

# **Condensed Consolidated Balance Sheets (Unaudited)**

As at (C\$ in millions)	December 31, 2011	January 1, 2011 (Note 22)	January 3, 2010 (Note 22)
<b>ASSETS</b>			
Cash and cash equivalents (Note 13)	\$ 325.8	\$ 568.9	\$ 885.8
Short-term investments	196.4	196.7	60.9
Trade and other receivables	829.3	673.9	853.8
Loans receivable (Note 10)	4,081.7	4,051.0	4,008.7
Merchandise inventories	1,448.6	901.0	933.0
Income taxes recoverable	-	99.3	94.7
Prepaid expenses and deposits	44.3	37.6	41.1
	<b>6,926.1</b>	<b>6,528.4</b>	<b>6,878.0</b>
Assets classified as held for sale (Note 15)	30.5	20.8	15.0
<b>Total current assets</b>	<b>6,956.6</b>	<b>6,549.2</b>	<b>6,893.0</b>
Long-term receivables and other assets	668.9	726.9	802.3
Long-term investments	128.2	75.8	48.8
Goodwill and intangible assets	1,110.0	361.4	335.4
Investment property	72.4	68.6	71.2
Property and equipment	3,365.9	3,232.0	3,210.4
Deferred income taxes	36.8	34.6	46.1
<b>Total assets</b>	<b>\$ 12,338.8</b>	<b>\$ 11,048.5</b>	<b>\$ 11,407.2</b>
<b>LIABILITIES</b>			
Bank indebtedness (Note 13)	\$ 124.8	\$ 118.0	\$ 83.7
Deposits	1,182.3	615.6	863.4
Trade and other payables	1,640.9	1,179.9	1,192.9
Provisions	191.9	196.2	220.9
Short-term borrowings	352.6	100.6	163.0
Loans payable (Note 16)	628.7	687.0	757.4
Income taxes payable	3.9	-	-
Current portion of long-term debt	27.9	354.2	690.6
<b>Total current liabilities</b>	<b>4,153.0</b>	<b>3,251.5</b>	<b>3,971.9</b>
Long-term provisions	55.1	25.1	26.7
Long-term debt	2,347.7	2,365.4	2,441.1
Long-term deposits	1,102.2	1,264.5	1,196.9
Deferred income taxes	66.1	-	-
Other long-term liabilities	205.7	137.1	127.5
<b>Total liabilities</b>	<b>7,929.8</b>	<b>7,043.6</b>	<b>7,764.1</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 11)	710.5	711.6	720.4
Contributed surplus	1.1	0.3	0.2
Accumulated other comprehensive income (loss)	11.0	(32.3)	(38.6)
Retained earnings	3,686.4	3,325.3	2,961.1
<b>Total shareholders' equity</b>	<b>4,409.0</b>	<b>4,004.9</b>	<b>3,643.1</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 12,338.8</b>	<b>\$ 11,048.5</b>	<b>\$ 11,407.2</b>

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

**Condensed Consolidated Statements of Income (Unaudited)**

(C\$ in millions except per share amounts)	13 weeks ended		52 weeks ended	
	December 31, 2011	January 1, 2011 (Note 22)	December 31, 2011	January 1, 2011 (Note 22)
<b>Revenue</b> (Note 5)	\$ 3,135.1	\$ 2,588.3	\$ 10,387.1	\$ 9,213.1
Cost of producing revenue (Note 6)	(2,196.3)	(1,814.2)	(7,326.4)	(6,422.1)
<b>Gross margin</b>	<b>938.8</b>	<b>774.1</b>	<b>3,060.7</b>	<b>2,791.0</b>
Other income (Note 17)	5.8	1.1	18.4	1.1
Operating expenses				
Distribution costs	(89.8)	(77.2)	(329.2)	(296.3)
Sales and marketing expenses	(410.6)	(312.8)	(1,286.3)	(1,090.4)
Administrative expenses	(180.4)	(170.5)	(701.5)	(682.9)
Total operating expenses (Note 7)	(680.8)	(560.5)	(2,317.0)	(2,069.6)
<b>Operating income</b>	<b>263.8</b>	<b>214.7</b>	<b>762.1</b>	<b>722.5</b>
Finance income	4.6	22.9	23.0	32.4
Finance costs	(37.5)	(41.8)	(155.2)	(168.1)
Net finance costs	(32.9)	(18.9)	(132.2)	(135.7)
<b>Income before income taxes</b>	<b>230.9</b>	<b>195.8</b>	<b>629.9</b>	<b>586.8</b>
<b>Income taxes</b>	<b>(64.6)</b>	<b>(26.5)</b>	<b>(162.9)</b>	<b>(142.6)</b>
<b>Net income</b>	<b>\$ 166.3</b>	<b>\$ 169.3</b>	<b>\$ 467.0</b>	<b>\$ 444.2</b>
<b>Basic earnings per share</b>	<b>\$ 2.04</b>	<b>\$ 2.08</b>	<b>\$ 5.73</b>	<b>\$ 5.45</b>
<b>Diluted earnings per share</b>	<b>\$ 2.03</b>	<b>\$ 2.07</b>	<b>\$ 5.71</b>	<b>\$ 5.42</b>
<b>Weighted average number of Common and Class A Non-Voting Shares outstanding - Basic</b> (Note 12)	<b>81,444,555</b>	<b>81,434,334</b>	<b>81,447,398</b>	<b>81,565,476</b>
<b>Weighted average number of Common and Class A Non-Voting Shares outstanding - Diluted</b> (Note 12)	<b>81,804,155</b>	<b>81,847,646</b>	<b>81,803,786</b>	<b>81,905,012</b>

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

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

(C\$ in millions)	13 weeks ended		52 weeks ended	
	December 31, 2011	January 1, 2011 (Note 22)	December 31, 2011	January 1, 2011 (Note 22)
<b>Net income</b>	<b>\$ 166.3</b>	<b>\$ 169.3</b>	<b>\$ 467.0</b>	<b>\$ 444.2</b>
<b>Other comprehensive income (loss)</b>				
Derivatives designated as cash flow hedges:				
(Losses)/gains, net of tax of \$6.3 and \$0.4 (2010 - \$11.7 and \$24.2), respectively	<b>(16.7)</b>	(29.8)	<b>0.8</b>	(53.7)
Reclassification of (gains)/losses to non-financial asset, net of tax of \$0.5 and \$15.6 (2010 - \$2.8 and \$26.3), respectively	<b>(1.2)</b>	7.2	<b>40.0</b>	55.9
Reclassification of losses to income, net of tax of \$nil and \$0.4 (2010 - \$0.2 and \$1.9), respectively	-	0.5	<b>1.0</b>	4.0
Available for sale financial assets:				
Gains/(losses), net of tax of \$0.7 and \$3.5 (2010 - \$0.1 and \$nil), respectively	<b>2.0</b>	(0.1)	<b>8.9</b>	0.1
Reclassification of (losses)/gains to income, net of tax of \$0.2 and \$2.9 (2010 - \$nil and \$nil), respectively	<b>(0.6)</b>	0.1	<b>(7.4)</b>	-
Actuarial adjustments, net of tax of \$4.9 and \$4.9 (2010 - \$2.1 and \$2.1), respectively	<b>(14.2)</b>	(6.2)	<b>(14.2)</b>	(6.2)
<b>Total other comprehensive (loss) income</b>	<b>(30.7)</b>	(28.3)	<b>29.1</b>	0.1
<b>Total comprehensive income</b>	<b>\$ 135.6</b>	<b>\$ 141.0</b>	<b>\$ 496.1</b>	<b>\$ 444.3</b>

