues. The Company's Code of Conduct provides all employees, contractors, suppliers, and Directors with guidance on ethical values and expected behaviour that enable it to sustain its culture of integrity. To further protect its brands, CTC has established requirements with respect to materials used, and the quality of its products, packaging and labelling, that meet or exceed regulatory standards.

### *Financial*

Macroeconomic conditions are highly cyclical, volatile and can have a material effect on the ability of the Company to achieve strategic goals and aspirations. CTC manages a number of financial risks including, with respect to, financial instruments, liquidity, foreign currency exchange and interest rates, which are outlined in more detail below.

Financial Instrument Risk

The Company's primary financial instrument risk exposures relate to credit card loans receivable and allowances for credit losses therein and the value of the Company's financial instruments (including derivatives and investments) employed to manage exposure to foreign currency risk, interest rate risk, and equity risk, all of which are subject to financial market volatility. For further disclosure of the Company's financial instruments, their classification, their impact on financial statements, and determination of fair value refer to Note 33 of the consolidated financial statements.

Liquidity Risk

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

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

Foreign Currency Risk

The Company sources its merchandise globally. Approximately 39%, 42%, and 7% of the value of the inventory purchased for the Canadian Tire, Mark's, and SportChek banners, respectively, is sourced directly from vendors outside North America, primarily denominated in U.S. dollars. The majority of Helly Hansen purchases are denominated in U.S. dollars and Euros. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the Company has an established foreign exchange risk management program that governs the proportion of forecast U.S. dollar purchases that must and can be hedged through the purchase of foreign exchange contracts. The purpose of the program is to provide certainty with respect to a portion of the foreign exchange component of future merchandise purchases.

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

Interest Rate Risk

The Company may use interest rate derivatives to manage interest rate risk. The Company has a policy in place whereby, on a consolidated basis, a minimum of 75 percent of its consolidated debt (short-term and long-term) should be at fixed versus floating interest rates.

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

*Risk management strategy:*

The Company has a Board-approved Financial Risk Management Policy in place that governs the management of financial instruments, liquidity, foreign currency, interest rate and other financial risks. The Treasurer and Chief Financial Officer ("CFO") provide assurances with respect to policy compliance. Refer to section 6.3 for further details.

In particular, the Company's hedging activities, are governed by this policy. Hedge transactions are executed with highly rated financial institutions and are monitored against policy limits.

### *Talent*

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

*Risk management strategy:*

The Company manages its talent risk through its organizational design, employee recruitment programs, succession planning, compensation structures, ongoing training, professional development programs, code of conduct, and performance management. The Company also continues to adopt strategies to attract and retain talent, in particular to support key and emerging business areas such as cyber, digital, and consumer data analytics.

### *Technology Innovation and Investment*

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

*Risk management strategy:*

The Company manages its risks through its investments in people, processes, and technology to meet operational and security requirements, and leverage technological advances in the marketplace.

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

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

### *Cyber*

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

*Risk management strategy:*
The Company maintains policies, processes, and controls to address capabilities, performance, security, and availability including resiliency and disaster recovery for systems, infrastructure, and data. Security protocols, along with information security policies, address compliance with information security standards, including those relating to information belonging to the Company's customers and employees. The Company actively monitors, manages, and continues to enhance its ability to mitigate cyber risk through enterprise-wide programs.

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

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

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

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

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

*Risk management strategy:*
Management in charge of each banner and corporate function is accountable for providing assurances that policies, processes, and procedures are adequately designed and operating effectively to support the strategic and performance objectives, availability of business services, and regulatory compliance of the banner that they operate or support. To ensure continuity of business activities and services, the Company has identified critical processes and developed robust business continuity plans to mitigate and respond to significant disruptions.

Further information regarding the Company's exposure to this risk for each business segment is provided in section 10.2.

### *Financial Reporting*
Public companies such as CTC are subject to risks relating to the restatement and reissuance of financial statements, which may be due to:

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

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

*Risk management strategy:*
Internal controls, which include policies, processes and procedures, provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other disclosure documents. This

includes monitoring and responding to changing regulations and standards governing accounting and financial presentation. Further details are set out in section 11.0.

### *Credit*

CTC's credit risk, which may result if a customer or counterparty fails to meet its contractual obligations, arises principally from operations of the Company's credit card portfolio, CTC's interaction with its Dealer network, and financial instruments, which are discussed in more detail below.

<u>Consumer Credit Risk</u>

Through the granting of credit cards to its customers, the Company assumes certain risks with respect to the ability and willingness of its customers to repay debt.

<u>Dealer and Other Wholesale Customer Credit Risk</u>

Accounts receivable credit risk is primarily from Dealers, franchisees, and wholesale customers. In addition, the Company may be required to provide credit enhancement for individual Dealer's borrowings in the form of standby letters of credit issued by highly-rated financial institutions and guaranteed by the Company (the "LCs") or guarantees of third-party bank debt agreements, with respect to the financing programs available to the Dealers.

<u>Financial Instrument Counterparty Risk</u>

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

Failure to effectively manage this risk may negatively impact CTC's financial position, brand, and/or ability to achieve its strategic objectives.

*Risk management strategy:*

Various Board-approved policies, processes and controls are employed to manage and mitigate the Company's credit risk exposure and are monitored for compliance with policy limits.

Further information regarding the Company's exposure to consumer lending risk is provided in section 10.2.2.

For further disclosure of the Company's maximum exposure to credit risk, over and above amounts recognized in the Consolidated Balance Sheets, refer to Note 5.3.2 in the consolidated financial statements.

For further disclosure of the Company's allowance for impairment on loans receivable, refer to Note 9 in the consolidated financial statements.

### *Legal, Regulatory and Litigation*

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

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

*Risk management strategy:*

Policies, processes and controls address requirements for compliance with applicable laws, regulations, and regulatory policies. A team of legal professionals assists employees with mitigating and managing risks relating to claims or potential claims, disputes, and legal proceedings. The Company's Legislative Compliance department provides compliance oversight and guidance to the organization, including the development and maintenance of a regulatory compliance management system. Specific activities that assist the Company in adhering to regulatory standards include communication of regulatory requirements, advice, training, testing, monitoring, reporting, and escalation of control deficiencies to Senior Management.

## 10.2 Business Segment Risks

### 10.2.1 Retail Segment Business Risks

The Retail segment is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are the business risks most relevant to the Retail segment's operations. Refer to section 10.1 of this MD&A for further details of the Company's risk management strategies.

#### *Seasonality Risk*

Canadian Tire derives a significant amount of its revenue from the sale of seasonal merchandise and, accordingly, derives a degree of sales volatility from abnormal weather patterns. Canadian Tire mitigates this risk, to the extent possible, through the breadth of its product mix and proactive assortment management, effective procurement and inventory management practices, as well as the development of products and offers to stimulate customer demand for 'non-seasonal' and year-round products which are not directly affected by weather patterns.

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

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

#### *Evolving Consumer Behaviour and Shopping Habits*

The retail business is rapidly evolving as consumers increasingly embrace online shopping and mobile eCommerce applications. Failure to provide attractive, user-friendly and secure digital platforms that continually meet the changing expectations of online shoppers could negatively impact the Company's reputation, place the Company at a competitive disadvantage and/or have a negative impact on business operations. In order to mitigate this risk, the Company monitors the competitive landscape, digital evolutions and eCommerce trends to ensure its strategic initiatives are designed to maintain competitive positioning and continue to be relevant.

#### *Supply Chain Risk*

A substantial portion of the Company's product assortment is sourced from foreign suppliers, lengthening the supply chain and extending the time between order and delivery. Canadian Tire, Mark's, and SportChek use internal resources and third-party logistics providers to manage the movement of foreign-sourced goods from suppliers to the Company's Distribution Centres and to their retail stores. Accordingly, the Company is exposed to potential supply chain disruptions due to foreign supplier failures, extreme weather events, geopolitical risk, labour disruption or insufficient capacity at ports, and risks of delays or loss of inventory in transit. The Company mitigates these risks through the use of advanced tracking systems and visibility tools, effective supplier selection and procurement practices and through strong relationships with transportation companies and port and other shipping authorities, supplemented by marine insurance coverage.

### *Conduct Risk*

Products that are sourced from factories in less developed countries for which there is a high level of public scrutiny pertaining to working conditions and labour regulations introduces a heightened level of reputational and brand risk to CTC. In order to mitigate these risks, CTC works with its suppliers to ensure that products are sourced, manufactured and transported according to the standards outlined in the Canadian Tire Supplier Code of Conduct. The Company also works with the Business Social Compliance Initiative (BSCI) factory audit methodology to assess the hiring and employment practices, as well as the health and safety standards of its foreign suppliers.

### *Environmental Risk*

Environmental risk within CTC is primarily associated with the storage, handling, and recycling of certain materials. The Company has established and follows comprehensive environmental policies and practices to avoid a negative impact on the environment, to comply with environmental laws and protect its reputation. It addresses applicable environmental stewardship requirements and takes the necessary steps to manage the end-of-first life of product in accordance with these requirements. Petroleum is also subject to federal and provincial regulations relating to combating climate change, such as carbon taxes, and cap and trade. Petroleum's comprehensive regulatory compliance program includes environmental reviews and the remediation of contaminated sites as required, supplemented by environmental insurance coverage.

### *Commodity Price and Disruption Risk*

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

### *Market Obsolescence Risk*

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

### *Global Sourcing Risk*

Similar to other retailers that source products internationally, CTC is exposed to risks associated with foreign suppliers which can include, but are not limited to, currency fluctuations, the stability of manufacturing operations in other countries, labour practices in other countries (see Conduct Risk), and transportation and port disruptions (see Supply Chain Risk). The Company uses internal resources and third-party quality assurance providers to proactively manage product quality with vendors in the foreign sourcing regions. The Company believes that its business practices are appropriate to mitigate the risks. Further information regarding the Company's exposure to foreign currency risk is provided in section 10.1.

### 10.2.2 Financial Services Segment Business Risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are the business risks most relevant to Financial Services' operations. Refer to section 10.1 for further details of the Company's risk management strategies.

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

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

### *Liquidity and Funding Risk*
Liquidity and funding risk is the risk that Financial Services will be unable to meet its funding obligations or obtain funding at a reasonable cost. Financial Services mitigates its liquidity and funding risk by maintaining multiple diversified funding sources that include securitization of receivables, broker GIC deposits, retail deposits, and committed bank lines of credit. Further mitigation is provided by maintaining a pool of high-quality marketable securities that can be used as a source of liquidity under a short-term stress scenario. Scotiabank has provided CTB with a $250.0 million unsecured revolving committed credit facility and $2.0 billion in note purchase facilities for the purchase of senior and subordinated notes issued by GCCT, both of which expire in October 2022. A number of regulatory metrics are monitored including Liquidity Coverage Ratio, Net Cumulative Cash Flow, and Net Stable Funding Ratio. Further details on financing sources for Financial Services are included in section 6.5.

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

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

## 10.2.3 CT REIT Segment Business Risks
CT REIT is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to the operations of CT REIT. Please refer to section 4 in CT REIT's Annual Information Form and Section 11.0 Enterprise Risk Management in CT REIT's Management's Discussion and Analysis for the period ended December 31, 2019, which are not incorporated herein by reference, for a discussion of risks that affect CT REIT's operations and also to section 10.1 in this MD&A for further details of the Company's risk management strategies.

### *External Economic Environment*
CT REIT is subject to risks resulting from fluctuations or fundamental changes in the external business environment, which could include changes in the current and future economic environment, the economic stability of local markets, geographic and industry concentrations, retail shopping behaviours and habits of consumers, and increased competition amongst investors, developers, owners and operators of similar properties.

### *Key Business Relationship*

CT REIT's relationship with its majority unitholder, CTC, is integral to its business strategy. Key factors inherent in this relationship include situations where the interests of CTC and CT REIT are in conflict, dependence of CT REIT's revenues on the ability of CTC to meet its rent obligations and renew its tenancies, tenant concentration, reliance on the services of key personnel including certain CTC personnel, and CTC lease renewals and rental increases.

### *Financial*

Risks associated with macroeconomic conditions which are highly cyclical and volatile could have a material effect on CT REIT. Such risks include changes in interest rates, the availability of capital, unit price risks, and CT REIT's degree of leverage.

### *Legal and Regulatory Compliance*

Failure to adhere to laws and regulations and changes to laws and regulations applicable to CT REIT's operations may have an adverse affect, including in relation to tax-related risks, regulatory risks and environmental matters.

### *Operations*

CT REIT is subject to the risk that a direct or indirect loss of operating capabilities may occur due to property, development, redevelopment and renovation risks, disasters, cyber incidents, climate change, ineffective business continuity and contingency planning, and talent shortages.

## 11.0 Internal Controls and Procedures

### 11.1 Disclosure Controls and Procedures

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

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

As required by CSA National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), an evaluation of the adequacy of the design (quarterly) and effective operation (annually) of the Company's disclosure controls and procedures was conducted under the supervision of Management, including the CEO and the CFO, as at December 28, 2019.  The evaluation included documentation review, enquiries and other procedures considered by Management to be appropriate in the circumstances.  Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 28, 2019.

### 11.2 Internal Control over Financial Reporting

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

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

As also required by NI 52-109, Management, including the CEO and the CFO, evaluated the adequacy of the design (quarterly) and the effective operation (annually) of the Company's internal control over financial reporting as defined in NI 52-109, as at December 28, 2019. In making this assessment, Management, including the CEO and the CFO, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). This evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls, and a conclusion about this evaluation. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the internal control over financial reporting were effective as at December 28, 2019 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

### 11.3 Changes in Internal Control over Financial Reporting

During the quarter and year ended December 28, 2019, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

# 12.0 Environmental and Social Responsibility

## 12.1 Overview

CTC prides itself on being a trusted Canadian brand and an integral part of Canadian communities, with a strong commitment to improving environmental and social outcomes for Canadians, our communities and our planet. Our environmental and social strategy is aligned with and contributes to the United Nations Sustainable Development Goals. Our initiatives are intended to deliver improved outcomes in the areas of climate risk mitigation, product and packaging, sourcing, and inclusion. We identify, measure, and report on environmental and social benefits that result from these initiatives.

### 12.1.1 Climate

In 2018, following the release of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, CTC worked with an external advisor to develop a climate risk and opportunity framework. Using this framework, the Company carried out a climate risk and opportunity assessment, using scenario analysis to identify and assess risks and opportunities in the short (0-1 years), medium (1-5 years), and long-term (5-30 years), out to 2040. While the identified risks are not currently impacting business growth, the Company will continue to monitor, evaluate and mitigate them.

The Company is committed to reducing its carbon footprint in line with Canadian and global goals. CTC has set ambitious, scientifically-informed targets to reduce greenhouse gas ("GHG") emissions across its value chain. The targets go beyond areas of the value chain that CTC controls and extend to areas that CTC can reasonably influence. By 2022, CTC is committed to reducing the GHG emissions of its stores, offices, warehouses and distribution centres by 22 percent, and keeping product transportation emissions flat, despite growth in eCommerce, both against a 2011 baseline. For further information please refer to https://corp.canadiantire.ca/sustainability/environmental-sustainability/default.aspx.

To achieve the GHG reduction targets, the Company is investing in energy efficient technologies to retrofit existing locations, incorporating innovative designs into store prototypes, and seeking strategic opportunities to collaborate with product transportation partners and drive efficiencies across the supply chain.

### 12.1.2 Extending the Life of Product and Materials

The Company has a number of initiatives which extend the life of products and materials in these products. The Company's designated Quality Assurance Team has worked with the merchandising groups to improve product defect rates by 11 bps, as a percentage of sales, over the last three years. Canadian Tire Retail stores offer "as is" programs which keep product that has been returned, or for other reasons cannot be sold as "new", but are still functional and safe, from entering the waste stream. CTC reduces the size and improves the sustainability of packaging and seeks to develop uses for the second life of tires and certain other products. CTC actively participates in over 80 provincial product environmental stewardship programs that contribute to the safe disposal and/or recycling of many products. Through its own initiatives and collaboration with other leading organizations, the Company has committed to supporting Canada's movement from a linear economy in which products are manufactured, used and then disposed of as "waste", to a circular economy in which products are designed and manufactured so that they can be reused or recycled in a closed loop.

### 12.1.3 Product Chemical Management

CTC reduces harmful chemicals in its products where appropriate alternatives exist. Helly Hansen, SportChek and Mark's are transitioning water repellency finishes to prohibit the use of Perfluorinated chemicals (PFCs) and the resulting Perfluorooctanoic acid (PFOA) and Perfluorooctane sulfonate (PFOS) bi-products. Mark's stain repellency treatments are PFOA and PFOS free, complying with the OEKO-TEX® and bluesign® industry standards and the EU REACH restrictions. Mark's moisture management technologies employ non-PFC and non-formaldehyde chemistries, complying with the OEKO-TEX® and bluesign® industry standards and the European Union Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) restrictions which are more stringent than regulations in the Canadian market. Additionally, methylene chloride, formaldehyde, bisphenal A, phthalates and a number of heavy metals have been designed out of our owned brands products. For further information please refer to: https://s22.q4cdn.com/405442328/files/doc_downloads/sustainability/2019/CTC-Chemical-Transparency.pdf

### 12.1.4 Community Disaster Relief

CTC has established comprehensive crisis management and business continuity programs that consider the effects of climate change and other risks, threats and hazards that could affect our operations and the communities where we operate. When disaster strikes and communities are affected, the CTC Crisis Management Team and Dealers partner with the Canadian Red Cross, other support agencies, and local municipalities to support response and relief activities.

### 12.1.5 Worker Safety

CTC mitigates social compliance risk by ensuring all suppliers have agreed to the Supplier Code of Conduct, and the periodic assessments of suppliers' facilities against globally recognized audit standards such as the Business Social Compliance Initiative audit standard. CTC reviews all factory audit findings and, where circumstances warrant, works with suppliers on corrective action plans. Additionally, CTC has made significant financial contribution to, and actively participated in, international business efforts to improve factory safety in Bangladesh through the remediation of issues found during factory inspections, ongoing fire safety training of factory workers and security guards, and the operation of a helpline to give workers a voice in identifying safety issues to be resolved.

### 12.1.6 Jumpstart

CTC supports a variety of social causes, but the largest single beneficiary is Jumpstart Charities. Jumpstart is an independent organization committed to assisting financially-challenged families in communities across Canada by funding costs associated with children participating in organized sport and physical activity. In 2017, Jumpstart launched its "Play Finds a Way" movement, which focuses on funding efforts towards providing accessible playgrounds, as well as accessible infrastructure and programming in communities across Canada. Additional information regarding Jumpstart is available on their website at: http://jumpstart.canadiantire.ca.

## 12.2 Environmental Footprint

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

The following table presents the Company and its extended value-chain's 2018 environmental footprint and the percentage change relative to the 2011 baseline. The data collection and subsequent review for determining the Company's environmental footprint involve rigorous processes that are completed after the close of the calendar year. As such, the Company's most recent environmental footprint year is 2018. An independent third-party provided a limited assurance review on the footprint data.

The Company has set GHG emission reduction targets that demonstrate CTC's commitment to reducing carbon emissions in line with Canadian and global goals. We are aiming to reduce emissions from our buildings by 22 percent by 2022, against a 2011 baseline, and to keep emissions from transportation flat. The baseline year for our footprint is 2011 because that is the earliest year for which reliable and complete footprint data are available. Our targets focus on impacts that we have the ability to control or reasonably influence. The Company has reduced its footprint from business and retail operations by 5.6 percent since 2011, achieving 25 percent of the 2022 target, and while transportation emissions have increased, we will continue to make progress to achieve the target in 2022.

In 2018, CTC's absolute emissions decreased 3.5 percent from 2017, primarily due to a decrease in the area of raw material acquisition and product manufacturing, as a result of a lower dollar value of product received in 2018 and a decreased intensity in certain product categories. Emissions from buildings and operations were 5.6 percent lower than our 2011 baseline. The colder winter in 2018 caused natural gas consumption to increase over 2017, which outpaced the GHG savings from our efficiency initiatives, resulting in less GHG savings over our 2011 baseline than realized in the prior year. In 2018, emissions from transportation were 11 percent higher than our 2011 baseline. A higher than usual dependence on road carriers to move product that would normally have been sent by rail was the primary driver of the increase. The switch from rail to road was due to the closure of certain rail corridors and the impact of labour action at one of our rail carriers.

| By segment of the value-chain and GHG Protocol category[1] | | GHG emissions (tonnes carbon dioxide equivalents) 2018 | 2011[2] | Change[3] (B) / W |
|---|---|---|---|---|
| Product & Packaging[4] | Scope 3 Purchased goods and services (Canadian Tire, PartSource, Petroleum, Mark's, SportChek) | 3,344,399.0 | 3,987,217.0 | (16.1)% |
| | *Per $1,000 banner revenue* | *0.27* | *0.39* | *(30.8)%* |
| Transport[5] | Scope 1 (Canadian Tire and PartSource) | 16,403.0 | 12,836.0 | |
| | Scope 3 Upstream Transportation and Distribution (Canadian Tire and PartSource) | 341,175.0 | 313,185.0 | |
| | Scope 3 Business Air Travel (all banners) | 5,090.0 | *n/a* | |
| | *Sub-total* | *362,668.0* | *326,021.0* | *11.2 %* |
| | *Per 1,000 tonne-kilometres* | *0.03* | *0.02* | *50.0 %* |
| Business & Retail Operations[6] | Scope 1 & 2 (Corporate stores, offices and Distribution centres) | 79,559.0 | 77,537.0 | |
| | Scope 3 Upstream Leased Assets (Leased offices and Distribution centres) | 13,581.0 | 15,253.0 | |
| | Scope 3 Downstream Leased Assets (Investment Properties) | 4,048.0 | 1,883.0 | |
| | Scope 3 Franchises (Dealer and franchise stores and CT Petroleum agents) | 147,007.0 | 145,531.0 | |
| | Scope 3 Fuel and Energy Related Activities (Electricity Transmission and Distribution losses) | 7,079.0 | 26,044.0 | |
| | *Sub-total* | 251,274.0 | 266,248.0 | *(5.6)%* |
| | *Per square metre* | *0.40* | *0.42* | *(4.8)%* |
| **Total** | **Scope 1 & 2** | **95,962.0** | **90,373.0** | **6.2%** |
| | **Scope 3** | **3,862,379.0** | **4,489,113.0** | **(14.0)%** |
| | **Total** | ***3,958,341.0*** | ***4,579,486.0*** | ***(13.6)%*** |
| | **Per $1,000 consolidated revenue** | ***281.56*** | ***440.88*** | ***(36.1)%*** |

*[1] Produced in accordance with principles from the World Business Council on Sustainable Development and World Resource Institute Greenhouse Gas Protocol. The 2011 baseline was restated to reflect changes in methodology and updates of previous calculations, as necessary. Mark's and SportChek product transport, customer use, and product end-of-life emissions for all banners are not currently measured due to data unavailability.*
*Scope 1 emissions are direct emissions from the combustion of on-site and mobile fuels that occur at, or are associated with, facilities and operations under the Company's operational control.*
*Scope 2 emissions are indirect emissions that occur off-site from the production of energy, such as electricity, which is purchased for use at facilities and operations under the Company's operational control.*
*Scope 3 emissions are other indirect emissions from sources upstream and downstream of the organization's activities.*
*[2] CTC tracks emission performance against a 2011 baseline as this is the first year for which complete footprint data are available.*
*[3] Percentage change relative to baseline 2011 environmental footprint. A negative change indicates a reduction in energy use and/or GHG emissions which is an improvement and indicated as Better (B), versus a positive change which indicates an increase in energy use and/or GHG emissions and is indicated as Worse (W).*
*[4] Values embedded in retail products received by DCs, depots, stores, agents, or customers' homes and calculated as per a cradle-to-gate analysis which includes raw material acquisition and processing, transport to manufacturing site, and manufacture of retail products or refining of fuels.*
*[5] Values of product transportation from freight-on-board location to stores or from refining sites to gas bars. Restatement applied historically to reflect methodology and emission factor changes from source.*
*[6] Values from Corporate and third-party operated sites including offices, DCs and Corporate, Dealer, agent, and franchise retail stores.*

For details on Canadian Tire Corporation's sustainability strategy, environmental performance, and a 2018 Assurance Statement please refer to our Business Sustainability Performance Reports on the Sustainability site at: https://corp.canadiantire.ca/English/sustainability/performance-reports/default.aspx. For information on Canadian Tire Corporation's environmental and social initiatives and achievements, please refer to our Sustainability Report at: https://sustainability.canadiantirecorporation.ca.

