

Management's Discussion and Analysis

Canadian Tire Corporation, Limited

Second Quarter 2014

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, its subsidiaries and their collective businesses. 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 under the Company’s retail banners, which include Canadian Tire, PartSource, Petroleum, Mark’s, Sport Chek, Sports Experts, Atmosphere and Pro Hockey Life Sporting Goods Inc. (“PHL”). In this document:

“Canadian Tire” refers to the Company’s general merchandise retail business and its home services business carried on under the “Canadian Tire” name and trademarks and the business carried on under the “PartSource” name and trademarks.

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

“FGL Sports” refers to the retail business carried on by FGL Sports Ltd., a wholly-owned subsidiary of the Company, and “FGL Sports stores” includes stores operated under the “Sport Chek”, “Sports Experts”, “Atmosphere”, and “Pro Hockey Life” names and trademarks.

“Mark’s” refers to the retail business carried on by Mark’s Work Wearhouse Ltd., a wholly-owned subsidiary of the Company, and “Mark’s stores” includes stores operated under the “Mark’s”, “Mark’s Work Wearhouse”, “Work World” and “L’Equipeur” names and trademarks.

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

The financial results for the CT REIT segment are delivered by CT Real Estate Investment Trust and its subsidiaries (“CT REIT”). CT REIT is a majority-owned subsidiary of the Corporation.

The financial results for the Financial Services segment are delivered by Canadian Tire Financial Services Limited (“CTFS”) and its subsidiaries, including Canadian Tire Bank (“CTB”). CTFS is a wholly-owned subsidiary of the Company and CTB is a wholly-owned subsidiary of CTFS.

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

1.2 Forward-looking statements

This Management’s Discussion and Analysis (“MD&A”) contains statements that are forward-looking. 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 disclosure because of the risks and uncertainties associated with the Corporation’s business and the general economic environment. The Company cannot provide any assurance that any forecasted financial or operational performance, plans or financial aspirations will actually be achieved or, if achieved, will result in an increase in the price of the Company’s shares. Refer to section 14.0 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 August 7, 2014.

1.4 Quarterly comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for Q2 2014 (13 weeks ended June 28, 2014) are against results for Q2 2013 (13 weeks ended June 29, 2013) and comparisons of 2014 year-to-date results (26 weeks ended June 28, 2014) are against 2013 year-to-date results (26 weeks ended June 29, 2013).

1.5 Accounting framework

The condensed 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 2 to the condensed consolidated financial statements.

1.6 Accounting estimates and assumptions

The preparation of condensed consolidated financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Refer to section 8.1 in this MD&A for further information.

1.7 Key operating performance measures and non-GAAP financial measures

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

Retail sales is one of these key operating performance measures and refers to the point of sale (i.e., cash register) value of all goods and services sold to retail customers at stores operated by Canadian Tire Associate Dealers ("Dealers"), Mark's and FGL Sports franchisees and Petroleum retailers, at corporately-owned stores across all retail banners and through the Company's online sales channels, and in aggregate does not form part of the Company's consolidated financial statements. Revenue, as reported in the Company's consolidated financial statements, is comprised primarily of the sale of goods to Dealers and to franchisees of Mark's and FGL Sports, the sale of gasoline through Petroleum retailers, the sale of goods to retail customers by stores that are corporately-owned under the Mark's, PartSource and FGL Sports banners, the sale of services through the home services business, the sale of goods to customers through INA International Ltd. ("INA"), a business-to-business operation of FGL Sports and through the Company's online sales channels, as well as revenue generated from interest, service charges, interchange and other fees and from insurance products sold to credit card holders in the Financial Services segment and rent paid by third-party tenants in the CT REIT segment. 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 them assess the size and financial health of the retail network of stores; these measures also serve as an indicator of the strength of the Company's brand, which ultimately impacts its consolidated financial performance. Refer to section 8.3.1 for additional information on retail sales.