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

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

(C\$ in millions)	13 weeks ended		52 weeks ended	
	December 31, 2011	January 1, 2011 (Note 22)	December 31, 2011	January 1, 2011 (Note 22)
<b>Cash generated from (used for):</b>				
<b>Operating activities</b>				
Net income	\$ 166.3	\$ 169.3	\$ 467.0	\$ 444.2
Adjustments for:				
Impairment on loans receivable (Note 10)	88.7	86.6	352.0	347.0
Depreciation on property and equipment and investment properties	66.3	57.6	229.8	223.8
Income tax expense	64.6	26.5	162.9	142.6
Net finance costs	32.9	18.9	132.2	135.7
Amortization of intangible assets	20.3	12.9	66.3	50.3
Changes in fair value of derivative instruments	(28.3)	(14.3)	(3.1)	(16.0)
Other	(9.5)	3.6	3.4	10.3
Gain on revaluation of shares (Note 17)	-	-	(10.4)	-
	401.3	361.1	1,400.1	1,337.9
Changes in working capital and other	164.8	(122.7)	219.6	(293.1)
Cash generated from operating activities before interest and taxes	566.1	238.4	1,619.7	1,044.8
Interest paid	(47.4)	(56.5)	(176.6)	(190.5)
Interest received	2.4	2.5	26.1	6.7
Income taxes paid	18.3	(37.1)	(63.7)	(131.5)
<b>Cash generated from operating activities</b>	<b>539.4</b>	<b>147.3</b>	<b>1,405.5</b>	<b>729.5</b>
<b>Investing activities</b>				
Acquisition of The Forzani Group Ltd. (Note 17)	-	-	(739.9)	-
Acquisition of short-term investments	(29.7)	(44.3)	(334.8)	(215.5)
Acquisition of long-term investments	-	(45.7)	(123.1)	(70.5)
Additions to property and equipment and investment properties	(79.2)	(85.7)	(230.5)	(237.9)
Additions to intangible assets	(31.3)	(27.7)	(128.9)	(70.4)
Long-term receivables and other assets	2.8	12.7	(3.2)	16.5
Proceeds from the disposition of long-term investments	-	-	18.1	-
Proceeds from the disposition of short-term investments	39.4	42.3	364.0	124.0
Other	8.0	5.2	16.9	10.6
<b>Cash used for investing activities</b>	<b>(90.0)</b>	<b>(143.2)</b>	<b>(1,161.4)</b>	<b>(443.2)</b>
<b>Financing activities</b>				
Issuance of long-term debt	-	264.5	-	264.5
Issuance of short-term borrowings	1,006.8	240.1	2,676.8	1,160.3
Repayment of short-term borrowings	(1,240.3)	(239.8)	(2,666.7)	(1,222.7)
Issuance of loans payable	32.9	79.8	129.3	248.4
Repayment of loans payable	(62.4)	(106.7)	(187.6)	(318.8)
Issuance of share capital (Note 11)	1.1	0.9	11.6	16.7
Repurchase of share capital (Note 11)	(1.2)	-	(11.9)	(25.4)
Repayment of long-term debt and finance lease liabilities	(336.6)	(333.8)	(355.6)	(690.8)
Dividends paid	(22.4)	(17.1)	(89.6)	(68.5)
Payment of transaction costs related to long-term debt	-	(1.7)	-	(1.7)
<b>Cash used for financing activities</b>	<b>(622.1)</b>	<b>(113.8)</b>	<b>(493.7)</b>	<b>(638.0)</b>
<b>Cash used in the period</b>	<b>(172.7)</b>	<b>(109.7)</b>	<b>(249.6)</b>	<b>(351.7)</b>
<b>Cash and cash equivalents, net of bank indebtedness, beginning of period</b>	<b>373.4</b>	<b>560.4</b>	<b>450.9</b>	<b>802.1</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>0.3</b>	<b>0.2</b>	<b>(0.3)</b>	<b>0.5</b>
<b>Cash and cash equivalents, net of bank indebtedness, end of period (Note 13)</b>	<b>\$ 201.0</b>	<b>\$ 450.9</b>	<b>\$ 201.0</b>	<b>\$ 450.9</b>

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

**Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**

(C\$ in millions)	Share capital	Contributed surplus	Cashflow Hedges	Fair value changes in available for sale financial assets	Total accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity (Note 22)
<b>Balance at January 3, 2010</b>	\$ 720.4	\$ 0.2	\$ (38.6)	\$ -	\$ (38.6)	\$ 2,961.1	\$ 3,643.1
<b>Total comprehensive income</b>							
Net income						444.2	444.2
<b>Other comprehensive income (loss)</b>							
Derivatives designated as cash flow hedges:							
Losses, net of tax of \$24.2			(53.7)		(53.7)		(53.7)
Reclassification of losses to non-financial asset, net of tax of \$26.3			55.9		55.9		55.9
Reclassification of losses to income, net of tax of \$1.9			4.0		4.0		4.0
Available for sale financial assets:							
Gains, net of tax of \$nil				0.1	0.1		0.1
Reclassification of gains to income, net of tax of \$nil				-	-		-
Actuarial adjustments, net of tax of \$2.1						(6.2)	(6.2)
<b>Total other comprehensive income (loss)</b>	-	-	6.2	0.1	6.3	(6.2)	0.1
<b>Total comprehensive income</b>	-	-	6.2	0.1	6.3	438.0	444.3
Contributions by and distributions to shareholders							
Issue of Class A Non-Voting Shares (Note 11)	16.7				-		16.7
Repurchase of Class A Non-Voting Shares (Note 11)	(25.4)				-		(25.4)
Excess of issue price over repurchase price (Note 11)	(0.1)	0.1			-		-
Dividends					-	(73.8)	(73.8)
<b>Total contributions by and distributions to shareholders</b>	(8.8)	0.1	-	-	-	(73.8)	(82.5)
<b>Balance at January 1, 2011</b>	\$ 711.6	\$ 0.3	\$ (32.4)	\$ 0.1	\$ (32.3)	\$ 3,325.3	\$ 4,004.9

(C\$ in millions)	Share capital	Contributed surplus	Cashflow Hedges	Fair value changes in available for sale financial assets	Total accumulated other comprehensive income (loss) (Note 22)	Retained earnings (Note 22)	Total shareholders' equity
<b>Balance at January 1, 2011</b>	\$ 711.6	\$ 0.3	\$ (32.4)	\$ 0.1	\$ (32.3)	\$ 3,325.3	\$ 4,004.9
<b>Total comprehensive income</b>							
Net income						467.0	467.0
<b>Other comprehensive income (loss)</b>							
Derivatives designated as cash flow hedges:							
Gains, net of tax of \$0.4			0.8		0.8		0.8
Reclassification of losses to non-financial asset, net of tax of \$15.6			40.0		40.0		40.0
Reclassification of losses to income, net of tax of \$0.4			1.0		1.0		1.0
Available for sale financial assets:							
Gains, net of tax of \$3.5				8.9	8.9		8.9
Reclassification of losses to income, net of tax of \$2.9				(7.4)	(7.4)		(7.4)
Actuarial adjustments, net of tax of \$4.9						(14.2)	(14.2)
<b>Total other comprehensive income (loss)</b>	-	-	41.8	1.5	43.3	(14.2)	29.1
<b>Total comprehensive income</b>	-	-	41.8	1.5	43.3	452.8	496.1
Contributions by and distributions to shareholders							
Issue of Class A Non-Voting Shares (Note 11)	11.6				-		11.6
Repurchase of Class A Non-Voting Shares (Note 11)	(11.9)				-		(11.9)
Excess of issue price over repurchase price (Note 11)	(0.8)	0.8			-		-
Dividends					-	(91.7)	(91.7)
<b>Total contributions by and distributions to shareholders</b>	(1.1)	0.8	-	-	-	(91.7)	(92.0)
<b>Balance at December 31, 2011</b>	\$ 710.5	\$ 1.1	\$ 9.4	\$ 1.6	\$ 11.0	\$ 3,686.4	\$ 4,409.0

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

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### 1. The Company and its Operations

Canadian Tire Corporation, Limited and its subsidiaries ("the Company") is comprised of two main business operations that offer a range of retail goods and services including general merchandise, clothing, sporting goods, petroleum and financial services. On August 18, 2011, the Company acquired The Forzani Group Ltd. ("FGL Sports"). The operations of FGL Sports are included in the Company's results from operations and financial position commencing August 19, 2011. The Company is a limited liability incorporated business primarily domiciled in Canada. The address of its registered office is 2180 Yonge Street, Toronto, Ontario, M4P 2V8, Canada. The Company is listed on the Toronto Stock Exchange (TSX – CTC, CTC.A).

The Company's operations are influenced by seasonal trends in the retail environment. The second and fourth quarters of each year are typically when the Company experiences stronger revenues and net income due to the seasonal nature of some merchandise in its retail operations and timing of marketing programs.

### 2. Basis of Preparation

These condensed interim consolidated financial statements ("interim consolidated financial statements") have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), which include interpretations as issued by the International Accounting Standards Board (the "IASB") and the IFRS Interpretations Committee.

The Company prepared these interim consolidated financial statements for the 13 weeks and 52 weeks ended December 31, 2011 (and comparative results for the 13 weeks and 52 weeks ended January 1, 2011) in accordance with IAS 34 - *Interim Financial Reporting* and IFRS 1 - *First Time Adoption of IFRS*.

These interim consolidated financial statements should be read in conjunction with: the Company's 2010 annual financial statements; the IFRS transitional disclosures included in Note 22 of these interim consolidated financial statements; and the IFRS transitional and selected annual disclosures included in Notes 22 and 23 of the Company's 2011 first quarter condensed interim consolidated financial statements and notes ("Q1 2011 interim consolidated financial statements").