## 12.3 2019 Sustainability Initiatives

As part of the Company's commitment to sustainability and efforts to achieve its GHG reduction targets, economic benefits were realized through a number of sustainability initiatives. The initiatives aim to enhance the Company's productivity and reduce its environmental footprint.

The following table summarizes the net new economic benefits to the Company, its Dealers and franchisees and the net new environmental benefits realized in 2019 from the Company's sustainability initiatives. It also depicts the lifetime economic benefit of sustainability initiatives realized since 2011.

| ($C in millions, except where indicated) | | 2019 Economic Benefit[1] ($M) | Energy Use Avoidance[2] (GJ) | Low-Carbon Energy Generation[3] (GJ) | Greenhouse Gas Emissions Avoidance[2] (tonnes $CO_2e$) | Waste Avoidance[2] (tonnes) | Waste Diversion[4] (tonnes) | Waste Diversion[4] (%) | | Lifetime Economic Benefit[5] ($M) |
|---|---|---|---|---|---|---|---|---|---|---|
| Product and Packaging[6] | $ | 51.6 | 63,859 | — | 4,721 | 19,711 | — | — | $ | 337.6 |
| Product Transport[7] | $ | 1.2 | 21,983 | — | 3,125 | 58 | — | — | $ | 26.7 |
| Business and Retail Operations[8] | $ | 11.5 | 248,878 | 37,199 | 12,416 | 1,693 | 25,569 | 77.0% | $ | 88.3 |
| **Total** | **$** | **64.3** | **334,720** | **37,199** | **20,262** | **21,462** | **25,569** | **77.0%** | **$** | **452.6** |

1 *Economic benefit refers to cost avoidance (e.g. energy costs) and income earned (e.g. from the sale of recyclable materials) associated with sustainability initiatives.*
2 *Avoidance refers to savings in comparison to the baseline scenario, where the baseline scenario is defined as "what would have most likely occurred in the absence of the sustainability initiative". Improvements are related to the specific initiatives reported and do not represent total improvements to the value-chain segment.*
3 *Refers to energy generated from on-site solar installations. To be considered "low-carbon", the GHG emissions associated with the energy generated must be lower than traditional power generation. This energy is fed into the Ontario electrical grid for general consumption in the province.*
4 *Materials diverted from landfill through reuse, recycling, or composting.*
5 *Economic benefit to the Company, its Dealers and franchisees realized since our baseline year of 2011 for the entire useful life of the initiative (e.g. in-store lighting upgrades completed in our baseline year of 2011 will continue to reap benefits every year for the expected lifetime of the asset). Each initiative has a unique useful life ranging from one to 25 years.*
6 *Realized reductions in energy use resulting from the transportation of optimized product and packaging, realized reductions in customer energy use resulting from the sale of energy efficient products, and waste reductions stemming from reduced packaging, damages, and product waste at end-of-life.*
7 *Realized reductions in energy use from increased fuel efficiency in transportation modes and vehicles (e.g. use of long-combination vehicles).*
8 *Realized reductions in energy use in buildings and their operations through energy efficiency initiatives (e.g. new construction, retrofits), renewable energy generated from rooftop solar installations, and percentage of waste diverted from landfill as a result of waste management initiatives at stores and DCs.*

# 13.0 Forward-Looking Statements and Other Investor Communication

## Caution Regarding Forward-looking Statements

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

- the Company's financial aspirations for fiscal years 2018 to 2020 in section 4.0;
- the Company's Operational Efficiency program, including the target annualized savings in section 4.0;
- capital expenditures in subsection 6.4.1;
- the Company's intention with respect to the purchase of its Class A Non-Voting Shares in section 7.1;
- tax matters in section 8.0; and
- GHG targets in section 12.2.

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

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

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

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, refer to section 4.0 (Three-Year [2018 to 2020] Financial Aspirations) and section 10.0 (Key Risks and Risk Management) of this MD&A and all subsections thereunder. Also refer to section 2.8 (Risk Factors) of the 2019 AIF, as well as the Company's other public filings, available on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com and at https://investors.canadiantire.ca.

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

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

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

### Commitment to Disclosure and Investor Communication

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

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

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

If you would like to contact the Investor Relations department directly, email investor.relations@cantire.com.

## 14.0 Related Parties

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

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

February 12, 2020

# Index to the Consolidated Financial Statements and Notes

# Management’s Responsibility for Financial Statements

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

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

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

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

**Stephen G. Wetmore**
President and
Chief Executive Officer

**Dean McCann**
Executive Vice-President
and Chief Financial Officer

February 12, 2020

# Independent Auditor's Report

To the Shareholders of Canadian Tire Corporation, Limited

## Opinion

We have audited the consolidated financial statements of Canadian Tire Corporation, Limited (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as at December 28, 2019 and December 29, 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity for the years ended December 28, 2019 and December 29, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 28, 2019 and December 29, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

# Independent Auditor's Report

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Keith Michael Pennells.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

February 12, 2020
Toronto, Ontario

# Consolidated Balance Sheets

| As at<br>(C$ in millions) | **December 28, 2019** | December 29, 2018[1] |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents (Note 7) | **$ 205.5** | $ 470.4 |
| Short-term investments | **201.7** | 183.7 |
| Trade and other receivables (Note 8) | **938.3** | 933.3 |
| Loans receivable (Note 9) | **5,813.8** | 5,511.3 |
| Merchandise inventories | **2,212.9** | 1,997.5 |
| Income taxes recoverable | **33.2** | 15.3 |
| Prepaid expenses and deposits | **139.3** | 138.8 |
| Assets classified as held for sale | **10.6** | 5.5 |
| **Total current assets** | **9,555.3** | 9,255.8 |
| Long-term receivables and other assets (Note 10) | **807.8** | 742.6 |
| Long-term investments | **138.9** | 152.7 |
| Goodwill and intangible assets (Note 11) | **2,414.3** | 2,272.0 |
| Investment property (Note 12) | **389.1** | 364.7 |
| Property and equipment (Note 13) | **4,283.3** | 4,283.2 |
| Right-of-use assets (Note 14) | **1,610.4** | — |
| Deferred income taxes (Note 16) | **319.2** | 215.8 |
| **Total assets** | **$ 19,518.3** | $ 17,286.8 |
| **LIABILITIES** | | |
| Bank indebtedness (Note 7) | **$ 10.4** | $ — |
| Deposits (Note 17) | **790.8** | 964.5 |
| Trade and other payables (Note 18) | **2,492.4** | 2,425.0 |
| Provisions (Note 19) | **190.2** | 171.8 |
| Short-term borrowings (Note 21) | **450.0** | 378.1 |
| Loans (Note 22) | **621.5** | 654.6 |
| Current portion of lease liabilities | **335.3** | — |
| Income taxes payable | **72.6** | 110.6 |
| Current portion of long-term debt (Note 23) | **788.2** | 553.6 |
| **Total current liabilities** | **5,751.4** | 5,258.2 |
| Long-term provisions (Note 19) | **61.1** | 49.8 |
| Long-term debt (Note 23) | **3,730.2** | 4,000.3 |
| Long-term deposits (Note 17) | **1,653.4** | 1,506.7 |
| Long-term lease liabilities | **1,871.0** | — |
| Deferred income taxes (Note 16) | **136.4** | 184.5 |
| Other long-term liabilities (Note 24) | **810.1** | 872.3 |
| **Total liabilities** | **14,013.6** | 11,871.8 |
| **EQUITY** | | |
| Share capital (Note 26) | **588.0** | 591.5 |
| Contributed surplus | **2.9** | 2.9 |
| Accumulated other comprehensive (loss) income | **(129.9)** | 51.1 |
| Retained earnings | **3,729.6** | 3,720.7 |
| **Equity attributable to shareholders of Canadian Tire Corporation** | **4,190.6** | 4,366.2 |
| Non-controlling interests (Note 15) | **1,314.1** | 1,048.8 |
| **Total equity** | **5,504.7** | 5,415.0 |
| **Total liabilities and equity** | **$ 19,518.3** | $ 17,286.8 |

[1] *Certain prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2).*

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

Maureen J. Sabia

**Maureen J. Sabia**
Director

Diana L. Chant

**Diana L. Chant**
Director

# Consolidated Statements of Income

| For the years ended<br>(C$ in millions, except share and per share amounts) | **December 28, 2019** | December 29, 2018[1] |
|---|---|---|
| **Revenue** (Note 28) | **$ 14,534.4** | $ 14,058.7 |
| Cost of producing revenue (Note 29) | **9,660.6** | 9,347.4 |
| **Gross margin** | **4,873.8** | 4,711.3 |
| Other (income) | **(13.4)** | (26.0) |
| Selling, general and administrative expenses (Note 30) | **3,437.5** | 3,467.6 |
| Net finance costs (Note 31) | **266.8** | 151.5 |
| Change in fair value of redeemable financial instrument (Note 33) | **—** | 50.0 |
| **Income before income taxes** | **1,182.9** | 1,068.2 |
| **Income taxes** (Note 16) | **288.1** | 285.2 |
| **Net income** | **$ 894.8** | $ 783.0 |
| Net income attributable to: | | |
| Shareholders of Canadian Tire Corporation | **$ 778.4** | $ 692.1 |
| Non-controlling interests (Note 15) | **116.4** | 90.9 |
| | **$ 894.8** | $ 783.0 |
| **Basic earnings per share** | **$ 12.60** | $ 10.67 |
| **Diluted earnings per share** | **$ 12.58** | $ 10.64 |
| **Weighted average number of Common and Class A Non-Voting Shares outstanding:** | | |
| **Basic** | **61,794,565** | 64,887,724 |
| **Diluted** | **61,861,486** | 65,062,581 |

[1] *Certain prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2).*

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

# Consolidated Statements of Comprehensive Income

| For the years ended<br>(C$ in millions) | | December 28, 2019 | | December 29, 2018 |
|---|---|---|---|---|
| **Net income** | **$** | **894.8** | $ | 783.0 |
| **Other comprehensive (loss) income, net of taxes** | | | | |
| **Items that may be reclassified subsequently to net income:** | | | | |
| Net fair value (losses) on hedging instruments entered into for cash flow hedges not subject to basis adjustment | | **(4.5)** | | (6.4) |
| Deferred cost of hedging not subject to basis adjustment – Changes in fair value of the time value of an option in relation to time-period related hedged items | | **(18.7)** | | (7.5) |
| Reclassification of losses to income | | **0.6** | | 3.7 |
| Currency translation adjustment | | **(60.7)** | | (40.9) |
| **Items that will not be reclassified subsequently to net income:** | | | | |
| Actuarial (losses) gains | | **(15.1)** | | 10.8 |
| Net fair value (losses) gains on hedging instruments entered into for cash flow hedges subject to basis adjustment | | **(52.7)** | | 141.8 |
| Other comprehensive (loss) income | **$** | **(151.1)** | $ | 101.5 |
| Other comprehensive (loss) income attributable to: | | | | |
| Shareholders of Canadian Tire Corporation | **$** | **(146.1)** | $ | 103.0 |
| Non-controlling interests | | **(5.0)** | | (1.5) |
| | **$** | **(151.1)** | $ | 101.5 |
| **Comprehensive income** | **$** | **743.7** | $ | 884.5 |
| Comprehensive income attributable to: | | | | |
| Shareholders of Canadian Tire Corporation | **$** | **632.3** | $ | 795.1 |
| Non-controlling interests | | **111.4** | | 89.4 |
| | **$** | **743.7** | $ | 884.5 |

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

# Consolidated Statements of Cash Flows

| For the years ended<br>(C$ in millions) | December 28, 2019 | December 29, 2018 |
|---|---|---|
| **Cash (used for) generated from:** | | |
| **Operating activities** | | |
| Net income | $ 894.8 | $ 783.0 |
| Adjustments for: | | |
| Depreciation of property and equipment, investment property, assets held for sale and right-of-use assets (Notes 29 and 30) | 546.7 | 301.4 |
| Income tax expense (Note 16) | 288.1 | 285.2 |
| Net finance costs (Note 31) | 266.8 | 151.5 |
| Amortization of intangible assets (Note 30) | 110.8 | 126.6 |
| (Gain) on disposal of property and equipment, investment property, assets held for sale and right-of-use assets | (25.8) | (23.4) |
| Change in fair value of redeemable financial instrument (Note 33) | — | 50.0 |
| Total except as noted below | 2,081.4 | 1,674.3 |
| Interest paid | (297.3) | (148.5) |
| Interest received | 27.3 | 10.1 |
| Income taxes paid | (347.9) | (204.4) |
| Change in loans receivable | (270.4) | (491.5) |
| Change in operating working capital and other | (105.5) | (32.6) |
| **Cash generated from operating activities** | **1,087.6** | 807.4 |
| **Investing activities** | | |
| Additions to property and equipment and investment property | (435.2) | (416.8) |
| Additions to intangible assets | (178.6) | (129.5) |
| Total additions | (613.8) | (546.3) |
| Acquisition of short-term investments | (297.3) | (203.8) |
| Proceeds from maturity and disposition of short-term investments | 326.0 | 208.3 |
| Proceeds on disposition of property and equipment, investment property and assets held for sale | 20.2 | 28.9 |
| Business combinations, net of cash acquired (Note 36) | (177.3) | (762.9) |
| Lease payments for finance subleases (principal portion)[1] | 16.4 | — |
| Acquisition of long-term investments and other | (32.9) | (32.8) |
| **Cash (used for) investing activities** | **(758.7)** | (1,308.6) |
| **Financing activities** | | |
| Dividends paid | (242.5) | (222.3) |
| Distributions paid to non-controlling interests | (84.1) | (36.1) |
| Total dividends and distributions paid | (326.6) | (258.4) |
| Net issuance (repayment) of short-term borrowings | 71.9 | (71.3) |
| Issuance of loans | 259.2 | 225.9 |
| Repayment of loans | (292.3) | (238.5) |
| Issuance of long-term debt (Note 23) | 571.3 | 1,434.0 |
| Repayment of long-term debt and finance lease liabilities[2] (Note 23) | (500.3) | (287.5) |
| Payment of lease liabilities (principal portion) | (313.3) | — |
| Payment of transaction costs related to long-term debt | (2.6) | (5.5) |
| Repurchase of share capital | (218.0) | (582.4) |
| Proceeds on disposal of partial interest in CT REIT (Note 15) | 142.6 | 191.8 |
| Net proceeds from issue of trust units to non-controlling interests (Note 15) | 86.3 | 62.3 |
| Payments on financial instruments | (51.6) | (16.4) |
| Change in deposits | (30.8) | 80.6 |
| **Cash (used for) generated from financing activities** | **(604.2)** | 534.6 |
| **Cash (used) generated in the period** | **(275.3)** | 33.4 |
| **Cash and cash equivalents, net of bank indebtedness, beginning of period** | **470.4** | 437.0 |
| **Cash and cash equivalents, net of bank indebtedness, end of period (Note 7)** | **$ 195.1** | $ 470.4 |

[1] *Previously reported within Operating activities under IAS 17.*
[2] *Comparative number includes repayment of finance lease liabilities under IAS 17.*

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

# Consolidated Statements of Changes in Equity

| | | | Total accumulated other comprehensive income (loss) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | Share capital | Contributed surplus | Cashflow hedges | Currency translation adjustment | Total accumulated other comprehensive income (loss) | Retained earnings | Equity attributable to shareholders of Canadian Tire Corporation | Equity attributable to non-controlling interests | Total equity |
| **December 29, 2018, as previously reported** | **$ 591.5** | **$ 2.9** | **$ 92.0** | **$ (40.9)** | **$ 51.1** | **$ 3,720.7** | **$ 4,366.2** | **$ 1,048.8** | **$ 5,415.0** |
| **Transition adjustments – IFRS 16 (Note 2)** | **—** | **—** | **—** | **—** | **—** | **(246.9)** | **(246.9)** | **(0.1)** | **(247.0)** |
| **Restated balance at December 30, 2018** | **591.5** | **2.9** | **92.0** | **(40.9)** | **51.1** | **3,473.8** | **4,119.3** | **1,048.7** | **5,168.0** |
| **Net income** | **—** | **—** | **—** | **—** | **—** | **778.4** | **778.4** | **116.4** | **894.8** |
| **Other comprehensive (loss)** | **—** | **—** | **(70.8)** | **(60.7)** | **(131.5)** | **(14.6)** | **(146.1)** | **(5.0)** | **(151.1)** |
| **Total comprehensive (loss) income** | **—** | **—** | **(70.8)** | **(60.7)** | **(131.5)** | **763.8** | **632.3** | **111.4** | **743.7** |
| **Transfers of cash flow hedge (gains) to non-financial assets** | **—** | **—** | **(49.5)** | **—** | **(49.5)** | **—** | **(49.5)** | **—** | **(49.5)** |
| **Contributions and distributions to shareholders of Canadian Tire Corporation** | | | | | | | | | |
| Issuance of Class A Non-Voting Shares (Note 26) | **14.3** | **—** | **—** | **—** | **—** | **—** | **14.3** | **—** | **14.3** |
| Repurchase of Class A Non-Voting Shares (Note 26) | **(215.2)** | **—** | **—** | **—** | **—** | **—** | **(215.2)** | **—** | **(215.2)** |
| Accrued liability for automatic share purchase plan commitment (Note 26) | **(3.0)** | **—** | **—** | **—** | **—** | **(46.1)** | **(49.1)** | **—** | **(49.1)** |
| Excess of purchase price over average cost (Note 26) | **200.4** | **—** | **—** | **—** | **—** | **(200.4)** | **—** | **—** | **—** |
| Dividends | **—** | **—** | **—** | **—** | **—** | **(261.5)** | **(261.5)** | **—** | **(261.5)** |
| **Contributions and distributions to non-controlling interests** | | | | | | | | | |
| Sale of ownership interests in the CT REIT business, net of transaction costs (Note 15) | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **142.7** | **142.7** |
| Issuance of trust units to non-controlling interests, net of transaction costs | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **96.7** | **96.7** |
| Distributions and dividends to non-controlling interests | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(85.4)** | **(85.4)** |
| **Total contributions and distributions** | **(3.5)** | **—** | **(49.5)** | **—** | **(49.5)** | **(508.0)** | **(561.0)** | **154.0** | **(407.0)** |
| **Balance at December 28, 2019** | **$ 588.0** | **$ 2.9** | **$ (28.3)** | **$ (101.6)** | **$ (129.9)** | **$ 3,729.6** | **$ 4,190.6** | **$ 1,314.1** | **$ 5,504.7** |

| | | | Total accumulated other comprehensive income (loss) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | Share capital | Contributed surplus | Cashflow hedges | Currency translation adjustment | Total accumulated other comprehensive income (loss) | Retained earnings | Equity attributable to shareholders of Canadian Tire Corporation | Equity attributable to non-controlling interests | Total equity |
| **December 30, 2017, as previously reported** | $ 615.7 | $ 2.9 | $ (37.5) | $ — | $ (37.5) | $ 4,169.3 | $ 4,750.4 | $ 823.3 | $ 5,573.7 |
| **Transition adjustments – IFRS 15** | — | — | — | — | — | (7.6) | (7.6) | — | (7.6) |
| **Restated balance at December 30, 2017** | 615.7 | 2.9 | (37.5) | — | (37.5) | 4,161.7 | 4,742.8 | 823.3 | 5,566.1 |
| **Transition adjustments – IFRS 2 & 9** | — | — | (0.8) | — | (0.8) | (351.1) | (351.9) | (81.9) | (433.8) |
| **Restated balance at December 31, 2017** | 615.7 | 2.9 | (38.3) | — | (38.3) | 3,810.6 | 4,390.9 | 741.4 | 5,132.3 |
| **Net income** | — | — | — | — | — | 692.1 | 692.1 | 90.9 | 783.0 |
| **Other comprehensive income** | — | — | 133.5 | (40.9) | 92.6 | 10.4 | 103.0 | (1.5) | 101.5 |
| **Total comprehensive income** | — | — | 133.5 | (40.9) | 92.6 | 702.5 | 795.1 | 89.4 | 884.5 |
| **Transfers of cash flow hedge (gains) to non-financial assets** | — | — | (3.2) | — | (3.2) | — | (3.2) | — | (3.2) |
| **Contributions and distributions to shareholders of Canadian Tire Corporation** | | | | | | | | | |
| Issuance of Class A Non-Voting Shares (Note 26) | 11.9 | — | — | — | — | — | 11.9 | — | 11.9 |
| Repurchase of Class A Non-Voting Shares (Note 26) | (588.9) | — | — | — | — | — | (588.9) | — | (588.9) |
| Excess of purchase price over average cost (Note 26) | 552.8 | — | — | — | — | (552.8) | — | — | — |
| Dividends | — | — | — | — | — | (239.6) | (239.6) | — | (239.6) |
| **Contributions and distributions to non-controlling interests** | | | | | | | | | |
| Sale of ownership interests in the CT REIT business, net of transaction costs (Note 15) | — | — | — | — | — | — | — | 191.8 | 191.8 |
| Issuance of trust units to non-controlling interests, net of transaction costs | — | — | — | — | — | — | — | 65.8 | 65.8 |
| Distributions and dividends to non-controlling interests | — | — | — | — | — | — | — | (39.6) | (39.6) |
| **Total contributions and distributions** | (24.2) | — | (3.2) | — | (3.2) | (792.4) | (819.8) | 218.0 | (601.8) |
| **Balance at December 29, 2018** | $ 591.5 | $ 2.9 | $ 92.0 | $ (40.9) | $ 51.1 | $ 3,720.7 | $ 4,366.2 | $ 1,048.8 | $ 5,415.0 |

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

# 1. The Company and its Operations

Canadian Tire Corporation, Limited is a Canadian public company primarily domiciled in Canada. Its registered office is located at 2180 Yonge Street, Toronto, Ontario, M4P 2V8, Canada. It is listed on the Toronto Stock Exchange (TSX – CTC, CTC.A). Canadian Tire Corporation, Limited and entities it controls are together referred to in these consolidated financial statements as the "Company" or "Canadian Tire Corporation". Refer to Note 15 for the Company's major subsidiaries.