The Company also evaluates performance based on the effective utilization of its assets. The primary metric used to evaluate the performance of core retail assets is average sales per square foot. Comparison of sales per square foot over several periods will identify whether existing assets are being made more productive by the retail businesses' introduction of new store layouts and merchandising strategies. In addition, Management believes return on invested capital ("ROIC"), analyzed on a rolling 12-month basis, reflects how well the Company is allocating capital toward profitable investments. ROIC can be compared to CTC's cost of capital to determine whether invested capital was used effectively. Refer to section 8.3.1 for a description of changes made to the definition of this metric. In addition, an aspiration with respect to ROIC has been included in our five-year financial aspirations. Refer to section 5.0 of the MD&A contained in the Company's 2013 Annual Report for further information on the Company's financial aspirations and for an analysis of CTC's performance against its aspirational performance goals for 2013.

Additionally, the Company considers earnings before interest, tax, depreciation and amortization ("EBITDA") to be an effective measure of CTC's profitability on an operational basis. EBITDA is a non-GAAP financial metric and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Refer to section 8.3.2 for a schedule showing the relationship of the Company's consolidated EBITDA to the most comparable GAAP measure (net income).

In the CT REIT segment, certain income and expense measurements that are recognized under GAAP are supplemented by Management's use of certain non-GAAP financial key operating performance measures when analyzing operating performance. Management believes the non-GAAP financial key operating performance measures provide useful information to both Management and investors in measuring the financial performance and financial condition of CT REIT. These measures include funds from operations ("FFO"), adjusted funds from operations ("AFFO") and net operating income ("NOI"). Refer to section 8.3.2 for further information and for a reconciliation of these measures to the nearest GAAP measure.

Management calculates and analyzes certain measures to assess the size, profitability and quality of Financial Services' total managed portfolio of receivables. Growth in the total managed portfolio of receivables is measured by growth in the average number of accounts and growth in the average account balance. A key profitability measure the Company tracks is the return on the average total managed portfolio (also referred to as "return on receivables" or "ROR"). Refer to section 8.3.1 for a definition of ROR.

An aspiration with respect to ROR has also been included in the Company's five-year financial aspirations. Refer to section 5.0 of the MD&A contained in the Company's 2013 Annual Report for further information on CTC's financial aspirations and for an analysis of its performance against the aspirational performance goals for 2013.

1.8 Rounding and percentages

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

2.0 Company and industry overview

2.1 Overview of the business

For a full description of the Company's Retail, CT REIT and Financial Services business segments, refer to section 2.1 of the MD&A contained in the Company's 2013 Annual Report.

3.0 Financial aspirations and strategic objectives

3.1 Financial aspirations

While meeting the needs of the jobs and joys of everyday living in Canada, the Company has focused its retail businesses and financial services business to support growth and productivity improvements in its efforts to achieve the five-year financial aspirations outlined in 2010. Note that the financial aspirations reflect the Company's aspirations over the life of the plan period and it is expected that performance for individual fiscal years within that period will vary.

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

Attainment of the financial aspirations is dependent on the performance of the Company, which in turn, is dependent on the performance of and outlook for the behaviour of the Canadian economy and the Canadian consumer. Management continues to expect that the Canadian economy will remain relatively stable and will achieve moderate growth in GDP and consumer spending over the near term. Management also expects that Canadian consumers will continue to be cautious and seek value in their purchasing decisions. Achievement of the financial aspirations also depends on the Company's ability to offer products and services and a customer experience that serve the needs of its core customers, operate in an increasingly competitive Canadian retail market, deploy capital in an efficient manner and make its existing assets more productive.

The Company reports on its progress toward achievement of the financial aspirations annually. In addition, on a quarterly basis, Management reviews the material risks and underlying assumptions that will impact the achievement of its aspirational targets over the five-year period. Based on its assessment as at the date of this MD&A, there have been no material changes to such risks and underlying assumptions. Management still aspires to achieve the consolidated EPS annual growth, Financial Services ROR and Total Return to Shareholders ("TRS") aspirations within the stated five-year period.