The significant accounting policies as disclosed in the Company's Q1 2011 interim consolidated financial statements have been applied consistently in the preparation of these interim consolidated financial statements. Accordingly, please refer to the Company's Q1 2011 interim consolidated financial statements for a full description of the Company's Significant Accounting Policies (Note 3) and Basis for Fair Value (Note 4).

These interim consolidated financial statements were approved by the Company's Board of Directors on February 9, 2012.

#### Basis of presentation

These interim 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;
- Derivative financial instruments;
- Available-for-sale financial assets;
- Liabilities for cash-settled share-based payment plans;
- Assets acquired and liabilities assumed in the acquisition of FGL Sports.

#### Functional and presentation currency

These interim consolidated financial statements are presented in Canadian dollars ("C\$"), the Company's functional currency. All financial information is presented in millions, except per share amounts which are presented in whole dollars.

#### Use of estimates and judgments

The preparation of these interim consolidated financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of these interim consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from estimates made in these interim consolidated financial statements.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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Judgment is used mainly in determining whether a balance or transaction should be recognized in these interim consolidated financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The Company has applied judgment in its assessment of the appropriateness of consolidation of special purpose entities, the classification of leases and financial instruments, the recognition of tax losses and provisions, the determination of cash generating units, the identification of its investment properties, the identification of the indicators of impairment for property and equipment, investment property and intangible assets with finite useful lives, the level of componentization of property and equipment, and the allocation of purchase price adjustments on the acquisition of FGL Sports.

Estimates are used when estimating the useful lives of property and equipment, investment property and intangible assets for the purposes of depreciation and amortization, when accounting for and measuring items such as inventory allowances, customer loyalty programs, deferred revenue, insurance reserves, assumptions underlying actuarial determination of retirement future benefit obligations, income and other taxes, provisions, certain fair value measures including those related to the valuation of business combinations, share-based payments and financial instruments, the testing of goodwill, indefinite useful life intangible assets and other assets for impairment, updating models used in the determination of allowances on loans receivable, purchase price adjustments on the acquisition of FGL Sports and calculating the proforma results as if the acquisition of FGL Sports had occurred at the beginning of the Company's fiscal year.

### Standards, amendments and interpretations issued and not yet adopted

#### *Financial instruments*

In November 2009 the IASB issued IFRS 9 – *Financial instruments* ("IFRS 9"), Classification and Measurement, which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in other comprehensive income ("OCI"), instead of net income, unless this would create an accounting mismatch. An accounting mismatch may occur when financial liabilities that are measured at fair value are managed with assets that are measured at fair value through profit and loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net income but a portion of the change in the fair value of the related financial liabilities would not. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Early adoption is permitted. The Company is assessing the potential impact of this standard.

#### *Financial instruments: disclosures*

In October 2010, the IASB amended IFRS 7 – *Financial instruments: Disclosures*, which will be applied prospectively for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures on transferred financial assets. The Company is assessing the potential impact of these amendments.

#### *Deferred taxes – Recovery of underlying assets*

In December 2010, the IASB amended IAS 12 - *Income Taxes* ("IAS 12"), which introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. This amendment is not expected to impact the Company as its investment properties are not measured at fair value.

#### *Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10") which replaces portions of IAS 27 – *Consolidated and Separate Financial Statements* ("IAS 27") and all of SIC-12 - *Consolidation - Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### **Joint Arrangements**

In May 2011, the IASB issued IFRS 11 – *Joint Arrangements* (“IFRS 11”) which replaces IAS 31 – *Interests in Joint Ventures* and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 requires a venturer to classify its interest in a joint arrangement as either a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting. The existing option to account for joint ventures using proportionate consolidation has been removed. For a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

### **Disclosure of Involvement with Other Entities**

In May 2011, the IASB issued IFRS 12 – *Disclosure of Involvement with Other Entities* (“IFRS 12”) which establishes disclosure requirements for an entity’s interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

As a consequence of the issue of IFRS 10 and IFRS 11, IAS 28 – *Investments in Associates* (“IAS 28”) has been amended. IAS 28 provides accounting guidance for investments and associates and sets out the requirements for the application of the equity method when accounting for investments and joint ventures.

IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted only if all of these standards are concurrently adopted. However, entities may provide some or all of the information required by IFRS 12 without early adopting all of IFRS 12 or early adopting IFRS 10, IFRS 11, IAS 27 and IAS 28. The Company is assessing the potential impact of these standards.

### **Fair Value Measurement**

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement* (“IFRS 13”), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is assessing the potential impact of these amendments.

### **Other Comprehensive Income Presentation**

In June 2011, the IASB amended IAS 1 – *Presentation of Financial Statements* to require companies to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments reaffirm the existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is assessing the potential impact of these amendments.

### **Post-employment Benefits**

In June 2011, the IASB amended IAS 19 – *Employment Benefits*, which applies to Defined Benefit Plans. The amendments eliminate the existing option to defer actuarial gains and losses (known as the corridor approach); require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the statement of other comprehensive income; and require additional disclosures. The amendments are effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. This amendment is not expected to have any significant impact as the Company already immediately records any actuarial gains and losses in OCI.

### **Financial instruments: asset and liability offsetting**

In December 2011, the IASB amended IFRS 7 – *Financial instruments: Disclosures* and IAS 32 – *Financial instruments: Presentation* to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity’s financial position. The IFRS 7 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2013. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of these amendments.



## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### 3. 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 current economic environment and the transition to IFRS have not changed the Company's objectives in managing capital.

The Company is in compliance with key covenants under its existing debt agreements during the quarter. Under these covenants, the Company currently has flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy.

To assess its effectiveness in managing capital, the Company monitors certain key ratios to ensure they are within targeted ranges. Various debt to capitalization ratios are assessed with and without the impact of securitization.

The definition of capital varies from company to company, industry to industry and for different purposes. The Company's definition of capital is the same as that detailed in Note 18 of the Company's 2010 annual financial statements, except that it now includes Glacier Credit Card Trust ("GCCT") indebtedness. The definition of capital excludes Franchise Trust indebtedness. See also Note 23M to the Q1 2011 interim consolidated financial statements.

The Company is in compliance with regulatory requirements associated with the operations of Canadian Tire Bank ("the Bank"), its federally chartered bank, and other regulatory requirements that impact its business operations.

The Bank's ratios are above internal minimum targets for Tier 1 and Total Capital ratios and below its internal maximum targets for the assets to capital multiple. The Bank's internal minimum ratios are determined by the Internal Capital Adequacy Assessment Process. During the twelve months ended December 31, 2011 and the comparative period for 2010, the Bank complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II).

While the acquisition of FGL Sports impacts consolidated debt ratios and covenant metrics, it did not fundamentally alter the Company's objectives in managing capital or its definition of capital. The Company is in compliance with its debt covenants.

### 4. Operating Segments

Effective January 2, 2011, the Company re-organized its four previously reportable operating segments to conform with its revised view of operating the business. The Company now has two reportable segments, Retail and Financial Services. Prior year comparatives have been restated to conform to the current year presentation.

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

- Retail is comprised of the Living, Fixing, Playing, Automotive, Apparel and Sporting Goods categories. The retail business is conducted under a number of banners including Canadian Tire Retail (CTR), Canadian Tire Gas (Petroleum), Mark's, PartSource, and various FGL Sports banners. Retail also includes the Dealer Loan Program (the portion (silo) of Franchise Trust that issues loans to Dealers), a financing program established to provide an efficient and cost-effective way for Dealers to access the majority of the financing required for their store operations.
- Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, the Cash Advantage MasterCard and the Gas Advantage MasterCard. Financial Services also markets insurance and warranty products. The Bank, a wholly-owned subsidiary of Financial Services, is a federally regulated bank that manages and finances Canadian Tire's consumer MasterCard, Visa and retail credit card portfolios, as well as an existing block of Canadian Tire-branded personal loan and line of credit portfolios. The Bank also offers and markets high interest savings accounts and tax free savings accounts, as well as guaranteed investment certificates, both directly and through third-party brokers. Financial Services also includes

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

GCCT, a financing program established to purchase co-ownership interests in the Company's credit card loans, and it issues debt to third-party investors to fund its purchases.

The two reportable operating segments have foreign-based subsidiaries or activities. These subsidiaries hold assets such as highly rated short-term securities. One operates a reinsurance company while others provide product sourcing, logistics and vendor management outside of Canada. These assets and activities do not constitute geographic segments.

The segments operate independently but do share some services such as certain corporate, treasury, financial, legal, information technology and human resource functions. All intercompany transactions are eliminated upon consolidation. The accounting policies of the reportable segments and basis of preparation are the same as described in note 3 of the Company's Q1 2011 interim consolidated financial statements.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment income before income tax, as included in the internal management reports reviewed by the Company's CEO. Management has determined that this measure is the most relevant in evaluating segment results.