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

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

# 2. Basis of Preparation

### Fiscal Year

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to December 31. The fiscal years for the consolidated financial statements and notes presented for 2019 and 2018 are the 52-week periods ended December 28, 2019 and December 29, 2018, respectively.

### Statement of Compliance

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

These consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 12, 2020.

### Basis of Presentation

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

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

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

### Functional and Presentation Currency

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

### Judgments and Estimates

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

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

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

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

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

### *Impairment of Assets*

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

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

### *Fair Value Measurement of Redeemable Financial Instrument*

*Judgment* – The Company uses judgment in determining the fair value measurement of the redeemable financial instrument issued in conjunction with the sale of a 20 percent equity interest in the Company's Financial Services business. In calculating the fair value, judgment is used when determining the discount and growth rates applied to the forecast earnings in the discounted cash flow valuation. Refer to Note 33 for further information regarding this financial instrument.

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

### *Merchandise Inventories*

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

### *Income and Other Taxes*

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

### *Consolidation*

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

### *Loans Receivable*

*Estimation* – The Company's estimate of allowances on credit card loans receivable is based on an expected credit loss ("ECL") approach that employs an analysis of historical data, economic indicators and experience of delinquency and default, to estimate the amount of loans that may default as a result of past or future events, with certain adjustments for other relevant circumstances influencing the recoverability of these loans receivable. Impairment of loans is assessed based on whether there has been a significant increase in credit risk since origination and incorporation of forward-looking information in the measurement of expected credit losses. Default rates, loss rates and the expected timing of future recoveries are periodically benchmarked against actual outcomes to ensure that they remain appropriate. Future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes.

### *Post-Employment Benefits*

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

### *Lease Liabilities*

*Estimation* – For the measurement of lease liabilities, Management considers all factors that create an economic incentive to exercise extension options, or not exercise termination options available in its leasing arrangements. Extension options, or periods subject to termination options, are only included in the lease term if management determines it is reasonably certain to be extended or not terminated. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

*Estimation* – The Company generally uses the lessee's incremental borrowing rate when initially recording property leases. For property leases, the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the rate of interest that the lessee would pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

### *Other*

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

## Standards, Amendments and Interpretations Issued and Adopted

### *Adoption of IFRS 16 – Leases*

Effective in the first quarter 2019, the Company adopted IFRS 16, issued in January 2016 and the related consequential amendments. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 – *Leases* ("IAS 17"), with the distinction between operating leases and finance leases being retained. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for all operating leases where the Company is a lessee. Assets and liabilities relating to finance leases on the date of transition remain unchanged. The Company transitioned to IFRS 16 in accordance with the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings on December 30, 2018. The prior year's figures were not adjusted.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

| (C$ in millions) | As previously reported under IAS 17, December 29, 2018 | IFRS 16 transition adjustments | Balance at December 30, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Trade and other receivables | $ 933.3 | $ 14.8 | $ 948.1 |
| Long-term receivables and other assets | 742.6 | 85.0 | 827.6 |
| Goodwill and intangible assets | 2,272.0 | (0.7) | 2,271.3 |
| Investment property | 364.7 | 4.6 | 369.3 |
| Property and equipment | 4,283.2 | (122.6) | 4,160.6 |
| Right-of-use assets | — | 1,704.3 | 1,704.3 |
| Deferred income taxes | 215.8 | 74.0 | 289.8 |
| **Liabilities and equity** | | | |
| Trade payables and other liabilities | $ 2,425.0 | $ (95.1) | $ 2,329.9 |
| Current portion of lease liabilities | — | 311.4 | 311.4 |
| Provisions | 171.8 | (1.1) | 170.7 |
| Current portion of long-term debt | 553.6 | (15.4) | 538.2 |
| Long-term lease liabilities | — | 2,034.9 | 2,034.9 |
| Long-term debt | 4,000.3 | (92.6) | 3,907.7 |
| Deferred income taxes | 184.5 | (16.1) | 168.4 |
| Other long-term liabilities | 872.3 | (119.6) | 752.7 |
| Retained earnings | 3,720.7 | (246.9) | 3,473.8 |
| Non-controlling interest | 1,048.8 | (0.1) | 1,048.7 |

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which have previously been classified as operating leases under the principles of IAS 17. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the lessee's incremental borrowing rate as of December 30, 2018. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the consolidated balance sheet on December 30, 2018 was 4.88 percent.

The following table reconciles the operating lease commitments as at December 29, 2018 to the opening balance of lease liabilities as at December 30, 2018:

| (C$ in millions) | |
|---|---|
| Operating lease commitments as at December 29, 2018[1] | $ 2,621.7 |
| Add: finance lease liabilities recognized as at December 29, 2018 | 108.0 |
| Add: adjustments as a result of a different treatment for extension and termination options | 402.6 |
| Effect of discounting using the lessee's incremental borrowing rate | (505.8) |
| Less: leases committed not yet commenced | (244.2) |
| Less: short-term, low-value asset leases and others | (36.0) |
| Lease liabilities recognized as at December 30, 2018 | $ 2,346.3 |

[1] *Includes operating lease commitments of $128.4 million relating to properties where the Company is an intermediate lessor in sublease arrangements.*

The associated right-of-use assets were primarily measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application. Certain right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the balance sheet as at December 30, 2018.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous accounting standard (IAS 17 and IFRIC 4 – *Determining whether an arrangement contains a lease*);
- the Company has applied a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- the Company has used the onerous lease provisions recognized as at December 29, 2018 as an alternative to performing an impairment review on its right-of-use assets as at December 30, 2018. Where an onerous lease provision was recorded on a lease, the right-of-use asset has been reduced by the onerous lease provision recognized on December 29, 2018;
- the Company has excluded initial direct costs in the measurement of the right-of-use asset on transition;
- the Company accounted for real estate operating leases with a remaining lease term of less than 12 months as at December 30, 2018 as short-term leases; and
- the Company has used hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.

## Standards, Amendments and Interpretations Issued but not yet Adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 28, 2019 and, accordingly, have not been applied in preparing these consolidated financial statements.

### *Insurance Contracts*

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 – *Insurance Contracts* ("IFRS 17"), that replaces IFRS 4 – *Insurance Contracts* and establishes a new model for recognizing insurance policy obligations, premium revenue, and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021. In June 2019, the IASB proposed an amendment to IFRS 17 providing a deferral of one year of the effective date to January 1, 2022. Early adoption is permitted. The Company is assessing the potential impact of this standard.

### *Interest Rate Benchmark Reform: Amendments to IFRS 9 and IFRS 7*

In September 2019, IASB issued Phase 1 of its amendments to IFRS 9 – *Financial Instruments* and IFRS 7 – *Financial Instruments: Disclosures*, to amend certain requirements for hedge accounting and provide relief during the period of uncertainty arising from the phase out of interest rate benchmarks (e.g. interbank offered rates ["IBOR"s]). These amendments modify hedge accounting requirements, allowing entities to assume that the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are based are not altered as a result of IBOR reform, thereby allowing hedge accounting to continue. Mandatory application of the amendments ends at the earlier of when the uncertainty regarding the timing and amount of interest rate benchmark-based cash flows is no longer present and the discontinuation of the hedging relationship. Phase 2 of the IASB's project on IBOR is underway and will address transition from IBOR. The Phase 1 amendments will be effective for annual periods beginning on or after January 1, 2020, with early adoption permitted. The Company is assessing the potential impact of these amendments on hedge accounting relationships.

## 3. Significant Accounting Policies

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

### Basis of Consolidation

These consolidated financial statements include the accounts of Canadian Tire Corporation and entities it controls. An entity is controlled when the Company has the ability to direct the relevant activities of the entity, has exposure or rights to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its returns from the entity. Refer to Note 15.1 for details of the Company's significant entities.

The results of certain subsidiaries that have different year ends have been included in these consolidated financial statements for the 52-week periods ended December 28, 2019 and December 29, 2018. The year end of CT Real Estate Investment Trust ("CT REIT"), Helly Hansen, Franchise Trust and CTFS Holdings Limited and its subsidiaries is December 31.

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

### *Business Combinations*

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

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

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

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

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

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

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

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

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

Lease liabilities and corresponding right-of-use assets are recognized for leases in which the acquiree is a lessee. The lease liability is measured at the present value of the remaining lease payments as if the acquired lease were a new lease at the acquisition date. The right-of-use asset is equal to the lease liability, adjusted to reflect favourable or unfavourable market terms.

### *Joint Arrangement*

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

### *Functional and Presentation Currency*

Each of the Company's foreign subsidiaries determines its own functional currency and items included in the consolidated financial statements of each foreign subsidiary are measured using that functional currency. Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expenses at average rates during the period. Gains or losses on translation are accumulated as a component of equity. On the disposal of a foreign operation, or the loss of control, the component of AOCI relating to that foreign operation is reclassified to net income.

### *Foreign Currency Transactions and Balances*

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

## Financial Instruments

### *Recognition and Initial Measurement*

Financial assets and financial liabilities, including derivatives, are recognized in the Consolidated Balance Sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition.

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

### *Classification and Subsequent Measurement*

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories: a) amortized cost and b) fair value through profit or loss.

### *Financial Instruments at Amortized Cost*

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL. These financial liabilities, including derivative liabilities and the redeemable financial instrument, are subsequently measured at fair value with changes in fair value recorded in net income in the period in which they arise to the extent they are not part of a designated hedging relationship. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method, with gains and losses recognized in net income in the period that the liability is derecognized.

### *Financial Instruments at Fair Value Through Profit or Loss*

Financial instruments are classified as FVTPL when the financial instrument is either held for trading or designated as such upon initial recognition. Financial instruments are classified as held for trading if acquired principally for the purpose of selling in the near future or if part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-making. All financial assets not classified as amortized cost are measured at FVTPL. This includes derivative financial assets that are not part of a designated hedging relationship.

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

### *Impairment of Financial Instruments*

The Company recognizes a loss allowance on a forward-looking basis at an amount equal to the lifetime ECL on its financial assets measured at amortized cost, except for the following, which are measured at 12-month ECL:

- debt investments that are determined to have low credit risk at the reporting date with a credit risk rating equivalent to investment grade; and
- other financial assets, such as loan receivables, for which credit risk has not increased significantly since initial recognition.

Lifetime ECL represents the expected credit losses that will result from all probable default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Losses for impaired credit card loans are recognized when credit is granted. Twelve-month ECL is recognized on loans except when credit risk has increased significantly since initial recognition, in which case lifetime ECL is applied. A significant increase in credit risk is assessed based on changes in the probability of default since initial recognition along with borrower specific qualitative information, or when the loan is more than 30 days past due. Credit card loans are considered impaired and in default when they are 90 days past due or there is sufficient doubt regarding the ultimate collectability of principal and/or interest. The estimate of credit card loans receivable for accounts wherein the customer has initiated the consumer proposal insolvency process is based on the present value of expected future cash flows based on the terms of consumer proposal agreements received during the year. Credit card loans that are 180 days past due are written down to the present value of the expected future cash flows.

ECL is calculated as the product of the probability of default, exposure at default and loss given default over the remaining expected life of the loans and discounted to the reporting date. The ECL model also incorporates forward-looking information, which increases the degree of judgment required as to how changes in macro-economic factors will affect ECLs. Macro-economic factors taken into consideration include, but are not limited to, unemployment rate and require an evaluation of both the current and forecast direction of the macro-economic cycle. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loans receivable are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivable not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

### *Derecognition of Financial Instruments*

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

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

### *Derivative Financial Instruments*

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

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

### *Hedge Accounting*

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

### *Cash Flow Hedges*

For cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recognized in OCI, while the ineffective and unhedged portions are recognized immediately in net income. Amounts recorded in AOCI are reclassified to net income in the periods when the hedged item affects net income. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in AOCI are directly transferred from AOCI and included in the initial measurement of the cost of the non-financial asset or liability without affecting other comprehensive income.

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

The Company enters into foreign currency contracts to hedge the exposure against foreign currency risk on the future payment of certain foreign-currency-denominated inventory purchases and certain expenses. The Company's policy is for the critical terms of the foreign currency contracts to align with the hedged item and applies a hedge ratio of 1:1. The changes in fair value of these contracts are included in OCI to the extent the hedges continue to be effective. Hedge ineffectiveness may arise if the timing of the hedged transactions changes from what was originally estimated. Once the inventory is received, the Company transfers the related AOCI amount to merchandise inventories and subsequent changes in the fair value of the foreign currency contracts are recorded in net income as they occur. When the expenses are incurred, the Company reclassifies the related AOCI amount to the expense.

The Company enters into interest rate swap contracts to hedge the exposure against interest rate risk on the future interest payments of debt issuances and deposits. The Company also enters into "swaption" derivative financial instruments that provide it with an option to enter into an interest rate swap as part of the Company's strategy to manage its interest rate exposure risk on the future interest payments of debt issuances and deposits.

The Company's policy is for the critical terms of the interest rate swap and swaptions contracts to align with the hedged item and applies a hedge ratio of 1:1. The changes in fair value of these contracts are included in OCI to the extent that the hedges continue to be effective. The Company designates only the change in fair value of the intrinsic value of the instrument as the hedging instrument. The time value of the option relates to a time-period related hedged item. The change in time value is recognized in OCI and is subsequently amortized on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss. Hedge ineffectiveness may arise if the timing of the hedged transactions changes from what was originally estimated. When the interest expense is incurred, the Company reclassifies the related AOCI amount to finance costs.

### *Cash and Cash Equivalents*

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

### *Short-Term Investments*

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

### *Trade and Other Receivables*

The lifetime ECL allowance for impairment is recognized for trade and other receivables. It is estimated based on the Company's historical loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current as well as forecast direction of conditions at the reporting date. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in Selling, general and administrative expenses in the Consolidated Statements of Income. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in Selling, general and administrative expenses in the Consolidated Statements of Income.

### *Loans Receivable*

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

Losses for impaired loans are recognized when the loan is originated. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded in Cost of producing revenue in the Consolidated Statements of Income. The carrying amount of loans receivable in the Consolidated Balance Sheets is reduced through the use of impairment allowance accounts.

### *Merchandise Inventories*

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

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

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

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

### *Long-Term Investments*

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

## Intangible Assets

### *Goodwill*

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

### *Finite Life and Indefinite Life Intangible Assets*

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

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

Expenditures on research activities are expensed as incurred.

## Investment Property

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

## Property and Equipment

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

Buildings, fixtures and equipment are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives, depreciation method and residual values are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis.

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

Assets held under finance leases, prior to adoption of IFRS 16, were depreciated on the same basis as owned assets. If there was no reasonable certainty that the Company would obtain ownership by the end of the lease term, the asset was depreciated over the shorter of lease term and its useful life.

Estimated useful lives are as follows:

| Asset Category | Estimated Useful Lives |
|---|---|
| Buildings | 10 – 45 years |
| Fixtures and equipment (including software intangible assets) | 3 – 25 years |
| Leasehold improvements | Shorter of term of lease or estimated useful life |
| Assets under finance lease (prior to adoption of IFRS 16) | Shorter of term of lease or estimated useful life |

## Leased Assets

As a result of adopting IFRS 16 in 2019, the lease accounting policies were updated as follows. The prior period accounting policies related to leases (under IAS 17) are discussed at the end of this section.

### *Lessee*

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the Consolidated Statements of Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the Consolidated Statements of Income. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in Selling, general and administrative expenses in the Consolidated Statements of Income.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

### *Lessor*

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

### *Subleases*

When the Company enters into sublease arrangements as an intermediate lessor, it determines whether the sublease is a finance sublease or operating sublease by reference to the right-of-use asset arising from the head lease. A sublease is a finance sublease if substantially all the risks and rewards of the related head lease right-of-use asset have been transferred to the sub-lessee. When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts.

For finance subleases, the Company derecognizes the corresponding right-of-use asset and records a net investment in the finance sublease and corresponding interest income is recognized in net finance costs. The net investment in the sublease is recognized in trade and other receivables and long-term receivables and other assets.

### *Sale and Leaseback*

The accounting treatment of a sale and leaseback transaction is assessed based upon the substance of the transaction and whether the transfer of an asset is considered as a sale when the control of the asset has been transferred to the purchaser.

If the transfer of the asset by the Company as seller-lessee is considered a sale, the Company measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by it. Accordingly, the amount of any gain or loss that relates to the rights transferred to the buyer-lessor are recognized in other income in the Consolidated Statements of Income.

If the transfer of an asset is not considered a sale, the asset continues to be recognized and a financial liability equal to the transfer proceeds is recorded.

## Impairment of Assets

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

### *Cash Generating Units*

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

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

### *Determining the Recoverable Amount*

An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount. The recoverable amount of an asset or CGU is defined as the higher of its FVLCS and its VIU.

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

### *Recording Impairments and Reversals of Impairments*

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

### Assets Classified as Held for Sale

Non-current assets and disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets (and disposal groups) classified as held for sale are measured at the lower of the carrying amount or FVLCS and are not depreciated. The fair value measurement of assets held for sale is categorized within Level 2 of fair value hierarchy (refer to Note 33.2 for definition of fair value hierarchy levels).

### Borrowing Costs

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

### Employee Benefits

#### *Short-Term Benefits*

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

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

#### *Post-Employment Benefits*

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

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

#### *Termination Benefits*

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

### Share-Based Payments

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

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

### Insurance Reserve

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

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

### Provisions

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

#### *Sales and Warranty Returns*

The provision for sales and warranty returns relates to the Company’s obligation for defective goods in current store inventories and defective goods sold to customers that have yet to be returned, after-sales service for replacement parts and future corporate store sales returns. Accruals for sales and warranty returns are estimated on the basis of historical returns and are recorded as a reduction to revenue. These accruals are reviewed regularly and updated to reflect Management’s best estimate that is based on a most likely amount at each reporting date.

#### *Site Restoration and Decommissioning*

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

#### *Onerous Contracts*

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

## Debt

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

## Share Capital

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

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

## Dividends

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

## Distributions

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

## Revenue

### *Sale of Goods*

Revenue from the sale of goods includes merchandise sold to Dealers, Mark's and SportChek[1] franchisees, the sale of gasoline through agents, the sale of goods to the general public by Mark's, PartSource, SportChek[1], Helly Hansen and Party City in Canada corporately-owned stores as well as the sale of goods through Helly Hansen's wholesale channels. This revenue is recognized when the goods are delivered, less an estimate for sales and warranty returns. Revenue from the sale of goods is measured at the fair value of the consideration received less an appropriate deduction for actual and expected returns, discounts, rebates and warranty and customer loyalty program costs, net of sales taxes.

### *Customer Loyalty Programs*

Loyalty reward credits issued as part of a sales transaction results in revenue being deferred until the loyalty reward is redeemed by the customer. In addition, an obligation arises from the loyalty program when the Company sells merchandise to the Dealers, for which reward credits may be issued as part of the subsequent sales transaction with the customer. The obligation is measured at fair value by reference to the fair value of the rewards for which they could be redeemed and based on the estimated probability of their redemption. The loyalty program costs are recorded as a reduction to revenue in the Consolidated Statements of Income.

### *Interest Income on Loans Receivable*

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

### *Services Rendered*

Service revenue includes Roadside Assistance Club membership revenue; merchant, interchange and processing fees; cash advance fees; home services fees; foreign exchange fees; and service charges on the loans receivable of the Financial Services operating segment. Service revenue is recognized according to the contractual provisions of the arrangement, which is generally when the service is provided or over the contractual period.

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[1] *"SportChek" refers to the retail business carried on by FGL Sports Ltd., including stores operated under the SportChek, Sports Experts, Atmosphere, National Sports, Sports Rousseau and Hockey Experts names and trademarks.*

Merchant, interchange and processing fees, cash advance fees and foreign exchange fees on credit card transactions are recognized as revenue at the time transactions are completed.

### *Reinsurance Revenue*

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

### *Royalties and Licence Fees*

Royalties and licence fees include licence fees from Petroleum agents and Dealers and royalties from Mark's and SportChek franchisees. Royalties and licence fee revenues are recognized as they are earned in accordance with the substance of the relevant agreement, which is generally based on percentage of occurred sales.

### *Rental Income*

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

## Vendor Rebates

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

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

## Net Finance Costs

Finance income comprises interest income on funds invested and interest income on lease receivables for finance subleases. Interest income is recognized as it accrues using the effective interest method.

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

## Income Taxes

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

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

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

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

### Earnings per Share

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

### Non-controlling Interests

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

### Leases Prior to December 30, 2018

The following is applicable only for periods prior to December 30, 2018, for leases accounted for under IAS 17.

#### *Leased Assets*

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

#### *Lessor*

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

#### *Lessee*

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

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

#### *Sale and Leaseback*

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

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

# 4. Capital Management

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

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

| (C$ in millions) | 2019 | % of total | 2018 | % of total |
|---|---|---|---|---|
| **Capital components** | | | | |
| Deposits | **$ 790.8** | **6.4%** | $ 964.5 | 7.8% |
| Short-term borrowings | **450.0** | **3.7%** | 378.1 | 3.1% |
| Current portion of long-term debt | **788.2** | **6.5%** | 553.6 | 4.5% |
| Long-term debt | **3,730.2** | **30.3%** | 4,000.3 | 32.6% |
| Long-term deposits | **1,653.4** | **13.4%** | 1,506.7 | 12.3% |
| Total debt | **$ 7,412.6** | **60.3%** | $ 7,403.2 | 60.3% |
| Redeemable financial instrument | **567.0** | **4.6%** | 567.0 | 4.6% |
| Share capital | **588.0** | **4.8%** | 591.5 | 4.8% |
| Contributed surplus | **2.9** | **—%** | 2.9 | —% |
| Retained earnings | **3,729.6** | **30.3%** | 3,720.7 | 30.3% |
| **Total capital under management** | **$ 12,300.1** | **100.0%** | $ 12,285.3 | 100.0% |

The Company monitors its capital structure by measuring debt-to-earnings ratios and manages its debt service and other fixed obligations by tracking its interest and other coverage ratios and forecasting corporate liquidity.