While Management continues to aspire to achieve the Canadian Tire retail sales growth aspiration of 3.0 per cent to 5.0 per cent annually, Management does not believe this metric will be achieved when calculated on a cumulative average basis over the outlook period ending 2014. The ROIC measure of 10 per cent is the most aggressive of the financial aspirations and, while progress continues to be made, reaching this aspiration is dependent upon the Company's continued focus on deploying capital in an efficient manner and increasing the earnings generated by its existing retail assets. Based on the expected deployment of capital and anticipated earnings from the Company's retail assets, Management does not believe that the Company will achieve this aspiration by the end of the five-year strategic plan period. However, the Company continues to aspire to this level of performance.

3.2 Strategic objectives and initiatives

3.2.1 Objectives for 2014

The Company is committed to being a "brand-led" organization. It believes that the strength and value of its brands are directly correlated to the strength of its business results. In the MD&A contained in the Company's 2013 Annual Report, the Company identified its objectives for 2014. Successful achievement of the objectives will ensure that the Company's brands are supported and enhanced in the eyes of our customers and other key stakeholders.

Management has identified key assumptions and material risk factors that may affect the achievability of its 2014 objectives. For a discussion of these key assumptions and material risk factors, refer to sections 5.2.2 and 11.2 of the MD&A contained in the Company's 2013 Annual Report.

Q2 2014 objectives update

There have been no changes to the underlying assumptions and significant risk factors that were identified in the MD&A contained in the Company's 2013 Annual Report. The Company remains on track to achieve its 2014 objectives as stated in the MD&A contained in the Company's 2013 Annual Report.

4.0 Financial performance in 2014

On May 26, 2014 the Company announced that it exercised its right to redeem all \$200 million of the outstanding 5.65% Series D medium-term notes ("medium-term notes"), which were to mature on June 1, 2016. The medium-term notes were redeemed on June 25, 2014. As a result of this redemption, the Company paid a redemption premium of \$15.0 million, which was recorded in net finance costs. Where indicated, we have provided financial results normalized for the early redemption premium.

4.1 Consolidated financial performance

4.1.1 Consolidated key operating performance measures

Readers are reminded that 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 8.3 in this MD&A and to section 10.3 in the MD&A contained in the Company's 2013 Annual Report for definitions and further information on changes made to performance measures.

(C\$ in millions)				YTD		YTD	
	Q2 2014	Q2 2013	Change	Q2 2014	Q2 2013	Change	
Revenue	\$ 3,166.1	\$ 3,021.1	4.8%	\$ 5,739.2	\$ 5,500.9	4.3%	
ROIC ^{1,2}	7.76%	7.34%		n/a	n/a		
Selling, general and administrative expenses (excluding depreciation and amortization) as a % of revenue	20.8%	20.4%	43bps	22.3%	21.4%	88bps	
EBITDA ³ as a % of revenue	11.8%	10.7%	111bps	10.2%	9.7%	49bps	

¹ Figures are calculated on a rolling 12-month basis.

² ROIC has been restated. Refer to section 8.3 in this MD&A for additional information.

³ Non-GAAP measure. Refer to section 8.3 in this MD&A for additional information.

4.1.2 Consolidated financial results

(C\$ in millions, except where noted)	Q2 2014	Q2 2013	Change	YTD Q2 2014	YTD Q2 2013	Change
Retail sales ¹	\$ 3,721.6	\$ 3,551.4	4.8%	\$ 6,182.1	\$ 5,982.6	3.3%
Revenue	\$ 3,166.1	\$ 3,021.1	4.8%	\$ 5,739.2	\$ 5,500.9	4.3%
Gross margin dollars (excluding depreciation and amortization)	\$ 1,016.1	\$ 944.0	7.6%	\$ 1,851.4	\$ 1,710.7	8.2%
Gross margin (excluding depreciation and amortization) as a % of revenue	32.1%	31.2%	89bps	32.3%	31.1%	116bps
Selling, general and administrative expenses (excluding depreciation & amortization)	659.6	616.6	7.0%	1,281.0	1,179.3	8.6%
Other income (expense)	18.1	(3.7)	585.1%	16.6	4.0	317.3%
EBITDA ²	\$ 374.6	\$ 323.7	15.6%	\$ 587.0	\$ 535.4	9.6%
Depreciation and amortization	87.9	84.8	3.7%	172.6	167.5	3.0%
Net finance costs	40.0	26.1	53.3%	64.1	54.8	17.0%
Income before income taxes	\$ 246.7	\$ 212.8	15.9%	\$ 350.3	\$ 313.1	11.9%
Income taxes	67.8	57.9	17.1%	95.8	85.2	12.4%
Effective tax rate	27.5%	27.2%		27.4%	27.2%	
Net income	\$ 178.9	\$ 154.9	15.4%	\$ 254.5	\$ 227.9	11.6%
Net income attributable to:						
Owners of Canadian Tire Corporation	\$ 169.9	\$ 154.9	9.7%	\$ 240.5	\$ 227.9	5.5%
Non-controlling interests ³	9.0	-	-	14.0	-	-
	\$ 178.9	\$ 154.9	15.4%	\$ 254.5	\$ 227.9	11.6%
Basic earnings per share attributable to owners of Canadian Tire Corporation	\$ 2.14	\$ 1.92	11.5%	\$ 3.02	\$ 2.82	7.1%
Diluted earnings per share attributable to owners of Canadian Tire Corporation	\$ 2.12	\$ 1.91	11.0%	\$ 2.99	\$ 2.80	6.8%