(C\$ in millions)	13 weeks ended December 31, 2011				13 weeks ended January 1, 2011			
	Retail	Financial Services	Eliminations and Adjustments	Total	Retail	Financial Services	Eliminations and Adjustments	Total
External revenue	\$ 2,874.7	\$ 238.8	\$ 21.6	\$ 3,135.1	\$ 2,325.7	\$ 235.8	\$ 26.8	\$ 2,588.3
Intercompany revenue	0.2	2.8	(3.0)	-	0.2	2.0	(2.2)	-
Total revenue	2,874.9	241.6	18.6	3,135.1	2,325.9	237.8	24.6	2,588.3
Gross margin	783.9	136.3	18.6	938.8	613.8	135.7	24.6	774.1
Operating expenses	(595.1)	(67.1)	(18.6)	(680.8)	(456.0)	(79.9)	(24.6)	(560.5)
Operating income	194.7	69.1	-	263.8	158.1	56.6	-	214.7
Income before income taxes	175.2	55.7	-	230.9	154.5	41.3	-	195.8
Items included in the above:								
Depreciation and amortization	\$ 83.9	\$ 2.7	\$ -	\$ 86.6	\$ 68.0	\$ 2.5	\$ -	\$ 70.5
Interest income	8.8	169.5	(0.6)	177.7	31.9	168.6	(4.8)	195.7
Interest expense	22.1	34.8	(0.6)	56.3	26.3	37.1	(4.8)	58.6

(C\$ in millions)	52 weeks ended December 31, 2011				52 weeks ended January 1, 2011			
	Retail	Financial Services	Eliminations and Adjustments	Total	Retail	Financial Services	Eliminations and Adjustments	Total
External revenue	\$ 9,362.8	\$ 941.2	\$ 83.1	\$ 10,387.1	\$ 8,178.2	\$ 944.0	\$ 90.9	\$ 9,213.1
Intercompany revenue	0.7	12.1	(12.8)	-	0.7	9.7	(10.4)	-
Total revenue	9,363.5	953.3	70.3	10,387.1	8,178.9	953.7	80.5	9,213.1
Gross margin	2,446.7	543.7	70.3	3,060.7	2,162.7	547.8	80.5	2,791.0
Operating expenses	(1,982.0)	(264.7)	(70.3)	(2,317.0)	(1,707.0)	(282.1)	(80.5)	(2,069.6)
Operating income	483.5	278.6	-	762.1	457.6	264.9	-	722.5
Income before income taxes	410.8	219.1	-	629.9	386.2	200.6	-	586.8
Items included in the above:								
Depreciation and amortization	\$ 285.4	\$ 10.7	\$ -	\$ 296.1	\$ 265.2	\$ 8.9	\$ -	\$ 274.1
Interest income	45.7	678.7	(4.2)	720.2	63.1	670.7	(16.0)	717.8
Interest expense	90.1	139.4	(4.2)	225.3	104.9	146.5	(16.0)	235.4

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

Capital expenditures by segment are as follows:

13 weeks ended December 31, 2011					13 weeks ended January 1, 2011				
	Retail	Financial Services	Eliminations and Adjustments	Total		Retail	Financial Services	Eliminations and Adjustments	Total
Capital expenditures <sup>1</sup>	\$ 130.2	\$ 1.7	-	\$ 131.9	\$ 122.1	\$ 10.4	-	\$ 132.5	
52 weeks ended December 31, 2011					52 weeks ended January 1, 2011				
	Retail	Financial Services	Eliminations and Adjustments	Total		Retail	Financial Services	Eliminations and Adjustments	Total
Capital expenditures <sup>1</sup>	\$ 357.9	\$ 6.8	-	\$ 364.7	\$ 321.4	\$ 18.4	-	\$ 339.8	

<sup>1</sup> Capital expenditures are presented on an accrual basis and include intangible software additions (Note 14).

### Segmented Assets

As at (C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Retail	\$ 8,341.5	\$ 7,246.5	\$ 7,122.7
Financial Services	4,684.0	4,706.6	5,016.4
Eliminations	(686.7)	(904.6)	(731.9)
Total	\$ 12,338.8	\$ 11,048.5	\$ 11,407.2

## 5. Consolidated Revenue

(C\$ in millions)	13 weeks ended		52 weeks ended	
	December 31, 2011	January 1, 2011	December 31, 2011	January 1, 2011
Sale of goods	\$ 2,783.9	\$ 2,245.1	\$ 8,997.6	\$ 7,853.8
Interest income on loans receivable	173.1	172.8	697.2	685.4
Services rendered	93.4	91.9	354.7	353.7
Royalties and license fees	81.1	76.1	325.9	310.0
Rental income	3.6	2.4	11.7	10.2
	\$ 3,135.1	\$ 2,588.3	\$ 10,387.1	\$ 9,213.1

### Major customers

Revenue is earned from a variety of customers. Canadian Tire, Mark's and FGL Sports ship merchandise to a network of over 750 independent Dealers and franchisees. Financial Services and Petroleum provide goods and services to millions of customers. The Company does not have a reliance on any one customer.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### 6. Consolidated Cost of Producing Revenue

(C\$ in millions)	13 weeks ended		52 weeks ended	
	December 31, 2011	January 1, 2011	December 31, 2011	January 1, 2011
Inventory cost of sales	\$ (2,090.9)	\$ (1,712.1)	\$ (6,916.7)	\$ (6,016.2)
Net impairment loss on loans receivable	(74.6)	(72.9)	(296.2)	(294.3)
Finance costs on deposits	(18.8)	(16.8)	(70.1)	(67.3)
Other	(12.0)	(12.4)	(43.4)	(44.3)
	\$ (2,196.3)	\$ (1,814.2)	\$ (7,326.4)	\$ (6,422.1)

Included in "inventory cost of sales" for the 13 weeks ended December 31, 2011 is \$17.0 million (2010 – \$13.3 million) of write-downs of inventory as a result of net realizable value being lower than cost. For the 52 weeks ended December 31, 2011 \$73.0 million (2010 – \$50.9 million) of write downs of inventory are included in "inventory cost of sales".

Inventory write-downs recognized in previous periods and reversed in the 13 weeks and 52 weeks ended December 31, 2011 were \$8.7 million (2010 - \$3.8 million) and \$23.9 million (2010 - \$15.1 million), respectively. The write-downs and reversals are included in "cost of producing revenue" on the Condensed Consolidated Statements of Income.

### 7. Consolidated Operating Expenses by Nature

(C\$ in millions)	13 weeks ended		52 weeks ended	
	December 31, 2011	January 1, 2011	December 31, 2011	January 1, 2011
Personnel expenses (Note 8)	\$ (243.3)	\$ (187.9)	\$ (817.4)	\$ (725.6)
Occupancy	(128.0)	(99.4)	(438.4)	(384.8)
Marketing and advertising	(94.9)	(103.2)	(317.1)	(309.9)
Depreciation of property and equipment and investment properties	(66.3)	(57.6)	(229.8)	(223.8)
Amortization of intangible assets	(20.3)	(12.9)	(66.3)	(50.3)
Other	(128.0)	(99.5)	(448.0)	(375.2)
	\$ (680.8)	\$ (560.5)	\$ (2,317.0)	\$ (2,069.6)

### 8. Consolidated Personnel Expenses

(C\$ in millions)	13 weeks ended		52 weeks ended	
	December 31, 2011	January 1, 2011	December 31, 2011	January 1, 2011
Wages and salaries	\$ (198.4)	\$ (141.6)	\$ (630.7)	\$ (539.4)
Benefits	(41.6)	(39.5)	(162.5)	(170.7)
Share-based payments	(3.3)	(6.8)	(24.2)	(15.5)
	\$ (243.3)	\$ (187.9)	\$ (817.4)	\$ (725.6)

### 9. Share-Based Payment Plans

During the 52 weeks ended December 31, 2011, the Company issued the following share-based payment awards:

#### *Stock options*

The Company granted 433,804 stock options with tandem stock appreciation rights to certain employees. These stock options fully vest after a three-year period, are exercisable over a term of seven years and have an exercise price of \$62.30.