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

In order to maintain or adjust the capital structure, the Company has the flexibility to adjust the amount of shares purchased under its normal course issuer bid ("NCIB") program, adjust the amount of dividends paid to shareholders, repay debt, issue new debt and equity, monetize various assets, engage in additional sale and leaseback transactions of real estate properties and increase or decrease the amount of sales of co-ownership interests in loans receivable to GCCT.

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

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

The Company was in compliance with all financial covenants under its existing debt agreements as at December 28, 2019 and December 29, 2018. Under these covenants, the Company has sufficient flexibility to support business growth.

Helly Hansen is required to comply with covenants established under its bank credit agreements, and was in compliance with all financial covenants thereunder as at December 28, 2019.

CT REIT is required to comply with covenants established under its Declaration of Trust, the Trust Indenture and bank credit agreement and was in compliance with all financial covenants thereunder as at December 31, 2019 and 2018.

Canadian Tire Bank ("CTB" or "the Bank"), a federally chartered Schedule I bank, is required to comply with regulatory requirements for capital, other regulatory requirements that have an impact on its business operations and certain financial covenants established under its bank credit agreement.

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

The Bank's objectives include:

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

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

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

As at December 31, 2019 and 2018, the Bank complied with all regulatory capital guidelines established by OSFI, its internal targets as determined by its ICAAP and all financial covenants under its bank credit agreement.

## 5. Financial Risk Management

### 5.1 Overview

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

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

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

### 5.2 Risk Management Framework

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

### 5.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations, arises principally from operations of the Company's credit card portfolio, CTC's interaction with its Dealer network, and financial instruments, which are discussed in more detail below.

### 5.3.1 Financial Instrument Counterparty Credit Risk

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

### 5.3.2 Consumer and Dealer Credit Risk

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

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

| (C$ in millions) | **2019** | 2018 |
|---|---|---|
| Undrawn loan commitments | **$ 10,695.9** | $ 11,009.6 |
| Guarantees | **414.9** | 414.5 |
| Total | **$ 11,110.8** | $ 11,424.1 |

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

### 5.4 Liquidity Risk

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

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

Provided by a syndicate of seven Canadian and three international financial institutions, $1.975 billion in a committed bank line is available to CTC for general corporate purposes, expiring in August 2024.

Provided by a syndicate of seven Canadian financial institutions, $300.0 million in a committed bank line is available to CT REIT for general business purposes, expiring in December 2024.

Scotiabank has provided CTB with a $250.0 million unsecured revolving committed credit facility and $2.0 billion in note purchase facilities for the purchase of senior and subordinated notes issued by GCCT, each of which expire in October 2022.

Provided by a syndicate of five Canadian financial institutions, $300.0 million in a committed liquidity facility provides backstop protection to GCCT's Series 1997-1 asset-backed commercial paper program, expiring in August 2022.

In addition to the committed bank lines of credit, the Company has access to additional funding sources including internal cash generation, access to public and private financial markets and strategic real estate transactions. Assets of CTB are funded through the securitization of credit card receivables using GCCT, broker guaranteed investment certificate ("GIC") deposits, retail GIC deposits and high-interest savings ("HIS") account deposits. CTB also holds high quality liquid assets, as required by regulators, which are available to address funding disruptions.

During the second quarter, the Company entered into a U.S. dollar-denominated commercial paper program that allows it to issue up to a maximum aggregate principal amount of U.S. $1.0 billion of short-term promissory notes in the United States. Funds can be borrowed under this program with terms to maturity ranging from one to 270 days. Any issuances made under the program are issued at a discount and the notes rank equally in right of payment with all other present and future unsecured and unsubordinated obligations to creditors of the Company.

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

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

| (C$ in millions) | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Deposits[1,2] | $ 800.2 | $ 244.5 | $ 562.3 | $ 409.7 | $ 437.0 | $ — | $ 2,453.7 |
| Trade and other payables | 2,087.0 | — | — | — | — | — | 2,087.0 |
| Short-term borrowings | 450.0 | — | — | — | — | — | 450.0 |
| Loans | 621.5 | — | — | — | — | — | 621.5 |
| Long-term debt | 751.3 | 150.0 | 710.0 | 984.0 | 560.0 | 1,325.0 | 4,480.3 |
| Mortgages | 37.5 | 0.5 | 9.7 | — | — | — | 47.7 |
| Interest payments[3] | 189.1 | 169.2 | 151.0 | 111.0 | 80.4 | 399.0 | 1,099.7 |
| Total | $ 4,936.6 | $ 564.2 | $ 1,433.0 | $ 1,504.7 | $ 1,077.4 | $ 1,724.0 | $ 11,239.9 |

[1] *Deposits exclude the GIC broker fee discount of $9.5 million.*
[2] *The average remaining term of the GIC deposits is 32 months as at December 28, 2019.*
[3] *Includes interest payments on deposits, short-term borrowings, loans, and long-term debt.*

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

### 5.5 Market Risk

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

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

#### 5.5.1 Foreign Currency Risk

The Company sources its merchandise globally. Approximately 39%, 42%, and 7% of the value of the inventory purchased for the Canadian Tire, Mark's, and SportChek banners, respectively, is sourced directly from vendors outside North America, primarily denominated in U.S. dollars. The majority of Helly Hansen purchases are denominated in U.S. dollars and Euros. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the Company has an established foreign exchange risk management program that governs the proportion of forecast U.S. dollar purchases that must and can be hedged through the purchase of foreign exchange contracts. The purpose of the program is to provide certainty with respect to a portion of the foreign exchange component of future merchandise purchases.

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

#### 5.5.2 Interest Rate Risk

The Company may use interest rate derivatives to manage interest rate risk. The Company has a policy in place whereby, on a consolidated basis, a minimum of 75 percent of its consolidated debt (short-term and long-term) should be at fixed versus floating interest rates.

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

The Company's exposure to interest rate changes is predominantly driven by short-term Retail borrowings (on the lines or in the U.S. commercial paper markets) and the Financial Services business to the extent that the interest rates on future issuances of GIC deposits, HIS account deposits, tax-free savings account ("TFSA") deposits and securitization transactions are market-dependent. Partially offsetting this will be rates charged on credit cards and a significant portion of the funding liabilities for Financial Services are fixed rate, which reduces interest rate risk. In addition, Financial Services has entered into interest rate derivatives to hedge a portion of its planned GCCT term debt issuances and GIC deposits in 2020 to 2024.

## 6. Operating Segments

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

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

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

- Financial Services issues Canadian Tire's Triangle branded credit cards, including Triangle Mastercard, Triangle World Mastercard and Triangle World Elite Mastercard. Financial Services also offers Cash Advantage Mastercard and Gas Advantage Mastercard products, markets insurance and warranty products, and provides settlement services to the Company's affiliates. Financial Services includes CTB, a federally-regulated financial institution that manages and finances the Company's consumer Mastercard and retail credit card portfolios, as well as an existing block of Canadian Tire branded line of credit loans. CTB also offers high-interest savings deposit accounts, TFSAs and GIC deposits, both directly and through third-party brokers. Financial Services includes GCCT, a structured entity established to purchase co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases.

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

| | | | | | **2019** | | | | | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | **Retail** | **CT REIT** | **Financial Services** | **Eliminations and adjustments** | **Total** | Retail | CT REIT | Financial Services | Eliminations and adjustments | Total |
| External revenue | **$13,205.1** | **$ 51.6** | **$ 1,291.4** | **$ (13.7)** | **$14,534.4** | $12,804.6 | $ 46.4 | $ 1,216.1 | $ (8.4) | $14,058.7 |
| Intercompany revenue | **4.7** | **437.4** | **42.7** | **(484.8)** | **—** | 8.9 | 426.1 | 43.8 | (478.8) | — |
| Total revenue | **13,209.8** | **489.0** | **1,334.1** | **(498.5)** | **14,534.4** | 12,813.5 | 472.5 | 1,259.9 | (487.2) | 14,058.7 |
| Cost of producing revenue | **9,134.0** | **—** | **596.9** | **(70.3)** | **9,660.6** | 8,865.1 | — | 542.7 | (60.4) | 9,347.4 |
| Gross margin | **4,075.8** | **489.0** | **737.2** | **(428.2)** | **4,873.8** | 3,948.4 | 472.5 | 717.2 | (426.8) | 4,711.3 |
| Other (income) expense | **(138.8)** | **—** | **1.9** | **123.5** | **(13.4)** | (157.1) | — | (0.3) | 131.4 | (26.0) |
| Selling, general and administrative expenses[2] | **3,326.6** | **120.3** | **310.0** | **(319.4)** | **3,437.5** | 3,439.8 | 120.8 | 326.1 | (419.1) | 3,467.6 |
| Net finance costs (income) | **240.2** | **108.8** | **(1.0)** | **(81.2)** | **266.8** | (2.7) | 104.4 | (1.1) | 50.9 | 151.5 |
| Change in fair value of redeemable financial instrument | **—** | **—** | **—** | **—** | **—** | — | — | — | 50.0 | 50.0 |
| Fair value (gain) loss on investment properties | **—** | **(47.3)** | **—** | **47.3** | **—** | — | (53.6) | — | 53.6 | — |
| Income before income taxes | **$ 647.8** | **$ 307.2** | **$ 426.3** | **$ (198.4)** | **$ 1,182.9** | $ 668.4 | $ 300.9 | $ 392.5 | $ (293.6) | $ 1,068.2 |
| Items included in the above: | | | | | | | | | | |
| Depreciation and amortization | **$ 823.1** | **$ —** | **$ 13.2** | **$ (178.8)** | **$ 657.5** | $ 360.3 | $ — | $ 10.0 | $ 57.7 | $ 428.0 |
| Interest income | **105.3** | **0.3** | **1,115.1** | **(69.7)** | **1,151.0** | 91.6 | 0.2 | 1,028.5 | (72.7) | 1,047.6 |
| Interest expense | **325.0** | **109.1** | **137.5** | **(210.6)** | **361.0** | 70.0 | 104.6 | 121.6 | (73.7) | 222.5 |

The eliminations and adjustments include the following items:
- reclassifications of certain revenues and costs in the Financial Services segment to net finance (income) costs;
- conversion from CT REIT's fair value investment property valuation policy to the Company's cost model, including the recording of depreciation; and

- intersegment eliminations and adjustments including intercompany rent, property management fees, credit card processing fees and the change in fair value of the redeemable financial instrument.

While the Company primarily operates in Canada, following the acquisition of Helly Hansen on July 3, 2018, it now also operates in foreign jurisdictions. Foreign revenue earned by Helly Hansen amounted to $513.3 million for the year ended December 28, 2019 (2018 – $295.5 million). Property and equipment and intangible assets (brand and goodwill) located outside of Canada was $984.7 million as at December 28, 2019 (2018 – $979.1 million).

Capital expenditures by reportable operating segment are as follows:

| | | | | 2019 | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | Retail | CT REIT | Financial Services | Total | Retail | CT REIT | Financial Services | Total |
| Capital expenditures[1] | $ 432.2 | $ 93.1 | $ 12.0 | $ 537.3 | $ 440.7 | $ 116.6 | $ 9.7 | $ 567.0 |

[1] *Capital expenditures are presented on an accrual basis and include software additions, but exclude right-of-use asset additions, acquisitions relating to business combinations, intellectual property additions and tenant allowances received.*

Right-of-use asset additions by reportable operating segment are as follows:

| | | | | 2019 | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | Retail | CT REIT | Financial Services | Total | Retail | CT REIT | Financial Services | Total |
| Right-of-use asset additions[1] | $ 129.0 | $ — | $ — | $ 129.0 | $ — | $ — | $ — | $ — |

[1] *Not applicable for the prior year due to the initial application of IFRS 16 in 2019 (refer to Note 2).*

Total assets by reportable operating segment are as follows:

| (C$ in millions) | 2019 | 2018[1] |
|---|---|---|
| Retail | $ 15,995.4 | $ 11,894.3 |
| CT REIT | 6,024.5 | 5,708.7 |
| Financial Services | 6,606.4 | 6,345.6 |
| Eliminations and adjustments | (9,108.0) | (6,661.8) |
| Total assets[2] | $ 19,518.3 | $ 17,286.8 |

[1] *Prior period figures are not comparable due to the adoption of IFRS 16 in 2019 (refer to Note 2).*
[2] *The Company employs a shared-services model for several of its back-office functions, including finance, information technology, human resources and legal. As a result, expenses relating to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated among segments in the presented measures of segmented assets and liabilities.*

Total liabilities by reportable operating segment are as follows:

| (C$ in millions) | 2019 | 2018[1] |
|---|---|---|
| Retail | $ 9,870.2 | $ 5,239.3 |
| CT REIT | 2,690.4 | 2,623.8 |
| Financial Services | 5,589.9 | 5,407.1 |
| Eliminations and adjustments | (4,136.9) | (1,398.4) |
| Total liabilities[2] | $ 14,013.6 | $ 11,871.8 |

[1] *Prior period figures are not comparable due to the adoption of IFRS 16 in 2019 (refer to Note 2).*
[2] *The Company employs a shared-services model for several of its back-office functions, including finance, information technology, human resources and legal. As a result, expenses relating to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated among segments in the presented measures of segmented assets and liabilities.*

The eliminations and adjustments include the following items:

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

## 7. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Cash | $ | 117.9 | $ | 125.2 |
| Cash equivalents | | 69.4 | | 324.8 |
| Restricted cash and cash equivalents[1] | | 18.2 | | 20.4 |
| Total cash and cash equivalents[2] | $ | 205.5 | $ | 470.4 |
| Bank indebtedness | | (10.4) | | — |
| Cash and cash equivalents, net of bank indebtedness | $ | 195.1 | $ | 470.4 |

[1] *Restricted cash and cash equivalents relates to GCCT and is restricted for the purpose of paying out note holders and additional funding costs of $12.8 million (2018 – $16.2 million) and other operational items $5.4 million (2018 – $4.2 million).*
[2] *Included in cash and cash equivalents are amounts held in reserve in support of Financial Services' liquidity and regulatory requirements (refer to Note 32.1).*

## 8. Trade and Other Receivables

Trade and other receivables include the following:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Trade receivables | $ | 747.9 | $ | 618.6 |
| Other receivables | | 151.7 | | 167.8 |
| Net investment in subleases (Note 14) | | 17.5 | | — |
| Derivatives (Note 33) | | 21.2 | | 146.9 |
| Total financial assets | $ | 938.3 | $ | 933.3 |

Trade receivables are primarily from Dealers, franchisees and Helly Hansen's wholesale customers. This is a large and geographically-dispersed group whose receivables, individually, generally comprise less than one percent of the total balance outstanding. Other receivables are primarily receivables from vendors and tenants and insurance receivables.

Receivables from Dealers are in the normal course of business and include cost-sharing and financing arrangements. The net average credit period on sale of goods is between 1 and 120 days.

## 9. Loans Receivable

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

| | Total principal amount of receivables[1] | | | |
|---|---|---|---|---|
| (C$ in millions) | | 2019 | | 2018 |
| Credit card loans[2] | $ | 5,794.1 | $ | 5,484.2 |
| Dealer loans[3] | | 622.5 | | 662.0 |
| Total loans receivable | | 6,416.6 | | 6,146.2 |
| Less: long-term portion[4] | | 602.8 | | 634.9 |
| Current portion of loans receivable | $ | 5,813.8 | $ | 5,511.3 |

[1] *Amounts shown are net of allowance for loan impairment.*
[2] *Includes line of credit loans and are expected to be recovered within one year of the reporting date.*
[3] *Dealer loans primarily relate to loans issued by Franchise Trust (refer to Note 22).*
[4] *The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer loans of $601.6 million (2018 – $633.7 million).*

For the year ended December 28, 2019, cash received from interest earned on credit cards and loans was $1,043.9 million (2018 – $959.6 million).

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

A continuity of the Company's allowance for impairment on loans receivable is as follows:

| | | | | **2019** |
|---|---|---|---|---|
| (C$ in millions) | **12-month ECL[1] (Stage 1)** | **Lifetime ECL1 – not credit-impaired (Stage 2)** | **Lifetime ECL1 – credit-impaired (Stage 3)** | **Total** |
| Balance at December 29, 2018 | **$ 253.0** | **$ 186.1** | **$ 325.5** | **$ 764.6** |
| Increase (decrease) during the period | | | | |
| Write-offs | **(14.1)** | **(28.9)** | **(436.8)** | **(479.8)** |
| Recoveries | **—** | **—** | **82.8** | **82.8** |
| New loans originated | **25.3** | **—** | **—** | **25.3** |
| Transfers | | | | **—** |
| to Stage 1 | **147.1** | **(92.5)** | **(54.6)** | **—** |
| to Stage 2 | **(26.8)** | **37.1** | **(10.3)** | **—** |
| to Stage 3 | **(26.8)** | **(27.6)** | **54.4** | **—** |
| Net remeasurements | **(57.2)** | **117.9** | **343.2** | **403.9** |
| Balance at December 28, 2019 | **$ 300.5** | **$ 192.1** | **$ 304.2** | **$ 796.8** |

[1] *Expected Credit Loss ("ECL") model.*

| | | | | 2018 |
|---|---|---|---|---|
| (C$ in millions) | 12-month ECL[1] (Stage 1) | Lifetime ECL1 – not credit-impaired (Stage 2) | Lifetime ECL1 – credit-impaired (Stage 3) | Total |
| Balance at December 30, 2017 per IAS 39 | $ — | $ — | $ — | $ 111.0 |
| IFRS 9 adjustment | | | | 584.0 |
| Balance at December 31, 2017 per IFRS 9 | 227.0 | 182.3 | 285.7 | 695.0 |
| Increase (decrease) during the period | | | | |
| Write-offs | (11.9) | (25.6) | (352.9) | (390.4) |
| Recoveries | | | 75.4 | 75.4 |
| New loans originated | 53.9 | — | — | 53.9 |
| Transfers | | | | — |
| to Stage 1 | 73.2 | (50.6) | (22.6) | — |
| to Stage 2 | (32.5) | 36.7 | (4.2) | — |
| to Stage 3 | (28.2) | (26.8) | 55.0 | — |
| Net remeasurements | (28.5) | 70.1 | 289.1 | 330.7 |
| Balance at December 29, 2018 | $ 253.0 | $ 186.1 | $ 325.5 | $ 764.6 |

[1] *Expected Credit Loss ("ECL") model.*

Credit card loans are considered impaired when a payment is 90 days past due or there is sufficient doubt regarding the collectability of the outstanding balance. No collateral is held against loans receivable, except for loans to Dealers, as discussed above. The Bank continues to seek recovery on amounts that were written-off during the period, unless the Bank no longer has the right to collect, the receivable has been sold to a third party, or all reasonable efforts to collect have been exhausted.

The following table sets out information about the credit risk exposure of loans receivable:

| | | | | | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | | **Stage 1** | | **Stage 2** | | **Stage 3** | | **Total** |
| Low risk | **$** | **2,536.5** | **$** | **67.0** | **$** | **—** | **$** | **2,603.5** |
| Moderate risk | | **1,982.5** | | **137.0** | | **—** | | **2,119.5** |
| High risk | | **923.9** | | **325.7** | | **618.3** | | **1,867.9** |
| Total gross carrying amount | | **5,442.9** | | **529.7** | | **618.3** | | **6,590.9** |
| ECL allowance | | **300.5** | | **192.1** | | **304.2** | | **796.8** |
| Net carrying amount | **$** | **5,142.4** | **$** | **337.6** | **$** | **314.1** | **$** | **5,794.1** |

| | | | | | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | | Stage 1 | | Stage 2 | | Stage 3 | | Total |
| Low risk | $ | 2,119.3 | $ | 210.6 | $ | — | $ | 2,329.9 |
| Moderate risk | | 1,864.4 | | 251.9 | | — | | 2,116.3 |
| High risk | | 836.6 | | 290.4 | | 675.6 | | 1,802.6 |
| Total gross carrying amount | | 4,820.3 | | 752.9 | | 675.6 | | 6,248.8 |
| ECL allowance | | 253.0 | | 186.1 | | 325.5 | | 764.6 |
| Net carrying amount | $ | 4,567.3 | $ | 566.8 | $ | 350.1 | $ | 5,484.2 |

## Transfers of Financial Assets

### *Glacier Credit Card Trust*

GCCT is a structured entity that was created to securitize the Bank's credit card loans receivable. The Bank has transferred co-ownership interest in credit card loans receivable to GCCT and has determined, for the purposes of accounting, consolidation of GCCT is appropriate. The associated liabilities, as at December 28, 2019 and December 29, 2018, secured by these assets, include the commercial paper notes and term notes on the Consolidated Balance Sheets and are carried at amortized cost. The table below sets out the carrying amounts and the fair values of the Bank's transferred credit card loans receivable and the associated liabilities.

| | | | | **2019** | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | **Carrying amount** | | | **Fair value** | Carrying amount | | | Fair value |
| Credit card loans receivable transferred[1] | **$** | **2,370.8** | **$** | **2,370.8** | $ | 2,438.2 | $ | 2,438.2 |
| Associated liabilities | | **2,364.9** | | **2,380.0** | | 2,432.8 | | 2,419.2 |
| Net position | **$** | **5.9** | **$** | **(9.2)** | $ | 5.4 | $ | 19.0 |

[1] *The fair value measurement of credit card loans receivable is categorized within Level 2 of the fair value hierarchy. For definitions of the levels refer to Note 33.2.*

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

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

### *Franchise Trust*

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

| | **2019** | | 2018 | |
|---|---|---|---|---|
| (C$ in millions) | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| Dealer loans[1] | **$ 621.5** | **$ 621.5** | $ 654.6 | $ 654.6 |
| Associated liabilities | **621.5** | **621.5** | 654.6 | 654.6 |
| Net position | **$ —** | **$ —** | $ — | $ — |

[1] *The fair value measurement of Dealer loans is categorized within Level 2 of the fair value hierarchy. For definitions of the levels refer to Note 33.2*

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

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

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

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

## 10. Long-Term Receivables and Other Assets

Long-term receivables and other assets include the following:

| (C$ in millions) | **2019** | 2018[1] |
|---|---|---|
| Loans receivable (Note 9) | **$ 602.8** | $ 634.9 |
| Net investment in subleases (Note 14) | **112.5** | — |
| Derivatives (Note 33) | **42.9** | 44.8 |
| Mortgages receivable | **32.1** | 31.9 |
| Other receivables | **7.0** | 5.8 |
| Total long-term receivables | **797.3** | 717.4 |
| Other | **10.5** | 25.2 |
| | **$ 807.8** | $ 742.6 |