¹ Retail sales for the prior year have been restated. Refer to section 8.3 in this MD&A for additional information.

² Non-GAAP measure. Refer to section 8.3 in this MD&A for additional information.

³ Includes earnings attributable to the public unitholders of CT REIT of \$4.9 million in the second quarter of 2014 (\$9.8 million YTD) and earnings attributable to the non-controlling interests of a subsidiary within the Retail segment.

Consolidated second quarter 2014 versus second quarter 2013

Earnings summary

Diluted EPS attributable to owners of Canadian Tire Corporation were \$2.12 in the quarter, up 11.0 per cent over the prior year (up 18.2 per cent after normalizing for the one-time charge associated with the early redemption of the medium-term notes). The earnings performance reflects strong revenue and gross margin contribution from the Retail segment as well as solid margin performance at Financial Services from increased revenue on gross average accounts receivable growth.

The strong top-line performance was partially offset by increased personnel and occupancy expenses due to a greater number of corporate stores than the prior year and higher account acquisition and credit card operation costs at Financial Services. In addition, the results include the impact of \$9.0 million, or \$0.11 per share, related to earnings attributable to the Company's non-controlling interests.

Retail sales

Consolidated retail sales increased \$170.2 million (4.8 per cent) due to:

- higher sales at Canadian Tire, FGL Sports and Mark's retail banners, driven by a return to more seasonal weather in the latter half of the quarter; and
- increased gasoline prices and higher non-gasoline sales at Petroleum.

Revenue

Consolidated revenue increased \$145.0 million (4.8 per cent) as a result of:

- higher shipment levels from increased Dealer replenishment of non-seasonal products at Canadian Tire;
- increased sales across the FGL Sports, Mark's and Petroleum banners; and
- increased credit charges related to gross average accounts receivable growth at Financial Services.

Gross margin (excluding depreciation and amortization)

Consolidated gross margin dollars (excluding depreciation and amortization) increased \$72.1 million (7.6 per cent). The increased gross margin contribution is largely attributable to increases in shipment volumes at Canadian Tire and higher revenue from strong sales across the FGL Sports and Mark's businesses, as well as higher revenue from strong gross average receivables growth and a reduction in the allowance for future write-offs of the credit card portfolio at Financial Services. In addition, an improved retail gross margin rate contributed to the positive margin performance largely due to benefits from cost saving initiatives and the timing of certain payments and expenses at Canadian Tire and a more favourable sales mix at FGL Sports, partially offset by the impact of a change in the mix of shipments to Dealers at Canadian Tire.

Selling, general and administrative expenses (excluding depreciation and amortization)

Consolidated selling, general and administrative expenses (excluding depreciation and amortization) increased \$43.0 million (7.0 per cent) due primarily to:

- higher personnel costs due to a greater number of corporate stores at FGL Sports and PartSource;
- higher occupancy costs due to new corporate stores in the network and the addition of PHL at FGL Sports; and
- higher costs related to credit card acquisition and operations at Financial Services.