#### *2011 Performance Share Unit Plan*

The Company has granted 2011 performance share units (PSUs) to certain employees. Each PSU entitles the participant to receive a cash payment equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### 10. Loans Receivable

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

(C\$ in millions)	Total principal amount of receivables <sup>1</sup>			Average balance <sup>1</sup>	
	December 31, 2011	January 1, 2011	January 3, 2010	December 31, 2011	January 1, 2011
Credit card loans	\$ 4,026.8	\$ 3,996.3	\$ 3,931.5	\$ 3,900.5	\$ 3,886.0
Line of credit loans	8.8	11.3	15.6	10.0	13.1
Personal loans <sup>2</sup>	3.3	11.2	34.0	6.4	20.7
Total Financial Services' loans receivable	4,038.9	4,018.8	3,981.1	\$ 3,916.9	\$ 3,919.8
Dealer loans <sup>3</sup>	628.7	687.0	757.4		
Other loans	8.8	-	-		
Total loans receivable	4,676.4	4,705.8	4,738.5		
Less: long-term portion <sup>4</sup>	594.7	654.8	729.8		
Current portion of loans receivable	\$ 4,081.7	\$ 4,051.0	\$ 4,008.7		

<sup>1</sup> Amounts shown are net of allowance for loan impairment.

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

<sup>3</sup> Dealer loans issued by Franchise Trust.

<sup>4</sup> The long-term portion of loans receivable is included in long-term receivables and other assets, and includes Dealer loans of \$587.5 million at December 31, 2011 (January 1, 2011 - \$650.9 million and January 3, 2010 - \$715.7 million).

All loans receivable are initially recorded at fair value and subsequently measured at amortized cost. The impairment loss on loans receivable for the 13 and 52 weeks ended December 31, 2011 was \$88.7 million (2010 - \$86.6 million) and \$352.0 million (2010 - \$347.0 million), respectively. Recoveries of the allowance for loan impairment for the 13 and 52 weeks ended December 31, 2011 were \$12.9 million (2010 - \$13.7 million) and \$50.0 million (2010 - \$52.7 million), respectively.

### 11. Share Capital

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Authorized			
3,423,366 Common Shares			
100,000,000 Class A Non-Voting Shares			
Issued			
3,423,366 Common Shares (2010 - 3,423,366)	\$ 0.2	\$ 0.2	\$ 0.2
78,020,208 Class A Non-Voting Shares (2010 - 78,020,007)	710.3	711.4	720.2
	\$ 710.5	\$ 711.6	\$ 720.4

All issued shares are fully paid up. 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 2011 and 2010, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, if any, with any remainder allocated to retained earnings.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

The following transactions occurred with respect to Class A Non-Voting Shares during 2011 and 2010:

(C\$ in millions)	52 weeks ended December 31, 2011		52 weeks ended January 1, 2011	
	Number	\$	Number	\$
Shares outstanding at beginning of the period	78,020,007	\$ 711.4	78,178,066	\$ 720.2
Issued				
Dividend reinvestment plan	71,604	4.3	60,485	3.4
Stock option plan	1,200	-	2,000	0.1
Employee stock purchase plan	-	-	107,682	6.0
Employee Profit Sharing Plan	59,491	3.6	74,491	4.1
Associate Dealer profit sharing plans	59,302	3.7	55,732	3.1
Repurchased	(191,396)	(11.9)	(458,449)	(25.4)
Excess of issue price over repurchase price	-	(0.8)	-	(0.1)
Shares outstanding at end of the period	78,020,208	\$ 710.3	78,020,007	\$ 711.4

Since 1988 the Company has followed an anti-dilution policy. The Company repurchases shares to substantially offset the dilutive effects of issuing Class A Non-Voting Shares pursuant to various corporate programs.

As at December 31, 2011, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of \$24.4 million (2010 - \$22.4 million) at a rate of \$0.30 per share (2010 - \$0.275).

## 12. Basic and Diluted Earnings Per Share

The calculation of basic and diluted earnings per share is based on the net income reported in the Consolidated Statements of Income and the weighted average number of basic and diluted shares outstanding, as follows:

	13 weeks ended		52 weeks ended	
	December 31, 2011	January 1, 2011	December 31, 2011	January 1, 2011
Weighted average number of Common and Class A Non-Voting Shares outstanding - Basic	81,444,555	81,434,334	81,447,398	81,565,476
Dilutive effect of employee stock options	359,600	413,312	356,388	339,536
Weighted average number of Common and Class A Non-Voting Shares outstanding - Diluted	81,804,155	81,847,646	81,803,786	81,905,012

## 13. Notes to the Consolidated Statements of Cash Flows

The components of cash and cash equivalents are:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Cash	\$ 79.6	\$ 15.5	\$ 35.2
Cash equivalents	233.4	538.2	834.3
Restricted cash and cash equivalents <sup>1</sup>	12.8	15.2	16.3
Total cash and cash equivalents	325.8	568.9	885.8
Bank indebtedness	(124.8)	(118.0)	(83.7)
Cash and cash equivalents, net of bank indebtedness	\$ 201.0	\$ 450.9	\$ 802.1

<sup>1</sup> Relates to Glacier Credit Card Trust and is restricted for the purposes of paying out note holders.

## 14. Property, Equipment, Investment Property and Intangible Assets

### Acquisitions and disposals

During the 13 and 52 weeks ended December 31, 2011, property and equipment and investment properties were acquired at an aggregate cost of \$96.2 million (2010 - \$103.1 million) and \$239.3 million (2010 - \$263.7 million), respectively. The amount of property and equipment and investment properties acquired that is included in trade and other payables at December 31, 2011 was \$25.1 million (2010 - \$29.3 million). Property and equipment and investment

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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properties with a carrying amount of \$7.8 million (2010 - \$7.0 million) and \$17.0 million (2010 - \$12.1 million) were disposed of during the 13 and 52 weeks ended December 31, 2011, respectively.

During the 13 and 52 weeks ended December 31, 2011, intangible assets were acquired at an aggregate cost of \$35.7 million (2010 - \$29.4 million) and \$125.4 million (2010 - \$76.1 million), respectively. The amount of intangible assets acquired that is included in trade and other payables at December 31, 2011 was \$4.8 million (2010 - \$8.4 million). Intangibles with a carrying amount of \$0.8 million (2010 - \$0.3 million) and \$2.3 million (2010 - \$0.3 million) were disposed of during the 13 and 52 weeks ended December 31, 2011, respectively.

### *Capital commitments*

The Company has commitments of approximately \$39.8 million at December 31, 2011 for the acquisition of property and equipment (2010 - \$20.0 million).

## 15. Assets Classified as Held for Sale

Assets held for sale as at December 31, 2011 include land and buildings with a cost of \$17.2 million and \$35.4 million, respectively (2010 - \$15.9 million and \$17.8 million, respectively), and accumulated depreciation of \$22.1 million (2010 - \$12.9 million). Land and buildings generally relate to stores in the Retail segment that have relocated to newer sites. The Company is actively marketing these properties to third parties and they will be sold when terms and conditions acceptable to the Company are reached.

During the 13 and 52 weeks ended December 31, 2011 the Company classified \$15.4 million (2010 - \$8.7 million) and \$31.6 million (2010 - \$18.4 million), respectively, of land and buildings to assets held for sale as they meet the required criteria to be classified as held for sale. During the 13 and 52 weeks ended December 31, 2011 the Company transferred \$0.9 million (2010 - \$0.1 million) and \$8.8 million (2010 - \$1.0 million), respectively, of land and buildings previously classified as held for sale to property and equipment as it has determined that they no longer meet the criteria to be classified as held for sale.

## 16. Loans Payable

Franchise Trust, a legal entity sponsored by a third party bank, originates loans to Dealers. Loans payable are the loans that Franchise Trust has incurred to fund the loans to Dealers. These loans are not direct legal liabilities of the Company, but have been consolidated in the accounts of the Company as the Company effectively controls the silo of Franchise Trust containing the Dealer loan program.

## 17. Business Combinations

### **Acquisition of FGL Sports**

On August 18, 2011, the Company acquired control of FGL Sports. The Company's approximately 97% ownership of the issued and outstanding Class "A" shares (the "Common shares") of FGL Sports included the shares acquired on and prior to August 18, 2011. The Company acquired the remaining common shares of FGL Sports on August 25, 2011.

FGL Sports is a Canadian retailer of sporting goods offering a comprehensive assortment of brand-name and private-label products, operating stores from coast to coast, under the following corporate and franchise banners: Sport Chek, Sports Experts, Intersport, Atmosphere, Tech Shop, Nevada Bob's Golf, Hockey Experts, Sport Mart, National Sports, Athletes World, S3 and Fitness Source.

The acquisition of FGL Sports will increase Canadian Tire's presence in sporting goods, with more than 1,000 combined retail sports outlets across Canada. A significant portion of FGL Sports sales are in athletic apparel and footwear, with the balance of sales in sporting hard goods that complement the Company's assortment. The acquisition of retail banners like Sport Chek and Sports Experts is a natural extension of the Company's sporting goods business.

During the 13 and 52 weeks ended December 31, 2011 FGL Sports contributed revenue of \$426.1 million and \$645.6 million, respectively, and net income of \$25.9 million and \$29.4 million, respectively, to the Company's results.