[1] *Prior period figures are not comparable due to the adoption of IFRS 16 in 2019 (refer to Note 2).*

## 11. Goodwill and Intangible Assets

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

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| | **Indefinite-life intangible assets and goodwill** | | | **Finite-life intangible assets** | | |
| (C$ in millions) | **Goodwill** | **Banners and trademarks** | **Franchise agreements and other intangibles** | **Software** | **Other intangibles** | **Total** |
| **Cost** | | | | | | |
| Balance, as previously reported | **$ 863.5** | **$ 832.7** | **$ 165.5** | **$ 1,048.1** | **$ 23.1** | **$ 2,932.9** |
| IFRS 16 transition adjustment[1] | **—** | **—** | **—** | **—** | **(11.4)** | **(11.4)** |
| Balance, beginning of year | **863.5** | **832.7** | **165.5** | **1,048.1** | **11.7** | **2,921.5** |
| Additions | **—** | **68.5** | **2.2** | **121.9** | **—** | **192.6** |
| Additions related to business combination | **48.4** | **57.0** | **—** | **—** | **—** | **105.4** |
| Disposals/retirements | **—** | **—** | **—** | **(2.9)** | **—** | **(2.9)** |
| Currency translation adjustment | **(18.9)** | **(25.3)** | **—** | **—** | **—** | **(44.2)** |
| Balance, end of year | **$ 893.0** | **$ 932.9** | **$ 167.7** | **$ 1,167.1** | **$ 11.7** | **$ 3,172.4** |
| **Accumulated amortization and impairment** | | | | | | |
| Balance, as previously reported | **$ (1.9)** | **$ (0.6)** | **$ —** | **$ (636.0)** | **$ (22.4)** | **$ (660.9)** |
| IFRS 16 transition adjustment[1] | **—** | **—** | **—** | **—** | **10.7** | **10.7** |
| Balance, beginning of year | **(1.9)** | **(0.6)** | **—** | **(636.0)** | **(11.7)** | **(650.2)** |
| Amortization for the year | **—** | **—** | **—** | **(110.8)** | **—** | **(110.8)** |
| Disposals/retirements | **—** | **—** | **—** | **2.9** | **—** | **2.9** |
| Balance, end of year | **$ (1.9)** | **$ (0.6)** | **$ —** | **$ (743.9)** | **$ (11.7)** | **$ (758.1)** |
| **Net carrying amount, end of year** | **$ 891.1** | **$ 932.3** | **$ 167.7** | **$ 423.2** | **$ —** | **$ 2,414.3** |

1 *Relates to SportChek off-market leases.*

| | | | | | | 2018 |
|---|---|---|---|---|---|---|
| | Indefinite-life intangible assets and goodwill | | | Finite-life intangible assets | | |
| (C$ in millions) | Goodwill | Banners and trademarks | Franchise agreements and other intangibles | Software | Other intangibles[1] | Total |
| Cost | | | | | | |
| Balance, beginning of year | $ 446.6 | $ 288.6 | $ 158.0 | $ 1,536.9 | $ 23.1 | $ 2,453.2 |
| Additions | — | 1.9 | 7.5 | 137.5 | — | 146.9 |
| Additions related to business combinations | 434.9 | 566.0 | — | — | — | 1,000.9 |
| Disposals/retirements[2] | — | — | — | (626.3) | — | (626.3) |
| Currency translation adjustment | (18.0) | (23.8) | — | — | — | (41.8) |
| Balance, end of year | $ 863.5 | $ 832.7 | $ 165.5 | $ 1,048.1 | $ 23.1 | $ 2,932.9 |
| Accumulated amortization and impairment | | | | | | |
| Balance, beginning of year | $ (1.9) | $ (0.6) | $ — | $ (1,136.2) | $ (21.6) | $ (1,160.3) |
| Amortization for the year | — | — | — | (125.8) | (0.8) | (126.6) |
| Disposals/retirements[2] | — | — | — | 626.0 | — | 626.0 |
| Balance, end of year | $ (1.9) | $ (0.6) | $ — | $ (636.0) | $ (22.4) | $ (660.9) |
| Net carrying amount, end of year | $ 861.6 | $ 832.1 | $ 165.5 | $ 412.1 | $ 0.7 | $ 2,272.0 |

1 *Relates to SportChek off-market leases.*
2 *Disposals includes $624.0 million of zero net book value assets no longer in use.*

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

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Helly Hansen | $ | **397.9** | $ | 416.7 |
| SportChek | | **364.6** | | 364.6 |
| Mark's | | **56.7** | | 56.7 |
| Canadian Tire[1] | | **71.9** | | 23.5 |
| Total | $ | **891.1** | $ | 861.5 |

[1] *Includes $48.4 million from Party City in Canada, which was acquired on October 1, 2019. Refer to Note 36 for details.*

The Company's banners and trademarks, which include SportChek, Mark's, Helly Hansen and Party City in Canada store banners and trademarks and acquired private-label brands, represent legal trademarks of the Company with expiry dates ranging from 2020 to 2038 with further renewals at the Company's election and discretion dependent on use. As the Company currently has no approved plans to change its store banners and intends to continue to use and renew its trademarks and private-label brands at each expiry date for the foreseeable future, there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows. Therefore, these intangible assets are considered to have indefinite useful lives.

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

Finite-life intangible assets are amortized over a term of two to 10 years.

The amount of borrowing costs capitalized in 2019 was $5.9 million (2018 – $5.0 million). The capitalization rate used to determine the amount of borrowing costs capitalized during the year was 4.4 percent (2018 – 5.3 percent).

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

### Impairment of Intangible Assets and Subsequent Reversal

The Company performed its annual impairment test on goodwill and indefinite-life intangible assets for all CGUs based on VIU using after-tax discount rates ranging from 6.5 to 7.5 percent and terminal growth rates ranging from 2.0 to 2.5 percent per annum to extrapolate cash flow projections beyond the period covered by the most recent forecasts.

There was no impairment or reversal of impairment of intangible assets in 2019 or 2018.

For all goodwill and intangible assets, the estimated recoverable amount is based on VIU exceeding the carrying amount. There is no reasonably possible change in assumptions that would cause the carrying amount to exceed the estimated recoverable amount.

## 12. Investment Property

The following table presents changes in the cost and the accumulated depreciation and impairment on the Company's investment property:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, as previously reported | **$** | **416.4** | $ | 391.6 |
| IFRS 16 transition adjustment | | **4.6** | | — |
| Balance, beginning of year | | **421.0** | | 391.6 |
| Additions | | **45.6** | | 119.3 |
| Other[1] | | **(21.2)** | | (94.5) |
| Balance, end of year | **$** | **445.4** | $ | 416.4 |
| **Accumulated depreciation and impairment** | | | | |
| Balance, beginning of year | **$** | **(51.7)** | $ | (46.9) |
| Depreciation for the year | | **(6.2)** | | (2.0) |
| Other[1] | | **1.6** | | (2.8) |
| Balance, end of year | **$** | **(56.3)** | $ | (51.7) |
| **Net carrying amount, end of year[2]** | **$** | **389.1** | $ | 364.7 |

[1] *Other includes disposals, retirements, impairment, reversals of impairment, reclassifications and transfers. The prior year includes a $70.0 million transfer to property and equipment for a distribution centre in Alberta that became owner-occupied during the year.*

[2] *Investment property includes $4.6 million (2018 – n/a) right-of-use assets related to operating subleases where the Company is an intermediate lessor.*

The investment properties generated rental income of $54.9 million (2018 – $50.0 million).

Direct operating expenses (including repairs and maintenance) arising from investment property recognized in net income were $24.3 million (2018 – $22.0 million).

The estimated fair value of investment property was $541.0 million (2018 – $483.2 million). This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (refer to Note 33.2 for definition of levels). The Company determines the fair value of investment property by applying a pre-tax capitalization rate to the annual rental income for the current leases. The capitalization rate ranged from 4.75 percent to 7.75 percent (2018 – 4.75 percent to 7.75 percent). The cash flows are for a term of five years, including a terminal value. The Company has real estate management expertise that is used to perform the valuation of investment property and has also completed independent appraisals on certain investment property owned by CT REIT.

### Impairment of Investment Property and Subsequent Reversal

Any impairment or reversals of impairment are reported in Other income in the Consolidated Statements of Income.

## 13. Property and Equipment

The following table presents changes in the cost and the accumulated depreciation and impairment on the Company's property and equipment:

| | | | | | | | 2019 |
|---|---|---|---|---|---|---|---|
| (C$ in millions) | Land | Buildings | Fixtures and equipment | Leasehold improvements | Assets under finance lease | Construction in progress | Total |
| **Cost** | | | | | | | |
| Balance, as previously reported | $ 971.8 | $ 3,390.1 | $ 1,535.1 | $ 1,319.4 | $ 199.6 | $ 165.6 | $ 7,581.6 |
| IFRS 16 transition adjustments | — | — | (6.8) | (63.1) | (199.6) | — | (269.5) |
| Balance, beginning of year | 971.8 | 3,390.1 | 1,528.3 | 1,256.3 | — | 165.6 | 7,312.1 |
| Additions | 113.6 | 109.8 | 152.8 | 66.4 | — | (75.0) | 367.6 |
| Additions related to business combination | — | — | 9.3 | 11.1 | — | — | 20.4 |
| Disposals/retirements[1] | (0.4) | (4.0) | (40.0) | (22.1) | — | — | (66.5) |
| Currency translation adjustment | — | — | — | (0.3) | — | — | (0.3) |
| Reclassifications and transfers | (30.7) | 47.7 | 30.0 | (72.8) | — | 27.4 | 1.6 |
| Balance, end of year | $ 1,054.3 | $ 3,543.6 | $ 1,680.4 | $ 1,238.6 | $ — | $ 118.0 | $ 7,634.9 |
| **Accumulated depreciation and impairment** | | | | | | | |
| Balance, as previously reported | $ (7.0) | $ (1,652.5) | $ (911.8) | $ (583.3) | $ (143.8) | $ — | $ (3,298.4) |
| IFRS 16 transition adjustments | — | — | 3.1 | — | 143.8 | — | 146.9 |
| Balance, beginning of year | (7.0) | (1,652.5) | (908.7) | (583.3) | — | — | (3,151.5) |
| Depreciation for the year | — | (84.8) | (127.5) | (65.2) | — | — | (277.5) |
| Impairment | — | — | (1.6) | — | — | — | (1.6) |
| Reversal of impairment losses | — | — | 0.2 | — | — | — | 0.2 |
| Disposals/retirements[1] | — | 3.2 | 39.0 | 22.1 | — | — | 64.3 |
| Reclassifications and transfers | — | 8.1 | (0.4) | 6.8 | — | — | 14.5 |
| Balance, end of year | $ (7.0) | $ (1,726.0) | $ (999.0) | $ (619.6) | $ — | $ — | $ (3,351.6) |
| **Net carrying amount, end of year** | $ 1,047.3 | $ 1,817.6 | $ 681.4 | $ 619.0 | $ — | $ 118.0 | $ 4,283.3 |

[1] *Current year disposals includes $33.8 million of zero net book value assets no longer in use.*

| | | | | | | | 2018 |
|---|---|---|---|---|---|---|---|
| (C$ in millions) | Land | Buildings | Fixtures and equipment | Leasehold improvements | Assets under finance lease | Construction in progress | Total |
| Cost | | | | | | | |
| Balance, beginning of year | $ 955.1 | $ 3,289.2 | $ 1,606.5 | $ 1,370.9 | $ 218.5 | $ 161.4 | $ 7,601.6 |
| Additions | 1.8 | 65.1 | 157.1 | 83.0 | 1.6 | 1.4 | 310.0 |
| Additions related to business combinations | — | 0.6 | 13.6 | 4.9 | — | 1.7 | 20.8 |
| Disposals/retirements[1] | — | (9.6) | (255.5) | (135.1) | (10.4) | (8.0) | (418.6) |
| Currency translation adjustment | — | — | (0.9) | (0.3) | — | (0.2) | (1.4) |
| Reclassifications and transfers[2] | 14.9 | 44.8 | 14.3 | (4.0) | (10.1) | 9.3 | 69.2 |
| Balance, end of year | $ 971.8 | $ 3,390.1 | $ 1,535.1 | $ 1,319.4 | $ 199.6 | $ 165.6 | $ 7,581.6 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance, beginning of year | $ (7.0) | $ (1,589.0) | $ (1,035.7) | $ (626.7) | $ (149.9) | $ — | $ (3,408.3) |
| Depreciation for the year | — | (80.3) | (121.3) | (87.8) | (10.0) | — | (299.4) |
| Disposals/retirements[1] | — | 8.2 | 253.8 | 135.0 | 9.4 | — | 406.4 |
| Reclassifications and transfers | — | 8.6 | (8.6) | (3.8) | 6.7 | — | 2.9 |
| Balance, end of year | $ (7.0) | $ (1,652.5) | $ (911.8) | $ (583.3) | $ (143.8) | $ — | $ (3,298.4) |
| Net carrying amount, end of year | $ 964.8 | $ 1,737.6 | $ 623.3 | $ 736.1 | $ 55.8 | $ 165.6 | $ 4,283.2 |

[1] *Disposals includes $380.6 million of zero net book value assets no longer in use.*
[2] *Reclassification and transfers includes a $70.0 million transfer from investment property for a distribution centre in Alberta that became owner-occupied during 2018.*

The Company capitalized borrowing costs of $5.0 million (2018 – $5.8 million) on indebtedness relating to property and equipment under construction. The rate used to determine the amount of borrowing costs capitalized during the year was 4.3 percent (2018 – 4.8 percent).

## Impairment of Property and Equipment and Subsequent Reversal

The amount of impairment of property and equipment in 2019 was $1.6 million (2018 – nil). There was $0.2 million reversal of impairment in 2019 (2018 – nil). Any impairment or reversal of impairment is reported in Other income in the Consolidated Statements of Income.

# 14. Leases

## 14.1 As a Lessee

Extension and termination options are included in a number of leases across the Company particularly for property related leases. These terms are used to maximize the operational flexibility in terms of managing contracts. The majority of the extension and termination options held are exercisable only by the Company and not by the respective Lessor.

### 14.1.1 Right-of-use Assets

The following table presents changes to the carrying amount of the Company's right-of-use assets at the end of the reporting period:

| | | | 2019 |
|---|---|---|---|
| (C$ in millions) | Property | Non-property[1] | Total |
| **Balance, beginning of year** | $ — | $ — | $ — |
| Transition adjustment (Note 2) | **1,672.6** | **31.7** | **1,704.3** |
| Additions | **121.3** | **7.7** | **129.0** |
| Additions related to business combinations | **76.1** | **—** | **76.1** |
| Depreciation for the year | **(253.1)** | **(9.2)** | **(262.3)** |
| Disposals/retirements and other | **(35.5)** | **(1.2)** | **(36.7)** |
| **Balance, end of year** | **$ 1,581.4** | **$ 29.0** | **$ 1,610.4** |

[1] *Non-property leases consist of leased IT equipment, supply chain and transportation related assets.*

### 14.1.2 Undiscounted Cash Flows

The annual lease payments for property and non-property leases are as follows:

| (C$ in millions) | 2019 |
|---|---|
| Less than one year | **$ 437.1** |
| One to five years | **1,446.5** |
| More than five years | **894.7** |
| **Total undiscounted lease obligation[1]** | **$ 2,778.3** |

[1] *Excludes $269.4 million (2018 – $240.1 million) commitment for lease agreements signed but not yet commenced.*

## 14.2 As a Lessor

The Company leases out a number of its investment properties (refer to Note 12), and has certain sublease arrangements with the majority having an option to renew after the expiry date. The lessee does not have an option to purchase the property at the expiry of the lease period.

### 14.2.1 Net Investment in Subleases

The table below summarizes the Company's contractual cash flows from its net investment in subleases.

| (C$ in millions) | 2019 |
|---|---|
| Less than one year | **$ 23.2** |
| One to two years | **23.2** |
| Two to three years | **22.5** |
| Three to four years | **20.6** |
| More than five years | **66.2** |
| Total undiscounted lease payments receivable | **155.7** |
| Unearned finance income | **(25.7)** |
| **Net investment in subleases** | **$ 130.0** |

### 14.2.2 Operating Leases

The table below summarizes the Company's future undiscounted annual minimum lease payments receivable from lessees under non-cancellable operating leases.

| (C$ in millions) | | 2019 |
|---|---|---|
| Less than one year | $ | 31.0 |
| One to two years | | 28.2 |
| Two to three years | | 26.0 |
| Three to four years | | 22.3 |
| More than five years | | 101.2 |
| **Total** | $ | **208.7** |

## 15. Subsidiaries

### 15.1 Control of Subsidiaries and Composition of the Company

These consolidated financial statements include entities controlled by Canadian Tire Corporation. Control exists when Canadian Tire Corporation has the ability to direct the relevant activities and the returns of an entity. The financial statements of these entities are included in these consolidated financial statements from the date that control commences until the date that control ceases. Details of the Company's significant entities are as follows:

| | | | Ownership Interest | |
|---|---|---|---|---|
| **Name of subsidiary** | **Principal activity** | Country of incorporation and operation | **2019** | 2018 |
| CTFS Holdings Limited[1] | Marketing of insurance products, processing credit card transactions at Canadian Tire stores, banking and reinsurance | Canada | **80.0%** | 80.0% |
| Canadian Tire Real Estate Limited | Real estate | Canada | **100.0%** | 100.0% |
| CT Real Estate Investment Trust | Real estate | Canada | **69.4%** | 76.2% |
| FGL Sports Ltd. ("SportChek")[2] | Retailer of sporting equipment, apparel and footwear | Canada | **100.0%** | 100.0% |
| Franchise Trust[3] | Canadian Tire Dealer Loan Program | Canada | **0.0%** | 0.0% |
| Glacier Credit Card Trust[4] | Financing program to purchase co-ownership interests in Canadian Tire Bank's credit card loans | Canada | **0.0%** | 0.0% |
| Mark's Work Wearhouse Ltd. | Retailer of clothing and footwear | Canada | **100.0%** | 100.0% |
| Helly Hansen Group AS | Holding company for "Helly Hansen" branded global wholesaler of sportswear and workwear | Norway | **100.0%** | 100.0% |

[1] *Legal entity CTFS Holdings Limited, incorporated in 2014, is the parent company of CTB and CTFS Bermuda Ltd. CTB's principal activity is banking, marketing of insurance products and processing credit card transactions at the Company's stores. CTFS Bermuda Ltd.'s principal activity is reinsurance.*

[2] *"SportChek" refers to the retail business carried on by FGL Sports Ltd., including stores operated under the SportChek, Sports Experts, Atmosphere, National Sports, Sports Rousseau and Hockey Experts names and trademarks.*

[3] *Franchise Trust is a legal entity sponsored by a third-party bank that originates loans to Dealers under the Dealer Loan program. The Company does not have any share ownership in Franchise Trust; however, the Company has determined that it has the ability to direct the relevant activities and returns on the silo of assets and liabilities of Franchise Trust that relate to the Canadian Tire Dealer Loan Program. As the Company has control over this silo of assets and liabilities, it is consolidated in these financial statements.*

[4] *GCCT was formed to meet specific business needs of the Company, namely to buy co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases. The Company does not have any share ownership in GCCT; however, the Company has determined that it has the ability to direct the relevant activities and returns of GCCT. As the Company has control over GCCT, it is consolidated in these financial statements.*

### 15.2 Details of Non-wholly Owned Subsidiaries that have Non-Controlling Interests

The portion of net assets and income attributable to third parties is reported as non-controlling interests and net income attributable to non-controlling interests in the Consolidated Balance Sheets and Consolidated Statements of Income, respectively. The non-controlling interests of CT REIT and CTFS Holdings Limited were initially measured at fair value on the date of acquisition.

The following table summarizes the information relating to non-controlling interests:

| | | | | 2019 |
|---|---|---|---|---|
| (C$ in millions) | **CT REIT**[1] | **CTFS Holdings Limited**[2] | **Other**[3] | **Total** |
| Non-controlling interests | **30.6%** | **20.0%** | **50.0%** | |
| Current assets | **$ 15.8** | **$ 6,157.4** | **$ 12.8** | **$ 6,186.0** |
| Non-current assets | **6,008.7** | **398.0** | **53.3** | **6,460.0** |
| Current liabilities | **343.0** | **2,140.9** | **3.8** | **2,487.7** |
| Non-current liabilities | **2,347.4** | **3,398.1** | **43.8** | **5,789.3** |
| Net assets | **3,334.1** | **1,016.4** | **18.5** | **4,369.0** |
| Revenue | **$ 489.0** | **$ 1,425.0** | **$ 211.7** | **$ 2,125.7** |
| Net income attributable to non-controlling interests | **$ 51.3** | **$ 61.7** | **$ 3.4** | **$ 116.4** |
| Equity attributable to non-controlling interests | **804.5** | **501.5** | **8.1** | **1,314.1** |
| Distributions to non-controlling interests | **(42.1)** | **(40.8)** | **(2.5)** | **(85.4)** |

*[1] Net income attributable to non-controlling interests is based on net income of CT REIT adjusted to convert to the Company's cost method, including recording of depreciation.*
*[2] Net income attributable to non-controlling interests is based on the net income of CTFS Holdings Limited adjusted for contractual requirements as stipulated in the Universal Shareholder Agreement.*
*[3] Net income attributable to non-controlling interests is based on net income of the subsidiary adjusted for contractual requirements as stipulated in the ownership agreement.*

| | | | | 2018 |
|---|---|---|---|---|
| (C$ in millions) | CT REIT[1] | CTFS Holdings Limited[2] | Other[3] | Total |
| Non-controlling interests | 23.8% | 20.0% | 50.0% | |
| Current assets | $ 9.7 | $ 5,993.9 | $ 10.4 | $ 6,014.0 |
| Non-current assets | 5,699.0 | 346.7 | 30.0 | 6,075.7 |
| Current liabilities | 99.0 | 2,223.8 | 3.9 | 2,326.7 |
| Non-current liabilities | 2,524.8 | 3,178.3 | 19.6 | 5,722.7 |
| Net assets | 3,084.9 | 938.5 | 16.9 | 4,040.3 |
| Revenue | $ 472.5 | $ 1,355.5 | $ 218.9 | $ 2,046.9 |
| Net income attributable to non-controlling interests | $ 30.2 | $ 56.6 | $ 4.1 | $ 90.9 |
| Equity attributable to non-controlling interests | 555.6 | 485.7 | 7.5 | 1,048.8 |
| Distributions to non-controlling interests | (25.3) | (10.5) | (3.8) | (39.6) |

*[1] Net income attributable to non-controlling interests is based on net income of CT REIT adjusted to convert to the Company's cost method, including recording of depreciation.*
*[2] Net income attributable to non-controlling interests is based on the net income of CTFS Holdings Limited adjusted for contractual requirements as stipulated in the Universal Shareholder agreement.*
*[3] Net income attributable to non-controlling interests is based on net income of the subsidiary adjusted for contractual requirements as stipulated in the ownership agreement.*

### 15.3 Change in the Company's Ownership Interest in a Subsidiary

In September 2019, the Company reduced its interest in CT REIT from 76.1% to 69.3% and CT REIT completed a treasury unit offering, for gross proceeds of approximately $150.1 million and $90.0 million and net transaction costs of $7.4 million and $3.8 million, respectively. As a result, $228.9 million has been transferred to non-controlling interests.