Other income/ (expense)

Consolidated other income increased to \$18.1 million in the second quarter of 2014 compared to an expense of \$3.7 million a year ago. The variance to prior year is largely due to real estate gains generated from third parties and a legal settlement within the Retail segment.

Depreciation and amortization expense

Consolidated depreciation and amortization expense increased \$3.1 million (3.7 per cent) due to capitalized costs associated with increased IT initiatives and intangible software assets, as well as Petroleum, Mark's and FGL Sports banner network updates and expansion projects.

Net finance costs

Net finance costs increased \$13.9 million primarily due to the early redemption of the medium-term notes in June 2014 as well as higher interest expense on notes issued by Glacier, which although refinanced at a lower rate had a higher aggregate principal amount of notes outstanding compared to the prior year. This was partially offset by an increase in interest capitalization on qualifying IT and real estate projects as compared to the prior year.

Consolidated year-to-date 2014 versus year-to-date 2013

Consolidated year-to-date net income attributable to owners of Canadian Tire Corporation increased \$12.6 million (5.5 per cent) over the prior year (10.3 per cent after normalizing for the one-time cost associated with the early redemption of the medium-term notes). The increase reflects strong top-line revenue growth across all retail banners and higher revenue from gross average accounts receivable growth at Financial Services. The solid top-line performance was partially offset by increased personnel and occupancy costs related to a greater number of corporate stores and higher share-based compensation expenses from share price appreciation compared to the prior year.

4.1.3 Seasonal trend analysis

Over the past two years, the Company's quarterly revenue and earnings have steadily increased, with the second and fourth quarters of each year typically generating stronger revenue and earnings in the retail businesses due to the seasonal nature of some merchandise and the timing of marketing programs. The following table shows the financial performance of the Company by quarter for the last two years:

(C\$ in millions, except where noted)	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Revenue	\$ 3,166.1	\$ 2,573.1	\$ 3,328.7	\$ 2,956.0	\$ 3,021.1	\$ 2,479.8	\$ 3,166.7	\$ 2,829.8
Net income	178.9	75.6	191.0	145.5	154.9	73.0	162.8	131.4
Basic earnings per share attributable to owners of Canadian Tire Corporation	2.14	0.88	2.34	1.81	1.92	0.90	2.00	1.61
Diluted earnings per share attributable to owners of Canadian Tire Corporation	2.12	0.88	2.32	1.79	1.91	0.90	1.99	1.61

4.2 Business segment performance

4.2.1 Retail segment key operating performance measures

Readers are reminded that 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 8.3 in this MD&A and to section 10.3 in the MD&A contained in the Company's 2013 Annual Report for definitions and further information on changes made to performance measures.

(year-over-year percentage change, C\$ in millions, except where noted)	Q2 2014	Q2 2013	Change	YTD Q2 2014	YTD Q2 2013	Change
Retail segment – total						
Retail sales growth ¹	4.8%	2.1%		3.3%	1.6%	
Revenue ²	\$ 2,879.5	\$ 2,749.6	4.7%	\$ 5,172.6	\$ 4,966.5	4.1%
Retail segment – by banner						
Canadian Tire						
Retail sales growth ³	3.4%	2.9%		2.2%	1.2%	
Same store sales growth ³	2.8%	2.0%		1.7%	0.3%	
Sales per square foot ⁴ (whole \$)	\$ 388	\$ 386	0.5%	n/a	n/a	
Revenue ^{2, 5}	\$ 1,705.4	\$ 1,668.2	2.2%	\$ 2,924.3	\$ 2,842.5	2.9%
FGL Sports						
Retail sales growth ^{1, 6}	13.7%	1.5%		7.9%	3.5%	
Same store sales growth ⁶	8.2%	7.4%		7.4%	5.2%	
Sales per square foot ^{6, 7} (whole \$)	\$ 282	\$ 272	3.6%	n/a	n/a	
Revenue ²	\$ 398.8	\$ 337.4	18.2%	\$ 778.2	\$ 704.8	10.4%
Mark's						
Retail sales growth ⁸	2.6%	6.5%		2.6%	4.3%	
Same store sales growth ⁹	3.2%	6.4%		3.1%	4.2%	
Sales per square foot ⁹ (whole \$)	\$ 325	\$ 315	3.3%	n/a	n/a	
Revenue ^{2, 10}	\$ 244.7	\$ 237.0	3.2%	\$ 449.0	\$ 431.1	4.2%
Petroleum						
Gasoline volume growth in litres	(1.9)%	(0.9)%		(1.0)%	0.8%	
Retail sales growth	5.3%	(2.3)%		4.3%	0.6%	
Revenue ²	\$ 538.0	\$ 511.4	5.2%	\$ 1,037.1	\$ 996.9	4.0%
Gross margin dollars	\$ 40.0	\$ 36.5	9.6%	\$ 76.6	\$ 69.6	10.0%