FGL Sports also recorded capital expenditures of \$23.4 million and \$32.6 million during the 13 and 52 weeks ended December 31, 2011, respectively.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

If the acquisition had occurred on January 2, 2011, Management estimates that consolidated revenue would have been approximately \$11.2 billion and consolidated net income would have been approximately \$465 million for the 52 weeks ended December 31, 2011. In determining these amounts, Management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same as if the acquisition had occurred on January 2, 2011. In addition, change in control costs and acquisition-related costs incurred by FGL Sports have been excluded from the calculation of consolidated net income.

The acquisition date fair value of consideration transferred is as follows:

(C\$ in millions)

Cash	\$	765.2
Fair value of previously held interests		35.4
Total consideration transferred	\$	800.6

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

(C\$ in millions)

Cash and cash equivalents	\$	25.3
Trade and other receivables <sup>1</sup>		111.1
Loans receivable		0.8
Merchandise inventories		455.9
Income taxes recoverable		3.4
Prepaid expenses and deposits		11.1
Long term receivables and other assets		4.9
Intangible assets		382.3
Property and equipment		155.1
Trade and other payables		(288.9)
Short-term borrowings		(241.9)
Provisions		(31.0)
Deferred income taxes		(58.2)
Other long-term liabilities		(37.7)
Total net identifiable assets	\$	492.2

<sup>1</sup> Gross trade and other receivables acquired is \$112.4 million, of which \$1.3 million was expected to be uncollectible as at acquisition date.

The fair value of the identifiable assets acquired and liabilities assumed in the table above have been determined provisionally pending Management's final review of the valuations.

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

(C\$ in millions)

Total consideration transferred	\$	800.6
Less: Total net identifiable assets		492.2
Goodwill	\$	308.4

The goodwill recognized on acquisition of FGL Sports is attributable mainly to the expected future growth potential from the expanded customer base of FGL Sports banners/brands, the network of stores which are predominantly mall-based and access to the important 18-35 year old customer segment.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred acquisition-related costs of \$12.1 million to date relating to external legal, consulting fees and due diligence costs. These costs have been included in "administrative expenses" in the condensed Consolidated Statements of Income.



## Notes to the Condensed Consolidated Financial Statements (Unaudited)

A pre-tax gain of \$10.4 million was recognized on the Company's previously held interest in FGL Sports prior to the acquisition date. The gain is recognized in "other income (expense)" in the condensed Consolidated Statements of Income and is included as part of the fair value of previously held interest included in the total consideration transferred, noted in the table above.

The impact of the acquisition on the condensed Consolidated Statements of Cash Flows is as follows:

(C\$ in millions)		
Total cash consideration transferred	\$	765.2
Cash and cash equivalents acquired		(25.3)
Acquisition of The Forzani Group Ltd.	\$	739.9

### 18. Legal Matters

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

The Company's wholly-owned subsidiary, Canadian Tire Bank (the Bank), is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank has determined that it has a solid defense to both actions on the basis that banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the total aggregate exposure as at December 31, 2011 would have been approximately \$24.4 million.

### 19. Tax Matters

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

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

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

The Company reached an agreement with the CRA to settle the dividends received issue in the fourth quarter of 2010. As a result of the settlement, the Company recorded an income tax recovery of \$7.6 million (2010 - \$42 million) and pre-tax interest income from overpayment of taxes of \$3.6 million (2010 - \$18 million).

The 2011 tax provision has been reduced by \$14.8 million (2010 - \$37.3 million) due mainly to the settlement of the dividends received issue and revision to the prior years' estimated tax expenses, partially offset by non-deductibility of stock option expense.

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

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### 20. Related Parties

The Company has related party relationships with members of the Board of Directors, key management personnel, and other entities over which they exercise control. Key management personnel includes the Company's Chief Executive Officer, Chief Financial Officer, and the next top five senior officers. Close family members of key management personnel, members of the Board of Directors, and any entities over which they exercise control, are also defined as related parties. Transactions with members of the Board of Directors who were also Canadian Tire 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 during the period were not significant.

#### *Significant subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, actual and potential voting rights that presently are exercisable or convertible are taken into account. Management has also considered additional factors in assessing control such as de facto circumstantial evidence. The financial statements of subsidiaries are included in the interim consolidated financial statements from the date that control commences until the date that control ceases.

The Company's significant subsidiaries are:

Significant Subsidiaries	Country of incorporation	Ownership Interest	
		2011	2010
Canadian Tire Financial Services Limited	Canada	100%	100%
Mark's Work Wearhouse Limited	Canada	100%	100%
Canadian Tire Real Estate Limited	Canada	100%	100%
The Forzani Group Ltd.	Canada	100%	-

### 21. Subsequent Events

On February 9, 2012 the Company's Board of Directors declared a dividend of \$0.30 per share payable on June 1, 2012 to shareholders of record as of April 30, 2012.

### 22. Transition to International Financial Reporting Standards (IFRS)

The Company has adopted IFRS effective January 2, 2011. Prior to the adoption of IFRS, the Company presented its financial statements in accordance with previous Canadian Generally Accepted Accounting Principles ("previous GAAP"). As a result, the 2010 comparative information has been adjusted from amounts previously reported in the Company's financial statements prepared in accordance with previous GAAP. IFRS 1 - *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), requires first-time adopters to apply IFRS Standards retrospectively as if IFRS had been in effect from the date of the Company's inception. The Company's transition date is January 3, 2010 (the "Transition Date") and an opening Consolidated Balance Sheet has been prepared as at that date. The interim consolidated financial statements for the 13 and 52 weeks ended December 31, 2011 and for the comparative 2010 periods are prepared in compliance with IAS 34 - *Interim Financial Statements*. These financial statements have been presented in accordance with the IFRS accounting policies discussed in Note 3 of the Company's Q1 2011 interim consolidated financial statements.

#### **A. Presentation of consolidated financial statements**

The Company has not changed its presentation format in its financial statements in the current quarter ended December 31, 2011 from previous quarters in 2011. For a full description of its presentation adopted in 2011 see Note 22A in the Company's Q1 2011 interim consolidated financial statements.

#### **B. Elected exemptions from full retrospective application**

IFRS 1 provides entities preparing their first IFRS compliant financial statements with several optional exemptions from full retrospective application of IFRS. The Company applied certain of these optional exemptions in its first quarter ended April 2, 2011. The Company has not changed or applied any new exemptions in the current quarter ended December 31, 2011. For a full description of the exemptions the Company applied see Note 22B in the Company's Q1 2011 interim consolidated financial statements.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### C. Mandatory exceptions to retrospective application of IFRS

In preparing these interim consolidated financial statements in accordance with IFRS 1 the Company applied certain mandatory exceptions from full retrospective application of IFRS in its first quarter ended April 2, 2011. The Company has not changed or applied any new mandatory exceptions in the current quarter ended December 31, 2011. For a full description of the exemptions the Company applied see Note 22C in the Company's Q1 2011 interim consolidated financial statements.

### D. Reconciliation of Shareholders' Equity from previous GAAP to IFRS

The following is a reconciliation of the Company's total Shareholders' Equity reported in accordance with previous GAAP to its Shareholders' Equity reported in accordance with IFRS for the following dates:

(C\$ in millions)	Note	January 3, 2010	January 1, 2011
Total Shareholders' Equity as reported under previous GAAP		\$ 3,687.9	\$ 4,066.7
Transitional adjustments:			
Property and equipment	i	(0.6)	(1.0)
Impairment	ii	(1.3)	(2.5)
Leases	iii	35.4	22.8
Provisions	iv	(24.7)	(24.9)
Loyalty programs	v	(1.6)	(1.2)
Employee benefits	vi	(14.2)	(22.0)
Share-based payments	vii	(6.7)	(6.0)
Consolidation	viii	-	(0.2)
Securitization	ix	(49.2)	(48.0)
Financial instruments	x	1.1	0.4
Foreign exchange translation	xi	4.2	4.2
Income taxes	xii	12.8	16.4
Other		-	0.2
Total transitional adjustments		(44.8)	(61.8)
Total Shareholders' Equity as reported under IFRS		\$ 3,643.1	\$ 4,004.9

The following is an explanation of the adjustments to shareholders' equity:

#### (i) Property and equipment

IAS 16 - *Property, Plant and Equipment* requires the Company to componentize the amount initially recognized in respect of an item of property, plant and equipment into its significant parts and depreciate each part separately over its respective useful life. The Company determined that certain of its supply chain assets have additional separable parts or "components". These components were separately depreciated over their useful lives, resulting in a higher depreciation charge.

Furthermore, insurance proceeds and rental proceeds netted against the cost of property and equipment under previous GAAP have been reclassified to income under IFRS.