# 16. Income Taxes

## 16.1 Deferred Income Tax Assets and Liabilities

The amount of deferred tax assets or liabilities recognized in the Consolidated Balance Sheets and the corresponding movement recognized in the Consolidated Statements of Income, Consolidated Statements of Changes in Equity, or resulting from a business combination is as follows:

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| (C$ in millions) | Balance, beginning of year | Recognized in profit or loss | Recognized in other comprehensive income | Recognized in equity | Other adjustments | Balance, end of year |
| Provisions, deferred revenue and reserves | $ 311.4 | $ 25.6 | $ — | $ (89.2) | $ — | $ 247.8 |
| Property and equipment | (60.4) | (16.8) | — | 26.1 | (1.6) | (52.7) |
| Intangible assets | (277.5) | 1.5 | — | 6.0 | 2.7 | (267.3) |
| Employee benefits | 40.4 | 0.8 | 5.3 | — | — | 46.5 |
| Cash flow hedges | (33.6) | — | 27.4 | 18.1 | — | 11.9 |
| Right-of-use asset and lease liabilities | — | (14.8) | — | 171.2 | (0.5) | 155.9 |
| Finance leases | 13.6 | — | — | (13.6) | — | — |
| Non-capital losses carryforward | 33.7 | 2.3 | — | (1.4) | — | 34.6 |
| Other | 3.7 | 1.4 | — | 1.6 | (0.6) | 6.1 |
| Net deferred tax asset (liability)[1] | $ 31.3 | $ — | $ 32.7 | $ 118.8 | $ — | $ 182.8 |

[1] *Includes the net amount of deferred tax assets of $319.2 million and deferred tax liabilities of $136.4 million.*

| | | | | | | 2018 |
|---|---|---|---|---|---|---|
| (C$ in millions) | Balance, beginning of year | Recognized in profit or loss | Recognized in other comprehensive income | Recognized in equity | Other adjustments | Balance, end of year |
| Provisions, deferred revenue and reserves | $ 173.8 | $ (29.5) | $ — | $ 163.9 | $ 3.2 | $ 311.4 |
| Property and equipment | (52.9) | (13.8) | — | 6.3 | — | (60.4) |
| Intangible assets | (169.8) | 14.3 | — | 5.5 | (127.5) | (277.5) |
| Employee benefits | 43.2 | 1.1 | (3.9) | — | — | 40.4 |
| Cash flow hedges | 13.2 | — | (48.0) | 1.2 | — | (33.6) |
| Finance leases | 14.6 | (1.0) | — | — | — | 13.6 |
| Non-capital losses carryforward | 3.3 | (5.0) | — | (1.6) | 37.0 | 33.7 |
| Other | (10.5) | 13.8 | — | 0.1 | 0.3 | 3.7 |
| Net deferred tax asset (liability)[1] | $ 14.9 | $ (20.1) | $ (51.9) | $ 175.4 | $ (87.0) | $ 31.3 |

[1] *Includes the net amount of deferred tax assets of $215.8 million and deferred tax liabilities of $184.5 million.*

No deferred tax is recognized on the amount of temporary differences arising from the difference between the carrying amount of the investment in subsidiaries, branches and associates and interests in joint arrangements accounted for in these consolidated financial statements and the cost amount for tax purposes of the investment. The Company is able to control the timing of the reversal of these temporary differences and believes it is probable that they will not reverse in the foreseeable future. The amount of these taxable temporary differences was approximately $2.4 billion at December 28, 2019 (2018 – $2.4 billion).

No deferred tax asset is recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is not probable that future taxable profit will be available against which they can be utilized. The amount of these deductible temporary differences was approximately $153.4 million at December 28, 2019 (2018 – 150.4 million).

## 16.2 Income Tax Expense

The following are the major components of income tax expense:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| **Current tax expense** | | | | |
| Current period | **$** | **282.2** | $ | 264.3 |
| Adjustments with respect to prior years | | **5.9** | | 0.8 |
| | **$** | **288.1** | $ | 265.1 |
| **Deferred tax expense (benefit)** | | | | |
| Deferred income tax expense relating to the origination and reversal of temporary differences | **$** | **13.0** | $ | 23.4 |
| Deferred income tax (benefit) adjustments with respect to prior years | | **(13.5)** | | (2.2) |
| Deferred income tax expense (benefit) resulting from change in tax rate | | **0.5** | | (1.1) |
| | | **—** | | 20.1 |
| Total income tax expense | **$** | **288.1** | $ | 285.2 |

Income tax (benefit) expense recognized in other comprehensive income was as follows:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Net fair value (losses) on hedging instruments entered into for cash flow hedges not subject to basis adjustment | **$** | **(1.6)** | $ | (2.6) |
| Deferred cost of hedging not subject to basis adjustment – Changes in fair value of the time value of an option in relation to time-period related hedged items | | **(6.7)** | | (2.7) |
| Reclassification of losses to income | | **0.2** | | 1.6 |
| Net fair value (losses) gains on hedging instruments entered into for cash flow hedges subject to basis adjustment | | **(19.3)** | | 51.7 |
| Actuarial (losses) gains | | **(5.3)** | | 3.9 |
| Total income tax (benefit) expense | **$** | **(32.7)** | $ | 51.9 |

## Reconciliation of Income Tax Expense

Income taxes in the Consolidated Statements of Income vary from amounts that would be computed by applying the statutory income tax rate for the following reasons:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Income before income taxes | **$** | **1,182.9** | $ | 1,068.2 |
| Income taxes based on the applicable statutory tax rate of 26.65% (2018 – 26.7%) | **$** | **315.3** | $ | 285.2 |
| Adjustment to income taxes resulting from: | | | | |
| Non-deductible (non-taxable) stock option (recovery) | | **—** | | (1.6) |
| Non-deductible acquisition-related costs | | **—** | | 2.9 |
| Non-deductibility of change in fair value of redeemable financial instrument | | **—** | | 13.3 |
| Non-taxable portion of capital gains | | **(3.0)** | | (3.4) |
| Income attributable to non-controlling interest in flow-through entities | | **(14.7)** | | (9.1) |
| Prior years' tax settlement | | **(5.3)** | | — |
| Other | | **(4.2)** | | (2.1) |
| Income tax expense | **$** | **288.1** | $ | 285.2 |

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2018 – 15.0 percent) and the Canadian provincial income tax rate of 11.65 percent (2018 – 11.7 percent).

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

During the second quarter, the Company reached an agreement with the Ontario Ministry of Finance relating to the tax treatment of income earned by a foreign affiliate of the Company for the 2004 and 2005 taxation years. As a result of the settlement, the Company recorded an income tax recovery of $3.3 million (2018 – nil) and pre-tax interest income earned on the overpayment of taxes of $6.9 million (2018 – nil).

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

## 17. Deposits

Deposits consist of broker deposits and retail deposits.

Cash from broker deposits is raised through sales of GICs through brokers rather than directly to the retail customer. Broker deposits are offered for up to five years and issued broker GICs are non-redeemable prior to maturity (except in certain rare circumstances). Total short-term and long-term broker deposits outstanding at December 28, 2019, were $1,916.6 million (2018 – $1,898.8 million).

Retail deposits consist of HIS deposits, retail GICs and TFSA deposits. Total retail deposits outstanding at December 28, 2019, were $527.6 million (2018 – $572.4 million).

For repayment requirements of deposits refer to Note 5.4. The following are the effective rates of interest:

| | **2019** | 2018 |
|---|---|---|
| GIC deposits | **2.87%** | 2.75% |
| HIS account deposits | **1.78%** | 1.59% |

## 18. Trade and Other Payables

Trade and other payables include the following:

| (C$ in millions) | **2019** | 2018 |
|---|---|---|
| Trade payables and accrued liabilities | **$ 2,087.0** | $ 2,034.4 |
| Derivatives (Note 33) | **28.3** | 21.4 |
| Total financial liabilities | **2,115.3** | 2,055.8 |
| Deferred revenue | **222.8** | 216.2 |
| Insurance reserve | **8.6** | 14.4 |
| Other | **145.7** | 138.6 |
| | **$ 2,492.4** | $ 2,425.0 |

Deferred revenue consists mainly of unearned revenue relating to gift cards and customer loyalty program rewards. Deferred revenue will be recognized as revenue as the customer utilizes gift cards and loyalty rewards are redeemed. The majority of deferred revenue is expected to be redeemed within one year from issuance. $198.3 million included in deferred revenue at the beginning of the period was recognized as revenue in 2019 (2018 – $194.4 million).

Other consists primarily of the short-term portion of share based payment transactions and sales taxes payable.

The credit range period on trade payables is one to 180 days (2018 – one to 270 days).

## 19. Provisions

The following table presents the changes to the Company's provisions:

| | | | | 2019 |
|---|---|---|---|---|
| (C$ in millions) | Sales and warranty returns | Site restoration and decommissioning | Other | Total |
| **Balance, beginning of year** | $ 167.6 | $ 38.4 | $ 15.6 | $ 221.6 |
| Charges, net of reversals | 584.7 | 11.2 | 5.0 | 600.9 |
| Utilizations | (570.1) | (4.9) | (3.6) | (578.6) |
| Discount adjustments | 1.5 | 5.9 | — | 7.4 |
| **Balance, end of year** | $ 183.7 | $ 50.6 | $ 17.0 | $ 251.3 |
| **Current provisions** | 174.3 | 4.5 | 11.4 | 190.2 |
| **Long-term provisions** | 9.4 | 46.1 | 5.6 | 61.1 |

## 20. Contingencies

### Legal Matters

The Company is party to a number of legal and regulatory proceedings. The Company has determined that each such proceeding constitutes a routine 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 net income, cash flows, or financial position.

The Bank's commodity tax assessments for the years 2011 through 2015 have been appealed to the Tax Court of Canada. In addition, the 2016 and 2017 tax years have also been reassessed and Management is taking the necessary steps to add them to the appeal. The Bank is of the view that certain credit card processing services are exempt financial services under the *Excise Tax Act* (Canada). Although the Court has recently ruled in a proceeding unrelated to the Bank that similar processing services are subject to Federal and Quebec sales taxes, that decision is currently under appeal and the Bank is of the view that there is a more likely than not chance that its position will be accepted by the Courts and the services will be viewed as exempt financial services. Accordingly, no provision has been made for amounts that would be payable in the event of an adverse outcome. If the Court rules against the Bank, the total aggregate exposure as of 2019 would not be significant.

## 21. Short-Term Borrowings

Short-term borrowings include commercial paper notes issued by the Company and GCCT, bank line of credit borrowings and factoring facility borrowings. Short-term borrowings may bear interest payable at maturity or be sold at a discount and mature at face value.

The commercial paper notes are short-term notes issued with varying original maturities of one year or less at interest rates fixed at the time of each renewal and are recorded at amortized cost. As at December 28, 2019, the Company had no U.S. commercial paper notes outstanding and GCCT had $166.9 million (2018 – $294.3 million) of asset-backed commercial paper notes outstanding.

As at December 28, 2019, the Company (excluding Helly Hansen, CTB and CT REIT) had no borrowings outstanding under its committed bank line of credit. Helly Hansen had a total of $67.0 million (2018 – $68.8 million) of C$ equivalent borrowings outstanding on its committed bank line of credit (180 million Norwegian Krone ["NOK']) and its factoring facility (272 million NOK), CT REIT had no borrowings under its committed bank line of credit (2018 – $15.0 million) and CTB had $216.0 million (2018 – nil) of borrowings outstanding under its committed bank line of credit and no borrowings outstanding on its note purchase facilities.

## 22. Loans

Franchise Trust, a special purpose entity, is a legal entity sponsored by a third-party bank that originates loans to Dealers. Loans are what Franchise Trust incurs to fund loans to Dealers, which are secured by such Dealers' store assets. These loans are not direct legal liabilities of the Company but have been consolidated in the accounts of the Company as the Company effectively controls the silo of Franchise Trust containing the Dealer Loan Program.

Loans, which are initially recognized at fair value and are subsequently measured at amortized cost, are due within one year.

## 23. Long-Term Debt

Long-term debt includes the following:

| (C$ in millions) | 2019 Face value | 2019 Carrying amount | 2018 Face value | 2018 Carrying amount |
|---|---|---|---|---|
| Senior term notes (GCCT) | | | | |
| Series 2014-1, 2.568%, September 20, 2019 | **—** | **—** | 472.5 | 472.2 |
| Series 2015-1, 2.237%, September 20, 2020 | **465.0** | **464.8** | 465.0 | 464.3 |
| Series 2017-1, 2.048%, September 20, 2022 | **523.6** | **522.2** | 523.6 | 521.7 |
| Series 2018-1, 3.138%, September 20, 2023 | **546.0** | **544.0** | 546.0 | 543.4 |
| Series 2019-1, 2.280%, June 6, 2024 | **523.6** | **521.3** | — | — |
| Subordinated term notes (GCCT) | | | | |
| Series 2014-1, 3.068%, September 20, 2019 | **—** | **—** | 27.5 | 27.5 |
| Series 2015-1, 3.237%, September 20, 2020 | **35.0** | **35.0** | 35.0 | 35.0 |
| Series 2017-1, 3.298%, September 20, 2022 | **36.4** | **36.4** | 36.4 | 36.4 |
| Series 2018-1, 4.138%, September 20, 2023 | **38.0** | **38.0** | 38.0 | 38.0 |
| Series 2019-1, 3.430%, June 6, 2024 | **36.4** | **36.4** | — | — |
| Medium-term notes and debentures (CT REIT) | | | | |
| 2.159% due June 1, 2021 | **150.0** | **149.8** | 150.0 | 149.6 |
| 2.852% due June 9, 2022 | **150.0** | **149.6** | 150.0 | 149.5 |
| 3.527% due June 9, 2025 | **200.0** | **199.1** | 200.0 | 198.9 |
| 3.289% due June 1, 2026 | **200.0** | **199.1** | 200.0 | 199.0 |
| 3.469% due June 16, 2027 | **175.0** | **174.1** | 175.0 | 174.0 |
| 3.865% due December 7, 2027 | **200.0** | **198.9** | 200.0 | 198.8 |
| Medium-term notes and debentures (CTC) | | | | |
| 2.646% due July 6, 2020 | **250.0** | **249.8** | 250.0 | 249.5 |
| 3.167% due July 6, 2023 | **400.0** | **398.9** | 400.0 | 398.6 |
| 6.375% due April 13, 2028 | **150.0** | **150.6** | 150.0 | 150.6 |
| 6.445% due February 24, 2034 | **200.0** | **201.4** | 200.0 | 201.3 |
| 5.61% due September 4, 2035 | **200.0** | **199.7** | 200.0 | 199.6 |
| Finance lease obligations[1] | **—** | **—** | 108.0 | 108.0 |
| Mortgages | **47.7** | **48.0** | 37.1 | 37.1 |
| Promissory note and other | **1.3** | **1.3** | 0.9 | 0.9 |
| Total debt | **$ 4,528.0** | **$ 4,518.4** | $ 4,565.0 | $ 4,553.9 |
| Current | **788.2** | **788.2** | 553.6 | 553.6 |
| Non-current | **3,739.8** | **3,730.2** | 4,011.4 | 4,000.3 |

[1] *Prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2).*

The carrying amount of long-term debt is net of debt issuance costs of $14.6 million (2018 – $16.2 million).

### Senior and Subordinated Term Notes

Asset-backed senior and subordinated term notes issued by GCCT are recorded at amortized cost using the effective interest method.

Subject to the payment of certain priority amounts, the senior term notes have recourse on a priority basis to the related series ownership interest in a pool of credit card receivables originated by CTB. The subordinated term notes have recourse to the related series ownership interests on a subordinated basis to the senior term notes in terms of the priority of payment of principal and, in some circumstances, interest. The asset-backed notes, together with certain other permitted obligations of GCCT, are secured by the co-ownership interest assets of GCCT. The entitlement of note holders and other parties to such assets is governed by the priority and payment provisions set forth in GCCT's Trust Indenture dated as of November 29, 1995, as amended and related series supplements under which these series of notes were issued.

Repayment of the principal of the series 2015-1, 2017-1, 2018-1 and 2019-1 term notes is scheduled for the expected repayment dates indicated in the preceding table. Subsequent to the expected repayment date, collections distributed to GCCT with respect to the related ownership interest will be applied to pay any remaining amount owing.

Principal repayments may commence earlier than these scheduled commencement dates if certain events occur including:

- the Bank failing to make required payments to GCCT or failing to meet covenant or other contractual terms;
- the performance of the credit card receivables failing to achieve set criteria; and
- insufficient credit card receivables in the securitized pool.

None of these events occurred in the year ended December 28, 2019.

On June 12, 2019, GCCT completed the issuance of $560.0 million series 2019-1 term notes that have an expected repayment date of June 6, 2024, consisting of $523.6 million principal amount of senior term notes that bear an interest rate of 2.28 percent per annum and $36.4 million principal amount of subordinated term notes that bear an interest rate of 3.43 percent per annum.

On September 20, 2019, GCCT fully repaid $472.5 million of series 2014-1 senior term notes, which bore an interest rate of 2.568 percent per annum as well as $27.5 million of series 2014-1 subordinated term notes, which bore an interest rate of 3.068 percent per annum.

## Medium-Term Notes and Debentures

Medium-term notes and debentures are unsecured and those with terms greater than two years are redeemable by the Company, in whole or in part, at any time, at the greater of par or a formula price based upon interest rates at the time of redemption.

## Finance Lease Obligations

Finance leases relate to distribution centres, fixtures and equipment. The Company generally has the option to renew such leases or purchase the leased assets at the conclusion of the lease term. During 2018, interest rates on finance leases ranged from 0.6 percent to 8.0 percent. Remaining terms at December 29, 2018, were five to 96 months.

Finance lease obligations are payable as follows:

| | | | **2019**[1] | | | 2018 |
|---|---|---|---|---|---|---|
| (C$ in millions) | **Future minimum lease payments** | **Interest** | **Present value of future minimum lease payments** | Future minimum lease payments | Interest | Present value of future minimum lease payments |
| Due in less than one year | $ — | $ — | $ — | $ 22.1 | $ 6.3 | $ 15.8 |
| Due between one year and two years | — | — | — | 20.6 | 5.5 | 15.1 |
| Due between two years and three years | — | — | — | 19.5 | 4.5 | 15.0 |
| Due between three years and four years | — | — | — | 18.5 | 3.7 | 14.8 |
| Due between four years and five years | — | — | — | 15.2 | 2.9 | 12.3 |
| Due in more than five years | — | — | — | 38.8 | 3.8 | 35.0 |
| | $ — | $ — | $ — | $ 134.7 | $ 26.7 | $ 108.0 |

[1] *Current year figures are not applicable due to the adoption of IFRS 16 (refer to Note 2).*

### Mortgages
Mortgages payable at December 28, 2019 had a weighted average interest rate of 3.82% percent and a maturity date of March 10, 2020 and July 1, 2022.

### Promissory Notes
Promissory notes were issued as part of franchise acquisitions in 2015. These notes are non-interest bearing.

## 24. Other Long-Term Liabilities

Other long-term liabilities include the following:

| (C$ in millions) | | **2019** | | 2018 |
|---|---|---|---|---|
| Redeemable financial instrument[1] | **$** | **567.0** | $ | 567.0 |
| Employee benefits (Note 25) | | **176.4** | | 151.9 |
| Deferred gains[2] | | **—** | | 11.0 |
| Derivatives (Note 33) | | **5.6** | | 5.0 |
| Deferred revenue | | **1.1** | | 2.0 |
| Other | | **60.0** | | 135.4 |
| | **$** | **810.1** | $ | 872.3 |

1 *A financial liability; refer to Note 33 for further information on the redeemable financial instrument.*
2 *Prior year deferred gains relate to the sale and leaseback of certain distribution centres, and were moved to right-of-use assets upon the adoption of IFRS 16 in 2019.*

Other primarily includes the long-term portion of share-based payment transactions in 2019, as well as deferred lease inducements and straight-line rent liabilities in 2018.

## 25. Employment Benefits

### Profit-Sharing Program
The Company has a profit-sharing program for certain employees. The amount awarded to employees is contingent on the Company's profitability but shall be equal to at least one percent of the Company's previous year's net profits after income tax. A portion of the award ("Base Award") is contributed to a DPSP for the benefit of the employees. The maximum amount of the Company's Base Award contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 percent of the Base Award in a Company share fund of the DPSP. The share fund holds both Common Shares and Class A Non-Voting Shares. The Company's contributions to the DPSP, with respect to each employee, vest 20 percent after one year of continuous service and 100 percent after two years of continuous service.

In 2019, the Company contributed $25.3 million (2018 – $24.1 million) under the terms of the DPSP.

## Defined Benefit Plan

The Company provides certain health care, dental care, life insurance and other benefits for certain retired employees pursuant to Company policy. The Company does not have a pension plan. Information about the Company's defined benefit plan is as follows:

| (C$ in millions) | | **2019** | | 2018 |
|---|---|---|---|---|
| **Change in the present value of defined benefit obligation** | | | | |
| Defined benefit obligation, beginning of year | **$** | **151.9** | $ | 162.4 |
| Current service cost | | **1.7** | | 2.1 |
| Interest cost | | **5.8** | | 5.6 |
| Actuarial (gain) arising from changes in demographic assumptions | | **—** | | (6.8) |
| Actuarial loss (gain) arising from changes in financial assumptions | | **21.4** | | (13.5) |
| Actuarial (gain) loss arising from changes in experience assumptions | | **(1.0)** | | 5.6 |
| Benefits paid | | **(3.4)** | | (3.5) |
| Defined benefit obligation, end of year[1] | **$** | **176.4** | $ | 151.9 |

[1] *The accrued benefit obligation is not funded because funding is provided when benefits are paid. Accordingly, there are no plan assets.*

Significant actuarial assumptions used:

| | **2019** | 2018 |
|---|---|---|
| Defined benefit obligation, end of year: | | |
| Discount rate | **3.10%** | 3.90% |
| Net benefit plan expense for the year: | | |
| Discount rate | **3.90%** | 3.50% |

For measurement purposes, a 3.96 percent weighted average health care cost trend rate is assumed for 2019 (2018 – 4.08 percent). The rate is assumed to decrease gradually to 2.11 percent for 2040 and remain at that level thereafter.