#### (ii) Impairment

IFRS requires impairment testing of goodwill, intangibles and tangible assets at the Cash Generating Unit ("CGU") level. Under previous GAAP, the Company tested goodwill at the reporting unit level. This change resulted in an impairment of goodwill associated with one of its CGUs in the Retail operating segment.

Under previous GAAP, tangible and intangible assets other than goodwill were tested for impairment by first comparing the undiscounted cash flows generated by the asset or group of assets to the carrying amount. If the application of this first test indicated that there was an impairment, the amount of the impairment was then calculated by comparing the discounted cash flows to the carrying amount of the asset or group of assets. Under IFRS, impairment testing is performed by immediately comparing discounted cash flows to the carrying amount of an asset or group of assets. As a result, the Company recorded impairments on certain of its long-lived assets in its Retail operating segment.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### *(iii) Leases*

There are two impacts to the Company of adopting lease accounting under IFRS: (a) the reclassification of certain leases from operating to finance, and (b) the accounting for deferred gains and losses on previous sale and lease-back transactions.

(a) Under previous GAAP, the Company classified a lease as operating or finance based on quantitative “bright-line” tests. Under IFRS, the assessment must be made based on a qualitative analysis of risks and rewards. As a result of the qualitative analysis, the Company identified certain IT and supply chain leases where the Company obtains the majority of the risks and rewards incidental to ownership. These leases were reclassified from operating to finance leases. As a result, the Company has retrospectively recorded leased assets and finance lease obligations, as well as an adjustment to retained earnings based on the difference between the lease payments under previous GAAP and the depreciation and interest (accretion) recorded on the finance leases under IFRS.

(b) Under IFRS, any gains or losses on sale and lease-back transactions that were established at fair value and where the lease-back transaction results in an operating lease must be recognized immediately. Under previous GAAP, the Company was amortizing the gains or losses over the lease term. As a result, the Company has recognized the remaining balance of deferred gains on its operating sale and lease-back transactions in opening retained earnings.

### *(iv) Provisions*

Under IFRS, reserves and/or accruals for which there is a significant degree of uncertainty about the amount or timing of the payment are classified as provisions. In addition, a provision must be discounted when the time-value of money is material. Therefore, the Company reclassified certain accruals to provisions and has discounted these provisions where applicable.

Furthermore, IFRS specifies that the discount rate applied to the provision must be the rate that reflects the risks associated with the obligation. Under previous GAAP, the Company measured its provisions for asset retirement obligations using the credit-adjusted risk-free rate of interest. As a result, the Company has re-measured its provisions for asset retirement obligations, which are now referred to as site restoration and decommissioning provisions under IFRS.

Under previous GAAP, reserves and accruals are only recorded when a legal obligation exists. Under IFRS, provisions are recorded for both legal and constructive obligations. A constructive obligation exists when an action by the Company indicates to a third party that it will accept certain responsibilities, and creates a valid expectation on the part of that third party that it will discharge those responsibilities.

### *(v) Loyalty programs*

IFRIC 13 - *Customer Loyalty Programmes* requires award credits granted as part of a sales transaction to be accounted for as a separate component of revenue earned on the transaction. Revenue earned on the transaction is allocated to the award credit based on its fair value and deferred until the award credits are redeemed, unless a third party provides the awards, in which case revenue is deferred until the Company fulfills its obligations to the customer in respect of the awards. As a result, the Company has deferred revenue earned on transactions relating to its loyalty programs until the Company has fulfilled its obligation to the customer.

### *(vi) Employee benefits*

Under previous GAAP, the Company was using the corridor method to amortize actuarial gains and losses. On transition to IFRS, the Company elected to reset all cumulative unamortized actuarial gains and losses to zero as at the Transition Date. Cumulative actuarial gains and losses that existed at the Transition Date were recognized in opening retained earnings for the Company's employee benefit plans. Actuarial losses related to employee benefits, previously included in “accumulated other comprehensive income” on the condensed Consolidated Statement of Changes in Shareholders' Equity, are presented in “retained earnings” at January 1, 2011. There is no impact on “Total shareholders' equity” on the condensed Consolidated Balance Sheet at January 1, 2011.

### *(vii) Share-based payments*

Under previous GAAP, the obligation for cash-settled share-based awards was revalued at each reporting period based on the intrinsic value of each award and the portion vested. Under IFRS, the obligation for cash-settled awards was remeasured at each reporting date based on the fair value of each award and the portion vested.

Under previous GAAP, the Company recognized forfeitures of share-based awards as they occurred. Under IFRS, an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its liability for share-based awards.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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Under previous GAAP, the Company recognized the total fair value of share-based awards with graded vesting on a straight-line basis over the employment period necessary to vest the award. Under IFRS, the Company recognized the fair value of each tranche in an award with graded vesting on a straight-line basis over the vesting period of the tranche.

### *(viii) Consolidation*

#### *Glacier Credit Card Trust ("GCCT")*

Glacier Credit Card Trust was formed to buy co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases. Under previous GAAP, GCCT was determined to be a qualifying special purpose entity and was therefore exempt from consolidation. Under IFRS, the Company is required to consolidate an entity that it controls based on the criteria set forth in IAS 27 - *Consolidated and Separate Financial Statements* ("IAS 27") and SIC 12 - *Consolidation - Special Purpose Entities* ("SIC 12"). The Company determined that it controls GCCT and is therefore required to consolidate GCCT under IFRS.

#### *Dealer loan program*

Franchise Trust (FT), a legal entity sponsored by a third party bank, originates loans to Dealers for their purchase of inventory and fixed assets. The Company has arranged for several major Canadian banks to provide standby letters of credit to Franchise Trust to support the credit quality of the loan portfolio. The Company was not required to consolidate any part of FT under previous GAAP. Under IFRS, the Company is required to consolidate an entity/arrangement (or a portion thereof) if it is considered to control based on the criteria set forth in IAS 27 and SIC 12. The Company has determined that it controls the portion (silo) of FT that issues loans to Dealers under the Dealer loan program and accordingly, is required to consolidate the silo of FT containing the Dealer loan program.

### *(ix) Securitization*

Since 1995, the Company has securitized credit card receivables through GCCT. Under previous GAAP, the Company recorded a gain/loss on sale and derecognized the credit card receivables. Under IFRS, an entity may not derecognize an asset when it maintains the majority of the risks and rewards associated with the asset. Therefore, the securitization transactions no longer qualify for derecognition under IFRS and the Company must recognize the receivables on the Consolidated Balance Sheets. Accordingly, the gain/loss on the sale of the receivables was reversed.

### *(x) Financial instruments*

#### *Hedging with options*

Under IFRS, the Company is required to reflect the time value of foreign exchange options in the Consolidated Statements of Income. Under previous GAAP, the fair market value of the foreign exchange options portfolio was recorded as an adjustment to inventory (for goods where title of ownership had transferred) or Other Comprehensive Income ("OCI") (for future merchandise yet to be purchased). Under IFRS, the time value component of the fair market valuation of the foreign exchange options portfolio is recorded in the Consolidated Statements of Income rather than in OCI, which results in new income statement volatility going forward under IFRS.

#### *Debt issuance costs*

Under IFRS, all transaction costs that are directly attributable to the issuance of debt must be capitalized and amortized over the term of the debt. Under previous GAAP, the Company expensed these transaction costs as incurred. As a result, costs previously expensed are retrospectively capitalized in the Consolidated Balance Sheets and netted against the outstanding debt.

#### *Allowance for impairment of loans receivable*

Under both previous GAAP and IFRS, the Company determines its allowance for impairment of loans receivable using an incurred loss model. However, IFRS requires objective evidence of a loss having occurred prior to recording impairment on a financial asset. IFRS also provides more detailed guidance on loss events, impairment analysis, and when an impairment is permitted. This increased guidance has resulted in an increase in the Company's impairment allowance.

### *(xi) Foreign exchange translation*

The Company elected to reset all cumulative translation differences to zero as at the Transition Date. Cumulative translation differences that existed at the Transition Date were fully recognized in opening retained earnings.

### *(xii) Income taxes*

This adjustment reflects the change in current or deferred income taxes resulting from the effect of the IFRS adjustments described as allowed under IAS 12 - *Income Taxes*.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### E. Reconciliation of Net Income and Comprehensive Income from previous GAAP to IFRS

The following is a reconciliation of the Company's Net income and Comprehensive income reported in accordance with previous GAAP to its Net income and Comprehensive income in accordance with IFRS for the 13 and 52 weeks ended January 1, 2011.

(C\$ in millions)	Notes	13 weeks ended January 1, 2011	52 weeks ended January 1, 2011
Net income as reported under previous GAAP		\$ 181.1	\$ 453.6
Transitional adjustments:			
Property and equipment	i	0.1	(0.4)
Impairment	ii	(1.4)	(1.2)
Leases	iii	(3.4)	(12.6)
Provisions	iv	(0.3)	(0.2)
Loyalty programs	v	0.0	0.4
Employee benefits	vi	0.1	0.5
Share-based payments	vii	(1.9)	0.7
Consolidation	viii	0.6	(0.2)
Securitization	ix	(6.6)	1.2
Financial instruments	x	-	1.3
Income taxes	xi	0.8	0.9
Other		0.2	0.2
Total transitional adjustments		(11.8)	(9.4)
Net income as reported under IFRS		\$ 169.3	\$ 444.2

(C\$ in millions)	Notes	13 weeks ended January 1, 2011	52 weeks ended January 1, 2011
Comprehensive income as reported under previous GAAP		\$ 159.3	\$ 461.3
Transitional adjustments:			
Adjustments to net income		(11.8)	(9.4)
Employee benefits	vi	(6.2)	(6.2)
Financial Instruments	x	(0.3)	(1.4)
Comprehensive income as reported under IFRS		\$ 141.0	\$ 444.3

The following is an explanation of the adjustments to net income and comprehensive income:

#### (i) Property and equipment

Additional significant components of certain assets are depreciated separately over a shorter useful life. As a result, higher depreciation was charged on these components.

#### (ii) Impairment

On initial transition to IFRS, the Company impaired certain depreciable assets. The lower cost base resulted in a decrease in depreciation expense. In addition, the Company also recognized additional impairments under IFRS for the year ended January 1, 2011.

#### (iii) Leases

The Company accounts for leases of certain assets as finance leases under IFRS. As a result, the Company depreciates the leased assets on the same basis as similar owned assets and records accretion expense on the financing obligation. Under previous GAAP, these assets were accounted for as operating leases and rental payments were expensed on a straight-line basis over the lease term.

Furthermore, the gain recorded on previous sale and lease-back transactions were being amortized to net income on a straight-line basis over the lease term under previous GAAP. Under IFRS, as a result of the reclassification of the lease from operating to finance, the gain on sale was amortized on the same basis as the leased assets.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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Under previous GAAP, the Company was amortizing gains and losses from previous sale and lease-back transactions classified as operating leases over the term of the various lease agreements. Under IFRS, gains and losses on sale and lease-back transactions that result in an operating lease must be recorded in income immediately. Therefore, the balances are no longer being amortized.

### *(iv) Provisions*

The adjustments relate to movements in the IFRS discount rate during the year and the unwinding of the discount rate applied to provisions for warranty and site restoration, which were partly offset by depreciation on decommissioning and restoration obligations.

### *(v) Loyalty programs*

#### *Awards provided by the Company*

Under IFRS, the Company defers revenue allocated to award credits granted as part of a sales transaction and recognizes that revenue when the customer redeems the award credits. Under previous GAAP, the cost of providing award credits was included in revenue and marketing expenses.

#### *Awards provided by a third party*

Under previous GAAP, the Company recorded the cost of operating its Canadian Tire Money programs as a reduction of revenue. Under IFRS, since the awards associated with this program are supplied by a third party, the Company defers revenue until it has fulfilled its obligations to the customer in respect of the awards. As the Company's obligation to the customer is fulfilled at the same time that the award credits are granted to the customer, the event triggering the revenue deferral and the event triggering revenue recognition are the same, resulting in the Company immediately recognizing the revenue associated with the loyalty transaction and a corresponding loyalty expense.

### *(vi) Employee benefits*

The Company elected to recognize all cumulative actuarial gains and losses as at the Transition Date. As a result, the Company adjusted its expense to remove the amortization of actuarial gains and losses. Furthermore, the Company's policy under IFRS is to record actuarial gains and losses into OCI. Under previous GAAP, the Company was recognizing actuarial gains and losses into income using the corridor approach.

### *(vii) Share-based payments*

Under previous GAAP, the obligation for cash settled share-based awards was revalued at each reporting period based on the intrinsic value of each award and the portion vested. Under IFRS, the obligation for cash-settled awards was remeasured at each reporting date based on the fair value of each award and the portion vested.

Under previous GAAP, the Company recognized forfeitures of share-based awards as they occurred. Under IFRS, an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its liability for share-based awards.

Under previous GAAP, the Company recognized the total fair value of share-based awards with graded vesting on a straight-line basis over the employment period necessary to vest the award. Under IFRS, the Company recognized the fair value of each tranche in an award with graded vesting on a straight-line basis over the vesting period of the tranche.

### *(viii) Consolidation*

The Company consolidates GCCT and the silo of FT containing the Dealer loan program under IFRS, but did not consolidate these entities under previous GAAP. Accordingly, the financial results of these entities have been included in the determination of the Company's net income under IFRS.

### *(ix) Securitization*

Credit card receivables that were securitized through GCCT no longer qualify for derecognition under IFRS as they did under previous GAAP. As a result, the Company has reinstated the receivable balances and corresponding income and expenses related to those balances.

### *(x) Financial instruments*

#### *Hedging with options*

Under IFRS, the Company is required to reflect the time value of foreign exchange options in the Consolidated Statements of Income. Under previous GAAP, the fair market value of the foreign exchange options portfolio was recorded as an adjustment to inventory (for goods where title of ownership had transferred) or OCI (for future merchandise yet to be purchased). Under IFRS, the time value component of the fair market valuation of the foreign exchange options portfolio is recorded in the Consolidated Statements of Income rather than in OCI, which results in new income statement volatility going forward under IFRS.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### Designation of previously recognized financial instruments

Upon transition to IFRS, certain financial assets were reclassified from “held for trading” to “available for sale”. Changes in the fair value of financial assets classified as held for trading are recorded in net income, whereas changes in fair value of available for sale financial assets are recorded in OCI.

### Debt issuance costs

Under IFRS, all transaction costs that are directly attributable to the issuance of debt must be capitalized. Under previous GAAP, the Company expensed these transaction costs as incurred. Therefore, the previously expensed costs were retrospectively capitalized in the Consolidated Balance Sheets and netted against the outstanding debt. These transaction costs are being amortized into income over the term of the related debt.

### Allowance for impairment of loans receivable

Under IFRS, the Company was required to recalculate its allowance for impairment of loans receivable. This resulted in an increase in the impairment and a decrease to net income.

### (xi) Income taxes

This adjustment reflects the current or deferred income taxes resulting from the effect of the IFRS adjustments described.

## F. Reconciliation of Cash Flows from previous GAAP to IFRS

The most significant adjustments to the Company's condensed Consolidated Statements of Cash Flows reported in accordance with IFRS relate to the consolidation of additional entities under IFRS that were not required to be consolidated under previous GAAP and the elimination of securitization transactions reported under previous GAAP that no longer qualify for de-recognition under IFRS.

All amounts and classification changes referenced in the note below relate to items in the Company's condensed Consolidated Statements of Cash Flows for the 52 weeks ended January 1, 2011.

As a result of the consolidation of additional entities and new finance leases, the repayment of long-term debt increased from \$310.1 million under previous GAAP to \$690.8 million under IFRS. In addition, under IFRS the Company includes “issuance/repayment of short-term borrowings” of \$1,160.3 million and \$1,222.7 million, respectively, and “issuance/repayment of loans payable” of \$248.4 million and \$318.8 million, respectively, in financing activities.

As a result of securitization transactions reported under previous GAAP no longer qualifying for de-recognition under IFRS, “net provision for loans receivable” of \$177.5 million under previous GAAP is now presented as “impairment on loans receivable” of \$347.0 million under IFRS. In addition, “gain on sale of loans receivable” of \$33.8 million, “securitization loans receivable” of \$30.9 million and “net securitization of loans receivable” of \$155.1 million presented under previous GAAP are no longer applicable under IFRS. “Investment in loans receivable” changed from (\$156.6) million under previous GAAP to (\$324.6) million under IFRS.

The Company has also modified the classification of certain items within the condensed Consolidated Statements of Cash Flows. “Investment in loans receivable”, classified as investing activities under previous GAAP, is now presented as “loans receivable” in “changes in working capital and other”. “Net change in deposits”, classified as financing activities under previous GAAP, is now presented as “deposits” in “changes in working capital and other”.

Net finance costs and income tax expense are included in “operating activities” and interest paid, interest received and income taxes paid are included in “cash generated from operating activities” in the condensed Consolidated Statements of Cash Flows under IFRS.



## **Notes to the Condensed Consolidated Financial Statements (Unaudited)**

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### **Supplementary Information: Interest Coverage**

The Company's finance cost requirements for the 52 weeks ended December 31, 2011, after annualizing interest on debt issued and retired during this period, amounted to \$158.5 million. The Company's income before interest on debt and income taxes for the 52 weeks ended December 31, 2011 was \$788.4 million, which is 5.0 times the Company's finance cost requirements for this period.