The most recent actuarial valuation of the obligation was performed as of December 29, 2018.

The cumulative amount of actuarial losses before tax recognized in equity at December 28, 2019, was $62.3 million (2018 – $41.9 million).

### *Sensitivity Analysis:*

The Company's defined benefit plan is exposed to actuarial risks such as the health care cost trend rate, the discount rate and the life expectancy assumptions. The following tables provide the sensitivity of the defined benefit obligation to these assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged.

| (C$ in millions) | | | | **2019** |
|---|---|---|---|---|
| Sensitivity analysis | **Accrued benefit obligation** | | | |
| | | ***Increase*** | | ***Decrease*** |
| A fifty basis point change in assumed discount rates | **$** | **(13.9)** | **$** | **15.8** |
| A one-percentage-point change in assumed health care cost trend rates | | **17.6** | | **(15.0)** |
| A one-year change in assumed life expectancy | | **4.5** | | **(4.5)** |

The weighted-average duration of the defined benefit plan obligation at December 28, 2019 is 16.9 years (2018 – 16.1 years).

## 26. Share Capital

Share capital consists of the following:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Authorized | | | | |
| 3,423,366 Common Shares | | | | |
| 100,000,000 Class A Non-Voting Shares | | | | |
| Issued | | | | |
| 3,423,366 Common Shares (2018 – 3,423,366) | **$** | **0.2** | $ | 0.2 |
| 58,096,958 Class A Non-Voting Shares (2018 – 59,478,460) | | **587.8** | | 591.3 |
| | **$** | **588.0** | $ | 591.5 |

All issued shares are fully paid. The Company does not hold any of its Common or Class A Non-Voting Shares. Neither the Common nor Class A Non-Voting Shares have a par value.

During 2019 and 2018, the Company issued and repurchased Class A Non-Voting Shares. The Company's share repurchases were made pursuant to its NCIB program.

During the year, the Company entered into an Automatic Share Purchase Plan ("ASPP") with a broker that allows the broker to purchase Class A Non-Voting Shares for cancellation under the NCIB during the Company's blackout periods. As at December 28, 2019, an obligation to repurchase shares of $49.1 million (2018 – n/a) was recognized under the ASPP in trade and other payables.

The following transactions occurred with respect to Class A Non-Voting Shares during 2019 and 2018:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| (C$ in millions) | **Number** | | **$** | Number | | $ |
| Shares outstanding at beginning of the year | **59,478,460** | **$** | **591.3** | 63,066,561 | $ | 615.5 |
| Issued under the dividend reinvestment plan | **99,863** | | **14.3** | 73,010 | | 11.9 |
| Repurchased[1] | **(1,481,365)** | | **(215.2)** | (3,661,111) | | (588.9) |
| Accrued liability for ASPP commitment | **—** | | **(3.0)** | — | | — |
| Excess of purchase price over average cost | **—** | | **200.4** | — | | 552.8 |
| Shares outstanding at end of the period | **58,096,958** | **$** | **587.8** | 59,478,460 | $ | 591.3 |

[1] *Repurchased shares, pursuant to the Company's NCIB program, have been restored to the status of authorized but unissued shares. The Company records shares repurchased on a transaction date basis.*

### Conditions of Class A Non-Voting Shares and Common Shares

The holders of Class A Non-Voting Shares are entitled to receive a fixed cumulative preferential dividend at the rate of $0.01 per share per annum. After payment of fixed cumulative preferential dividends at the rate of $0.01 per share per annum on each of the Class A Non-Voting Shares with respect to the current year and each preceding year and payment of a non-cumulative dividend on each of the Common Shares with respect to the current year at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in equal amounts per share without preference or distinction or priority of one share over another.

In the event of the liquidation, dissolution, or winding up of the Company, all of the property of the Company available for distribution to the holders of the Class A Non-Voting Shares and the Common Shares shall be paid or distributed equally, share for share, to the holders of the Class A Non-Voting Shares and to the holders of the Common Shares without preference or distinction or priority of one share over another.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders; however, except as provided by the *Business Corporations Act* (Ontario) and as hereinafter noted, they are not entitled to vote at those meetings. Holders of Class A Non-Voting Shares, voting separately as a class, are entitled to elect the greater of (i) three Directors or (ii) one-fifth of the total number of the Company's Directors.

The holders of Common Shares are entitled to receive notice of, to attend and to have one vote for each Common Share held at all meetings of holders of Common Shares, subject only to the restriction on the right to elect those directors who are elected by the holders of Class A Non-Voting Shares as set out above.

Common Shares can be converted, at any time and at the option of each holder of Common Shares, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of shares of either class cannot be increased without the approval of the holders of at least two-thirds of the shares of each class represented and voted at a meeting of the shareholders called for the purpose of considering such an increase. Neither the Class A Non-Voting Shares nor the Common Shares can be changed in any manner whatsoever, whether by way of subdivision, consolidation, reclassification, exchange, or otherwise, unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all, or substantially all of the holders of Common Shares, or be required by applicable securities legislation or by the Toronto Stock Exchange to be made to all holders of Common Shares in Ontario and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon and thereafter be entitled to one vote per share at all meetings of the shareholders and thereafter the Class A Non-Voting Shares shall be designated as Class A Shares. The foregoing voting entitlement applicable to Class A Non-Voting Shares would not apply in the case where an offer is made to purchase both Class A Non-Voting Shares and Common Shares at the same price per share and on the same terms and conditions.

The foregoing is a summary of certain conditions attached to the Class A Non-Voting Shares of the Company and reference should be made to the Company's articles of amendment dated December 15, 1983 for a full statement of such conditions, which are available on SEDAR at www.sedar.com.

As of December 28, 2019, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of $70.0 million (2018 – $64.9 million) at a rate of $1.1375 per share (2018 – $1.0375 per share).

On February 12, 2020 the Company's Board of Directors declared a dividend of $1.1375 per share payable on June 1, 2020 to shareholders of record as of April 30, 2020.

Dividends per share declared were $4.25 in 2019 (2018 – $3.7375).

The dilutive effect of employee stock options is 66,921 (2018 – 174,857).

## 27. Share-Based Payments

The Company's share-based payment plans are described below.

### Stock Options

The Company has granted stock options to certain employees that enable such employees to exercise their stock options and subscribe for Class A Non-Voting Shares or surrender their options and receive a cash payment. Such cash payment is calculated as the difference between the fair market value of Class A Non-Voting Shares as at the surrender date and the exercise price of the option. Stock options granted prior to 2012 vested on the third anniversary of their grant. Stock options that were granted in 2012 and later vest over a three-year period. All outstanding stock options have a term of seven years. At December 28, 2019, and December 29, 2018, the aggregate number of Class A Non-Voting Shares that were authorized for issuance under the stock option plan was 3.4 million.

Stock option transactions during 2019 and 2018 were as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| Outstanding at beginning of year | **1,026,545** | **$ 144.91** | 1,025,839 | $ 130.14 |
| Granted | **446,227** | **144.08** | 302,160 | 177.09 |
| Exercised and surrendered[1] | **(134,928)** | **121.07** | (239,559) | 118.47 |
| Forfeited | **(51,837)** | **155.13** | (61,895) | 159.38 |
| Outstanding at end of year | **1,286,007** | **$ 146.71** | 1,026,545 | $ 144.91 |
| Stock options exercisable at end of year | **362,552** | | 425,267 | |

[1] *The weighted average market price of the Company's shares when the options were exercised in 2019 was $146.73 (2018 – $171.97).*

The following table summarizes information about stock options outstanding and exercisable at December 28, 2019:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| **Range of exercise prices** | **Number of outstanding options** | **Weighted average remaining contractual life[1]** | **Weighted average exercise price** | **Number of exercisable options** | **Weighted average exercise price** |
| $ 177.09 | **259,747** | **5.17** | **$ 177.09** | **—** | **$ —** |
| 159.29 | **234,867** | **4.17** | **156.29** | **—** | **—** |
| 144.35 | **428,841** | **6.16** | **144.35** | **—** | **—** |
| 129.14 to 129.92 | **281,432** | **2.74** | **129.58** | **281,432** | **129.58** |
| 69.01 to 99.72 | **81,120** | **1.06** | **95.31** | **81,120** | **95.31** |
| $ 69.01 to 177.09 | **1,286,007** | **4.53** | **$ 146.71** | **362,552** | **$ 121.91** |

[1] *Weighted average remaining contractual life is expressed in years.*

## Performance Share Units and Performance Units

The Company grants Performance Share Units ("PSUs") to certain of its employees that generally vest after three years. Each PSU entitles the participant to receive a cash payment equal to the fair market value of the Company's Class A Non-Voting Shares on the date set out in the Performance Share Unit plan, multiplied by a factor determined by specific performance-based criteria and a relative total shareholder return modifier.

CT REIT grants Performance Units ("PUs") to certain of its employees that generally vest after three years. Each PU entitles the participant to receive a cash payment equal to the fair market value of Units of CT REIT on the date set out in the Performance Unit plan, multiplied by a factor determined by specific performance-based criteria.

The fair value of stock options and PSUs at the end of the year was determined using the Black-Scholes option pricing model with the following inputs:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Stock options** | **PSUs** | Stock options | PSUs |
| Share price at end of year (C$) | **$ 140.63** | **$ 140.63** | $ 142.08 | $ 142.08 |
| Weighted average exercise price[1](C$) | **$ 146.80** | **N/A** | $ 144.21 | N/A |
| Expected remaining life (years) | **3.6** | **1.3** | 3.6 | 1.0 |
| Expected dividends | **4.0%** | **4.5%** | 3.0% | 4.5% |
| Expected volatility[2] | **19.8%** | **18.3%** | 21.0% | 25.5% |
| Risk-free interest rate | **2.0%** | **2.1%** | 2.3% | 2.3% |

[1] *Reflects expected forfeitures.*
[2] *Reflects historical volatility over a period of time similar to the remaining life of the stock options, which may not necessarily be the actual outcome.*

Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

### Deferred Share Units and Deferred Units

The Company offers Deferred Share Unit ("DSU") plans to certain of its Executives and to members of its Board of Directors. Under the Executives' DSU plan, eligible Executives may elect to receive all or a portion of their annual bonus in DSUs. The Executives' DSU plan also provides for the granting of discretionary DSUs. Under the Directors' DSU plan, eligible Directors may defer all or a portion of their annual director fees into DSUs. DSUs received under both the Executives' and Directors' DSU plans are settled in cash following termination of service with the Company and/or the Board based on the fair market value of the Company's Class A Non-Voting Shares on the settlement date.

CT REIT also offers a Deferred Unit ("DU") plan for members of its Board of Trustees. Under this plan, eligible trustees may elect to receive all or a portion of their annual trustee fees in DUs. DUs are settled through the issuance of an equivalent number of Units of CT REIT or, at the election of the trustee, cash, following termination of service with the Board.

### Restricted Unit Plan

CT REIT offers a Restricted Unit ("RU") plan for its Executives. RUs may be issued as discretionary grants or, Executives may elect to receive all or a portion of their annual bonus in RUs. At the end of the vesting period, which is generally three years from the date of grant (in the case of discretionary grants) and five years from the annual bonus payment date (in the case of deferred bonus), an Executive receives an equivalent number of Units issued by CT REIT or, at the Executive's election, the cash equivalent thereof.

The Company enters into equity derivative transactions to hedge share-based payments and does not apply hedge accounting. The expense recognized for share-based compensation is summarized as follows:

| (C$ in millions) | **2019** | 2018 |
|---|---|---|
| Expense arising from share-based payment transactions | **$ 31.6** | $ 14.4 |
| Effect of hedging arrangements | **4.9** | 28.2 |
| Total expense included in net income | **$ 36.5** | $ 42.6 |

The total carrying amount of liabilities for share-based payment transactions at December 28, 2019, was $86.7 million (2018 – $91.2 million).

The intrinsic value of the liability for vested benefits at December 28, 2019, was $33.6 million (2018 – $33.1 million).

## 28. Revenue

Revenue by reportable operating segment is as follows:

| | **2019** | | | | | 2018[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (C$ in millions) | **Retail** | **CT REIT** | **Financial Services** | **Adjust-ments** | **Total** | Retail | CT REIT | Financial Services | Adjust-ments | Total |
| Sale of goods | **$12,708.3** | **$ —** | **$ —** | **$ —** | **$12,708.3** | $12,303.0 | $ — | $ — | $ — | $12,303.0 |
| Interest income on loans receivable | **20.5** | **—** | **1,113.4** | **(10.5)** | **1,123.4** | 18.8 | — | 1,027.2 | (8.4) | 1,037.6 |
| Royalties and licence fees | **55.4** | **—** | **—** | **—** | **55.4** | 57.1 | — | — | — | 57.1 |
| Services rendered | **19.4** | **—** | **178.0** | **(2.4)** | **195.0** | 15.7 | — | 188.9 | — | 204.6 |
| Rental income | **401.5** | **51.6** | **—** | **(0.8)** | **452.3** | 410.0 | 46.4 | — | — | 456.4 |
| | **$13,205.1** | **$ 51.6** | **$ 1,291.4** | **$ (13.7)** | **$14,534.4** | $12,804.6 | $ 46.4 | $ 1,216.1 | $ (8.4) | $14,058.7 |

[1] *Certain prior period figures have been reclassified to align with current year presentation.*

Retail revenue breakdown is as follows:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Canadian Tire[1] | $ | **7,418.0** | $ | 7,209.0 |
| SportChek | | **2,036.3** | | 1,993.4 |
| Mark's | | **1,274.3** | | 1,247.2 |
| Helly Hansen | | **650.8** | | 347.6 |
| Petroleum | | **1,894.5** | | 2,016.5 |
| Other and intersegment eliminations | | **(68.8)** | | (9.1) |
| | $ | **13,205.1** | $ | 12,804.6 |

[1] *Includes Party City in Canada, which was acquired on October 1, 2019. Refer to Note 36 for details.*

### Major Customers

The Company does not rely on any one customer.

## 29. Cost of Producing Revenue

Cost of producing revenue consists of the following:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Inventory cost of sales[1] | $ | **9,116.8** | $ | 8,863.8 |
| Net impairment loss on loans receivable | | **409.5** | | 360.6 |
| Finance costs on deposits | | **66.6** | | 61.1 |
| Other | | **67.7** | | 61.9 |
| | $ | **9,660.6** | $ | 9,347.4 |

[1] *Inventory cost of sales includes depreciation for the year ended December 28, 2019 of $10.1 million (2018 – $6.2 million).*

Inventory writedowns, as a result of net realizable value being lower than cost, recognized in the year ended December 28, 2019 were $50.7 million (2018 – $50.1 million).

Inventory writedowns recognized in prior periods and reversed in the year ended December 28, 2019 were $7.8 million (2018 – $5.7 million). The reversal of writedowns was the result of actual losses being lower than previously estimated.

The writedowns and reversals are included in inventory cost of sales.

## 30. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Personnel expenses | $ | **1,375.0** | $ | 1,281.5 |
| Occupancy[1] | | **417.6** | | 748.0 |
| Marketing and advertising | | **312.8** | | 329.5 |
| Depreciation of property and equipment, investment property and assets held-for-sale[2,3] | | **274.3** | | 295.2 |
| Depreciation of right-of-use assets | | **262.3** | | — |
| Amortization of intangible assets | | **110.8** | | 126.6 |
| Information systems | | **187.0** | | 175.5 |
| Other | | **497.7** | | 511.3 |
| | $ | **3,437.5** | $ | 3,467.6 |

[1] *Prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2). Lease payments previously recorded as occupancy cost are now reflected as depreciation of right-of-use-assets (disclosed in this note) and finance costs on lease liabilities (Note 29).*
[2] *Refer to Note 29 for depreciation included in cost of producing revenue.*
[3] *Prior period includes depreciation on finance leases of $10.0 million, now reflected as depreciation of right-of-use assets in the current period due to the adoption of IFRS 16 (refer to Note 2).*

## 31. Net Finance Costs

Net finance costs consists of the following:

| (C$ in millions) | | 2019 | | 2018 |
|---|---|---|---|---|
| Finance (income) | $ | **(21.5)** | $ | (9.9) |
| Finance (income) on lease receivables[1] | | **(6.1)** | | — |
| Finance costs[2] | | **187.3** | | 161.4 |
| Finance costs on lease liabilities[3] | | **107.1** | | — |
| | $ | **266.8** | $ | 151.5 |

[1] *Prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2). Relates to properties where the Company is an intermediate lessor in a sublease arrangement classified as a finance sublease under IFRS 16.*
[2] *Prior period includes interest on finance leases of $7.1 million, now reflected as finance costs on lease liabilities in the current period due to the adoption of IFRS 16 (refer to Note 2).*
[3] *Prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2).*

## 32. Notes to the Consolidated Statements of Cash Flows

Changes in liabilities arising from financing activities comprise the following:

| | | | 2019 |
|---|---|---|---|
| (C$ in millions) | **Lease liabilities** | **Deposits** | **Long-term debt** |
| **Balance, beginning of year** | **$ —** | **$ 2,471.2** | **$ 4,553.9** |
| Cash changes: | | | |
| Change in deposits | **—** | **(30.8)** | **—** |
| Long-term debt issuance | **—** | **—** | **560.4** |
| Long-term debt repayment | **—** | **—** | **(500.0)** |
| Mortgage issuance | **—** | **—** | **10.9** |
| Mortgage repayment | **—** | **—** | **(0.3)** |
| Payment of transaction costs related to long-term debt | **—** | **—** | **(2.6)** |
| Payment of lease liabilities (principal portion) | **(313.3)** | **—** | **—** |
| Total changes from financing cash flows | **(313.3)** | **(30.8)** | **68.4** |
| Non-cash changes: | | | |
| IFRS 16 transition adjustment | **2,346.3** | **—** | **(108.0)** |
| Acquisition through business combinations | **74.1** | **—** | **—** |
| Currency translation adjustment | **(2.1)** | **—** | **—** |
| New leases, interest accretion and other | **101.3** | **—** | **—** |
| Amortization of debt issuance costs | **—** | **—** | **4.1** |
| Amortization of broker commission | **—** | **3.8** | **—** |
| **Balance, end of year** | **$ 2,206.3** | **$ 2,444.2** | **$ 4,518.4** |

| | | 2018 |
|---|---|---|
| (C$ in millions) | Deposits | Long-term debt |
| Balance at December 30, 2017 per IAS 39 | $ 2,386.8 | $ 3,404.4 |
| IFRS 9 adjustment | — | 5.1 |
| Balance at December 31, 2017 per IFRS 9 | 2,386.8 | 3,409.5 |
| Cash changes: | | |
| Change in deposits | 80.6 | — |
| Long-term debt issuance | — | 1,434.0 |
| Long-term debt repayment | — | (265.3) |
| Finance lease obligation repayment | — | (17.0) |
| Mortgage repayment | — | (6.8) |
| Payment of transaction costs related to long-term debt | — | (5.5) |
| Total changes from financing cash flows | 80.6 | 1,139.4 |
| Non-cash changes: | | |
| Finance lease addition | — | 1.6 |
| Amortization of debt issuance costs | — | 3.4 |
| Amortization of broker commission | 3.8 | — |
| Balance, end of year | $ 2,471.2 | $ 4,553.9 |

### 32.1 Cash and Marketable Investments Held in Reserve

Cash and marketable investments includes reserves held by the Financial Services segment in support of its liquidity and regulatory requirements. As at December 28, 2019, reserves held by Financial Services totaled $407.2 million (2018 – $498.3 million) and includes restricted cash disclosed in Note 7 as well as short-term investments.

## 33. Financial Instruments

### 33.1 Fair Value of Financial Instruments

Fair values have been determined for measurement and/or disclosure purposes based on the following:

The carrying amount of the Company's cash and cash equivalents, trade and other receivables, loans receivable, bank indebtedness, trade and other payables, short-term borrowings and loans approximate their fair value either due to their short-term nature or because they are derivatives, which are carried at fair value.

The carrying amount of the Company's long-term receivables and other assets approximate their fair value either because the interest rates applied to measure their carrying amount approximate current market interest or because they are derivatives, which are carried at fair value.

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

#### *Investments in Debt Securities*

The fair values of financial assets traded in active markets are determined by reference to their quoted closing bid price or dealer price quotations at the reporting date. For investments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models, comparison to similar instruments for which market-observable prices exist and other valuation models.

#### *Derivatives*

The fair value of a foreign exchange forward contract is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps and swaptions reflect the estimated amounts the Company would receive or pay if it were to settle the contracts at the measurement date and is determined by an external valuator using valuation techniques based on observable market input data.

The fair value of equity derivatives is determined by reference to share price movement adjusted for interest using market interest rates specific to the terms of the underlying derivative contracts.

#### *Redeemable Financial Instrument*

On October 1, 2014, the Bank of Nova Scotia ("Scotiabank") acquired a 20.0 percent interest in the Financial Services business from the Company for proceeds of $476.8 million, net of $23.2 million in transaction costs. In conjunction with the transaction, Scotiabank was provided an option to sell and require the Company to purchase all of the interest owned by Scotiabank at any time during the six-month period following the tenth anniversary of the transaction. This obligation gives rise to a liability for the Company (the "redeemable financial instrument") and is recorded on the Company's Consolidated Balance Sheets in Other long-term liabilities. The purchase price will be based on the fair value of the Financial Services business and Scotiabank's proportionate interest in the Financial Services business, at that time.

The redeemable financial instrument was initially recorded at $500.0 million and is subsequently measured at fair value with changes in fair value recorded in net income for the period in which they arise. The subsequent fair value measurements of the redeemable financial instrument are calculated based on a discounted cash flow analysis using normalized earnings attributable to the Financial Services business, adjusted for any undistributed earnings and Scotiabank's proportionate interest in the business. The Company estimates future normalized earnings based on the most recent actual results. The earnings are then forecast over a period of up to five years, taking into account a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on an industry-based estimate of the Financial Services business. The discount rate reflects the cost of equity of the Financial Services business and is based on expected market rates adjusted to reflect the risk profile of the business. The fair value measurement is performed quarterly using internal estimates and judgment supplemented by input from a third party, as required. This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (refer to Note 33.2).

### 33.2 Fair Value of Financial Assets and Financial Liabilities Classified Using the Fair Value Hierarchy

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are:

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

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

| (C$ in millions) | | | **2019** | | 2018 |
|---|---|---|---|---|---|
| **Balance sheet line** | **Category** | **Level** | | Level | |
| Trade and other receivables | FVTPL[1] | **2** | **$ 12.1** | 2 | 25.1 |
| Trade and other receivables | Effective hedging instruments | **2** | **9.1** | 2 | 121.8 |
| Long-term receivables and other assets | FVTPL[1] | **2** | **—** | 2 | 7.7 |
| Long-term receivables and other assets | Effective hedging instruments | **2** | **42.9** | 2 | 37.1 |
| Trade and other payables | FVTPL[1] | **2** | **9.2** | 2 | 16.7 |
| Trade and other payables | Effective hedging instruments | **2** | **19.1** | 2 | 4.7 |
| Redeemable financial instrument | FVTPL | **3** | **567.0** | 3 | 567.0 |
| Other long-term liability | FVTPL[1] | **2** | **0.4** | 2 | — |
| Other long-term liabilities | Effective hedging instruments | **2** | **5.2** | 2 | 5.0 |

[1] *Relates to derivatives not designated as hedging instruments.*

There were no transfers in either direction between categories in 2019 or 2018.

### Changes in Fair Value Measurement for Instruments Categorized in Level 3

Level 3 financial instruments include a redeemable financial instrument.

As of December 28, 2019, the fair value of the redeemable financial instrument was estimated to be $567.0 million (2018 – $567.0 million). The determination of the fair value of the redeemable financial instrument requires significant judgment on the part of Management. Refer to Note 2 of these consolidated financial statements for further information.

### 33.3 Fair Value Measurement of Investments, Debt and Deposits

The fair value measurement of investments, debt and deposits is categorized within Level 2 of the fair value hierarchy (refer to Note 33.2). The fair values of the Company's investments, debt and deposits compared to the carrying amounts are as follows:

| As at | December 28, 2019 | | December 29, 2018 | |
|---|---|---|---|---|
| (C$ in millions) | Carrying amount | Fair value | Carrying amount | Fair value |
| Short-term investments | $ 201.7 | $ 201.7 | $ 183.7 | $ 183.7 |
| Long-term investments | 138.9 | 139.5 | 152.7 | 153.4 |
| Debt | 4,518.4 | 4,711.7 | 4,553.9 | 4,603.9 |
| Deposits | 2,444.2 | 2,459.0 | 2,471.2 | 2,450.4 |

The difference between the fair values and the carrying amounts (excluding transaction costs, which are included in the carrying amount of debt) is due to changes in market interest rates for similar instruments. The fair values are determined by discounting the associated future cash flows using current market interest rates for items of similar risk.

### 33.4 Items of Income, Expense, Gains or Losses

The following table presents certain amounts of income, expense, gains, or losses, arising from financial instruments that were recognized in net income or equity:

| (C$ in millions) | 2019 | 2018 |
|---|---|---|
| Net (loss) gain on: | | |
| Financial instruments designated and/or classified as FVTPL[1] | $ (20.5) | $ (66.7) |
| Interest income (expense): | | |
| Total interest income calculated using effective interest method for financial instruments that are not at FVTPL | 1,144.8 | 1,047.6 |
| Total interest expense calculated using effective interest method for financial instruments that are not at FVTPL | (261.7) | (226.4) |
| Fee expense arising from financial instruments that are not at FVTPL: | | |
| Other fee expense | (9.8) | (15.0) |

[1] *Excludes gains (losses) on cash flow hedges, which are effective hedging relationships and are reflected on the Consolidated Statements of Comprehensive Income.*

### 33.5 Derivatives Designated as Hedging Instruments

The following table details the effectiveness of the hedging relationships and the amounts reclassified from hedging reserve to profit or loss:

| | | | 2019 |
|---|---|---|---|
| | | Amounts reclassified to profit or loss | |
| (C$ in millions) | Current period hedging gains (losses) recognized in OCI | Due to hedged item affecting profit or loss | Line item in profit or loss affected by the reclassification |
| Foreign currency risk | $ (73.7) | $ (1.8) | Other (income) |
| Interest rate risk | $ (29.8) | $ 2.6 | Net finance costs |

| | | | 2018 |
|---|---|---|---|
| | | Amounts reclassified to profit or loss | |
| (C$ in millions) | Current period hedging gains (losses) recognized in OCI | Due to hedged item affecting profit or loss | Line item in profit or loss affected by the reclassification |
| Foreign currency risk | $ 198.1 | $ 0.2 | Other (income) expense |
| Interest rate risk | $ (23.8) | $ 5.1 | Net finance costs |

The following table shows a reconciliation of cash flow hedges, net of tax, in relation to hedge accounting:

| (C$ in millions) | 2019 | 2018 |
|---|---|---|
| **Balance, beginning of year** | **$ 92.0** | $ (38.3) |
| Changes in fair value: | | |
| *Foreign currency risk* | | |
| Hedging instruments entered into for cash flow hedges subject to basis adjustment | **(72.0)** | 193.5 |
| Hedging instruments entered into for cash flow hedges not subject to basis adjustment | **(1.7)** | 4.6 |
| *Interest rate risk* | | |
| Hedging instruments entered into for cash flow hedges not subject to basis adjustment | **(4.4)** | (13.6) |
| Deferred cost of hedging not subject to basis adjustment – time value of an option in relation to time-period related hedged items | **(25.4)** | (10.2) |
| Amount reclassified to profit or loss: | | |
| Foreign currency risk | **(1.8)** | 0.2 |
| Interest rate risk | **2.6** | 5.1 |
| Amount reclassified to non-financial assets: | | |
| Foreign currency risk | **(67.6)** | (4.4) |
| Tax on movements on reserves during the year | **45.5** | (46.8) |
| Attributable to non-controlling interests | **4.5** | 1.9 |
| **Balance, end of year** | **$ (28.3)** | $ 92.0 |

## 34. Guarantees and Commitments

### Guarantees

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable that is related to an asset, a liability or an equity security of the counterparty; (ii) failure of another party to perform under an obligating agreement; or (iii) failure of a third party to pay its indebtedness when due.

The Company has provided the following significant guarantees and other commitments to third parties:

### Standby Letters of Credit

Franchise Trust, a legal entity sponsored by a third-party bank, originates loans to certain Dealers for their purchase of inventory and fixed assets. While Franchise Trust is consolidated as part of these financial statements, the Company has arranged for several major Canadian banks to provide standby LCs to Franchise Trust to support the credit quality of the Dealer loan portfolio. Franchise Trust may also draw against the LCs to cover any shortfalls in certain related fees owing to it. In any case where a draw is made against an LC, the Company has agreed to reimburse the bank issuing such standby LC for the amount so drawn. The Company has not recorded any liability for these amounts due to the credit quality of the Dealer loans and to the nature of the underlying collateral represented by the inventory and fixed assets of the borrowing Dealers. In the unlikely event that all the LCs have been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $115.4 million at December 28, 2019 (2018 – $115.7 million).

The Company has obtained documentary and standby letters of credit aggregating $42.2 million (2018 – $36.0 million) relating to the importation of merchandise inventories and to facilitate various real estate activities.

### Business and Property Dispositions

In connection with agreements for the sale of all or part of a business or property and in addition to indemnifications relating to failure to perform covenants and breach of representations and warranties, the Company has agreed to indemnify the purchasers against claims from its past conduct, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the parties in the agreements. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

### Lease Agreements Guarantees

The Company has guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. These lease agreements have expiration dates through November 2023. The maximum amount that the Company may be required to pay under these agreements was $2.5 million (2018 – $3.2 million). In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the consolidated financial statements with respect to these lease agreements.

### Third-Party Financial Guarantees

The Company has guaranteed the debts of certain Dealers. These third-party financial guarantees require the Company to make payments if the Dealer fails to make scheduled debt payments. The majority of these third-party financial guarantees have expiration dates extending up to and including January 2022. Under these financial guarantees, $11.5 million (2018 – $14.3 million) was issued at December 28, 2019. No amount has been accrued in the consolidated financial statements with respect to these debt agreements.

The Company has entered into agreements to buy back franchise-owned merchandise inventory should the banks foreclose on any of the applicable franchisees. The terms of the guarantees range from less than a year to the lifetime of the particular underlying franchise agreement. The Company's maximum exposure as at December 28, 2019, was $52.4 million (2018 – $59.4 million).

### Indemnification of Lenders and Agents Under Credit Facilities

In the ordinary course of business, the Company has agreed to indemnify its lenders under various credit facilities against costs or losses resulting from changes in laws and regulations that would increase the lenders' costs and from any legal action brought against the lenders related to the use of the loan proceeds. These indemnifications generally extend for the term of the credit facilities and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

### Other Indemnification Agreements

In the ordinary course of business, the Company provides other additional indemnification agreements to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above) and the arrangements with Franchise Trust discussed above. These additional indemnification agreements require the Company to compensate the counterparties for certain amounts and costs incurred, including costs resulting from changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction.

The terms of these additional indemnification agreements vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such additional indemnifications and no amount has been accrued in the consolidated financial statements with respect to these additional indemnification commitments.

The Company's exposure to credit risks related to the above-noted guarantees are disclosed in Note 5.

**Capital Commitments**

As at December 28, 2019, the Company had capital commitments for the acquisition of property and equipment, investment property and intangible assets for an aggregate cost of approximately $201.5 million (2018 – $158.3 million).

## 35. Related Parties

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

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

The following outlines the compensation of the Company's Board of Directors and key Management personnel (the Company's Chief Executive Officer, Chief Financial Officer and certain other Senior Officers):

| (C$ in millions) | | **2019** | | 2018 |
|---|---|---|---|---|
| Salaries and short-term employee benefits | **$** | **16.1** | $ | 15.1 |
| Share-based payments and other | | **13.3** | | 7.7 |
| | **$** | **29.4** | $ | 22.8 |

## 36. Business Combination

On October 1, 2019, the Company acquired the brand, store network, leaseholds, and fixed assets of Party City in Canada for $178.0 million. Party City in Canada is a leading, one-stop shopping destination for party supplies, and an expert in seasonal and micro-seasonal celebrations, with 65 Canadian retail stores in seven provinces.

The fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

| (C$ in millions) | | |
|---|---|---|
| Cash and cash equivalents | **$** | **0.7** |
| Merchandise inventories | | **47.6** |
| Prepaid expenses and deposits | | **2.7** |
| Intangible assets | | **57.0** |
| Property and equipment | | **20.4** |
| Right-of-use assets | | **76.1** |
| Trade and other payables | | **(0.8)** |
| Lease liabilities | | **(74.1)** |
| **Total net identifiable assets** | **$** | **129.6** |

Goodwill was recognized as a result of the acquisition as follows:

| (C$ in millions) | | |
|---|---|---|
| Total consideration transferred | **$** | **178.0** |
| Less: Total net identifiable assets | | **(129.6)** |
| **Goodwill** | **$** | **48.4** |

The goodwill recognized on acquisition is attributable mainly to the expected future growth potential from the expanded operations and customer base. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred acquisition-related costs of $2.3 million to date which is recorded in selling, general and administrative expenses. The Company also recorded $2.4 million as fair value adjustment for inventory acquired, which is recorded in cost of producing revenue.

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# 2019 Quarterly Information

| (C$ in millions, except where noted) | First Quarter (December 30, 2018 to March 30, 2019) | Second Quarter (March 31, 2019 to June 29, 2019) | Third Quarter (June 30, 2019 to September 28, 2019) | Fourth Quarter (September 29, 2019 to December 28, 2019) | Total |
|---|---|---|---|---|---|
| (Store numbers are cumulative at end of period) | | | | | |
| **Retail segment** | | | | | |
| Revenue | $ 2,564.0 | $ 3,360.3 | $ 3,296.3 | $ 3,989.2 | $ 13,209.8 |
| Income before income taxes | (13.5) | 139.1 | 170.6 | 351.6 | 647.8 |
| **CT REIT segment** | | | | | |
| Revenue | 121.6 | 122.0 | 121.7 | 123.7 | 489.0 |
| Income before income taxes | 71.4 | 78.8 | 80.1 | 76.9 | 307.2 |
| **Financial Services segment** | | | | | |
| Revenue | 328.8 | 329.3 | 343.0 | 333.0 | 1,334.1 |
| Income before income taxes | 112.4 | 95.5 | 108.9 | 109.5 | 426.3 |
| **Total** | | | | | |
| Revenue | $ 2,894.4 | $ 3,686.6 | $ 3,636.7 | $ 4,316.7 | $ 14,534.4 |
| Cost of producing revenue | 1,896.1 | 2,542.7 | 2,408.1 | 2,813.7 | 9,660.6 |
| Other (income) expense | (5.0) | (28.3) | 17.9 | 2.0 | (13.4) |
| Selling, general and administrative expenses | 812.9 | 848.6 | 832.3 | 943.7 | 3,437.5 |
| Net finance costs | 67.0 | 62.3 | 71.5 | 66.0 | 266.8 |
| Income taxes | 26.0 | 57.5 | 79.2 | 125.4 | 288.1 |
| Net income | 97.4 | 203.8 | 227.7 | 365.9 | 894.8 |
| Net income attributable to shareholders of Canadian Tire Corporation | 69.7 | 177.4 | 197.2 | 334.1 | 778.4 |
| Net income attributable to non-controlling interests | 27.7 | 26.4 | 30.5 | 31.8 | 116.4 |
| Basic EPS[1] | 1.12 | 2.87 | 3.20 | 5.42 | 12.60 |
| Diluted EPS[1] | 1.12 | 2.87 | 3.20 | 5.42 | 12.58 |
| **Canadian Tire** | | | | | |
| Retail sales growth | 7.4% | 2.1% | 2.7% | 6.6% | 4.5% |
| Comparable sales growth | 7.1% | 1.9% | 2.4% | 4.8% | 3.8% |
| Number of Canadian Tire stores | 503 | 504 | 504 | 504 | |
| Number of Other[2] Canadian Tire stores | 104 | 102 | 101 | 163 | |
| **SportChek** | | | | | |
| Retail sales growth[3] | 2.8% | 3.0% | 3.8% | 1.3% | 2.6% |
| Comparable sales growth[3] | 3.4% | 3.7% | 4.6% | 2.0% | 3.3% |
| Number of SportChek stores | 404 | 402 | 403 | 402 | |
| **Canadian Tire Petroleum** | | | | | |
| Number of gas bars | 297 | 295 | 296 | 297 | |
| **Mark's** | | | | | |
| Retail sales growth | 5.5% | 2.7% | 0.9% | 1.5% | 2.4% |
| Comparable sales growth | 4.9% | 2.6% | 1.2% | 1.8% | 2.5% |
| Number of Mark's stores | 385 | 380 | 381 | 380 | |
| **Financial Services segment** | | | | | |
| Average number of accounts with a balance[4] (thousands) | 2,082 | 2,093 | 2,126 | 2,148 | 2,112 |
| Average account balance[4] ($) | 2,930 | 2,955 | 2,973 | 2,978 | 2,959 |
| Gross average accounts receivable (millions) | 6,104.6 | 6,187.3 | 6,324.0 | 6,398.3 | 6,253.5 |

# 2019 Quarterly Information (continued)

| (C$ in millions, except where noted) | First Quarter (December 30, 2018 to March 30, 2019) | Second Quarter (March 31, 2019 to June 29, 2019) | Third Quarter (June 30, 2019 to September 28, 2019) | Fourth Quarter (September 29, 2019 to December 28, 2019) | 2019 |
|---|---|---|---|---|---|
| **Class A Non-Voting Shares** | | | | | |
| High | $ 153.63 | $ 154.69 | $ 149.64 | $ 157.36 | $ 157.36 |
| Low | 137.00 | 133.56 | 131.47 | 139.73 | 131.47 |
| Close | 143.99 | 142.68 | 148.03 | 140.63 | 140.63 |
| Volume (thousands of shares) | 16,527 | 13,924 | 13,159 | 16,774 | 60,384 |
| **Common Shares** | | | | | |
| High | $ 243.89 | $ 231.83 | $ 229.80 | $ 214.00 | $ 243.89 |
| Low | 216.90 | 215.00 | 205.65 | 175.20 | 175.20 |
| Close | 233.32 | 228.00 | 209.00 | 175.30 | 175.30 |
| Volume (thousands of shares) | 17 | 17 | 13 | 37 | 84 |

[1] *Basic EPS is calculated by dividing the net income attributable to shareholders of Canadian Tire Corporation by the weighted average number of Common and Class A Non-Voting shares outstanding during the reporting period. Diluted EPS is calculated by dividing the net income attributable to shareholders of Canadian Tire Corporation by the weighted average number of shares outstanding adjusted for the effects of all dilutive potential equity instruments, which comprise employee stock options.*

[2] *Other Canadian Tire banners include PartSource, PHL and Party City in Canada.*

[3] *Retail sales growth include sales from both corporate and franchise stores.*

[4] *Credit card portfolio only.*

# 2018 Quarterly Information

| (C$ in millions, except where noted) | First Quarter (December 31, 2017 to March 31, 2018) | Second Quarter (April 1, 2018 to June 30, 2018) | Third Quarter (July 1, 2018 to September 29, 2018) | Fourth Quarter (September 30, 2018 to December 29, 2018) | Total |
|---|---|---|---|---|---|
| (Store numbers are cumulative at end of period) | | | | | |
| **Retail segment** | | | | | |
| Revenue | $ 2,506.9 | $ 3,179.8 | $ 3,309.9 | $ 3,816.9 | $ 12,813.5 |
| Income before income taxes | 23.0 | 149.9 | 166.7 | 328.8 | 668.4 |
| **CT REIT segment** | | | | | |
| Revenue | 116.6 | 118.9 | 117.7 | 119.3 | 472.5 |
| Income before income taxes | 72.5 | 74.8 | 79.1 | 74.5 | 300.9 |
| **Financial Services segment** | | | | | |
| Revenue | 305.1 | 306.4 | 325.6 | 322.8 | 1,259.9 |
| Income before income taxes | 97.1 | 71.4 | 131.9 | 92.1 | 392.5 |
| **Total** | | | | | |
| Revenue | $ 2,814.9 | $ 3,480.8 | $ 3,631.3 | $ 4,131.7 | $ 14,058.7 |
| Cost of producing revenue | 1,843.1 | 2,382.1 | 2,408.5 | 2,713.7 | 9,347.4 |
| Other (income) | (17.3) | (1.5) | (4.7) | (2.5) | (26.0) |
| Selling, general and administrative expenses | 826.6 | 831.2 | 870.9 | 938.9 | 3,467.6 |
| Net finance costs | 30.7 | 32.7 | 43.4 | 44.7 | 151.5 |
| Change in fair value of redeemable financial instrument | — | — | — | 50.0 | 50.0 |
| Income taxes | 32.7 | 61.9 | 81.9 | 108.7 | 285.2 |
| Net income | 99.1 | 174.4 | 231.3 | 278.2 | 783.0 |
| Net income attributable to shareholders of Canadian Tire Corporation | 78.0 | 156.0 | 203.8 | 254.3 | 692.1 |
| Net income attributable to non-controlling interests | 21.1 | 18.4 | 27.5 | 23.9 | 90.9 |
| Basic EPS[1] | 1.18 | 2.39 | 3.16 | 4.00 | 10.67 |
| Diluted EPS[1] | 1.18 | 2.38 | 3.15 | 3.99 | 10.64 |
| **Canadian Tire** | | | | | |
| Retail sales growth | 6.0% | 2.3 % | 2.4% | 0.6% | 2.4% |
| Comparable sales growth | 5.8% | 2.0 % | 2.2% | 0.2% | 2.1% |
| Number of Canadian Tire stores | 501 | 501 | 501 | 503 | |
| Number of Other[2] Canadian TIre stores | 106 | 106 | 105 | 105 | |
| **SportChek** | | | | | |
| Retail sales growth[3] | 2.5% | (1.9)% | 1.6% | 1.9% | 1.1% |
| Comparable sales growth[3] | 3.9% | (0.3)% | 2.2% | 2.5% | 2.0% |
| Number of SportChek stores | 409 | 408 | 408 | 409 | |
| **Canadian Tire Petroleum** | | | | | |
| Number of gas bars | 298 | 297 | 298 | 297 | |
| **Mark's** | | | | | |
| Retail sales growth | 3.6% | 1.6 % | 6.4% | 1.8% | 3.0% |
| Comparable sales growth | 3.4% | 1.3 % | 6.1% | 1.8% | 2.8% |
| Number of Mark's stores | 385 | 386 | 386 | 386 | |
| **Financial Services segment** | | | | | |
| Average number of accounts with a balance[4] (thousands) | 1,945 | 2,006 | 2,074 | 2,113 | 2,035 |
| Average account balance[4] ($) | 2,868 | 2,848 | 2,848 | 2,882 | 2,862 |
| Gross average accounts receivable (millions) | 5,583.1 | 5,715.5 | 5,909.5 | 6,093.0 | 5,825.3 |

# 2018 Quarterly Information (continued)

| (C$ in millions, except where noted) | First Quarter (December 31, 2017 to March 31, 2018) | Second Quarter (April 1, 2018 to June 30, 2018) | Third Quarter (July 1, 2018 to September 29, 2018) | Fourth Quarter (September 30, 2018 to December 29, 2018) | 2018 |
|---|---|---|---|---|---|
| **Class A Non-Voting Shares** | | | | | |
| High | $ 180.21 | $ 177.50 | $ 183.93 | $ 167.40 | $ 183.93 |
| Low | 157.60 | 161.43 | 151.14 | 137.10 | 137.10 |
| Close | 169.40 | 171.60 | 151.34 | 142.08 | 142.08 |
| Volume (thousands of shares) | 13,516 | 12,751 | 12,155 | 16,220 | 54,642 |
| **Common Shares** | | | | | |
| High | $ 269.90 | $ 268.70 | $ 263.30 | $ 241.80 | $ 269.90 |
| Low | 231.00 | 241.41 | 230.98 | 204.79 | 204.79 |
| Close | 269.90 | 247.80 | 237.05 | 211.10 | 211.10 |
| Volume (thousands of shares) | 14 | 13 | 16 | 14 | 57 |

[1] *Basic EPS is calculated by dividing the net income attributable to shareholders of Canadian Tire Corporation by the weighted average number of Common and Class A Non-Voting shares outstanding during the reporting period. Diluted EPS is calculated by dividing the net income attributable to shareholders of Canadian Tire Corporation by the weighted average number of shares outstanding adjusted for the effects of all dilutive potential equity instruments, which comprise employee stock options.*
[2] *Other Canadian Tire banners include PartSource and PHL.*
[3] *Retail sales growth include sales from both corporate and franchise stores.*
[4] *Credit card portfolio only.*

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To change your address, eliminate multiple mailings, transfer shares of the Company, 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, Calgary or Vancouver.