¹ Retail sales for the prior year have been restated. Refer to section 8.3 in this MD&A for additional information.

² Inter-segment revenue within the retail banners of \$7.4 million in the second quarter (\$4.4 million for Q2 2013) and \$16.0 million for YTD Q2 2014 (\$8.8 million for YTD Q2 2013) has been eliminated at the Retail segment level. Revenue reported for Canadian Tire, FGL Sports, Mark's and Petroleum includes inter-segment revenue.

³ Includes sales from Canadian Tire stores, PartSource stores, the labour portion of Canadian Tire's auto service sales and the Home Services business.

⁴ Excludes PartSource stores. Retail space does not include seasonal outdoor garden centre, auto service bays, warehouse and administrative space.

⁵ Includes revenue from Canadian Tire, PartSource and Franchise Trust.

⁶ Retail sales include sales from both corporate and franchise stores. Prior year metric has been restated. Refer to section 8.3 in this MD&A for additional information.

⁷ Figures are calculated on a rolling 12-month basis and include both corporate and franchise stores. Sales per square foot includes warehouse and administrative space.

⁸ Includes retail sales from Mark's corporate and franchise stores and ancillary revenue related to embroidery and alteration services.

⁹ Includes sales from both corporate and franchise stores and excludes ancillary revenue. Sales per square foot does not include warehouse and administrative space.

¹⁰ Includes sale of goods to Mark's franchise stores and retail sales from Mark's corporate stores and includes ancillary revenue related to embroidery and alteration services.

4.2.2 Retail banner network at a glance

Number of stores and retail square footage	June 28, 2014	December 28, 2013	June 29, 2013
Consolidated store count			
Canadian Tire stores ¹			
Smart stores	327	308	280
Updated and expanded stores	107	125	150
Traditional stores	36	36	39
Small Market stores	22	21	21
Express	1	1	n/a
Total Canadian Tire stores	493	491	490
PartSource stores	91	90	87
FGL Sports stores			
Sport Chek	181	171	168
Sports Experts	72	72	72
Atmosphere	64	66	58
Other ^{2,3}	110	112	97
Total FGL Sports stores	427	421	395
Mark's stores ¹			
Mark's	265	206	189
Mark's Work Wearhouse	116	178	194
Work World	1	1	2
Total Mark's stores	382	385	385
Canadian Tire gas bar locations	300	300	300
Total stores	1,693	1,687	1,657
Consolidated retail square footage⁴ (in millions)			
Canadian Tire	20.3	20.2	20.1
PartSource	0.3	0.3	0.3
FGL Sports ⁵	7.0	6.7	6.2
Mark's	3.4	3.5	3.4
Total retail square footage^{4,5} (in millions)	31.0	30.7	30.0

¹ Store count numbers reflect individual selling locations. Both Canadian Tire and Mark's totals include stores that are co-located.

² PHL business was acquired by FGL Sports in Q3 2013 and includes 23 corporate stores.

³ Store count has been adjusted. Refer to section 8.3 in this MD&A for additional information.

⁴ The average retail square footage for Petroleum's convenience stores was 531 square feet per store in Q2 2014 (514 square feet per store in Q2 2013). It is not included in the above.

⁵ Retail square footage has been adjusted. Refer to section 8.3 in this MD&A for additional information.

The Company continues to retrofit its store network with a focus on converting selected existing stores to the latest formats. As at the end of Q2 2014, 327 Canadian Tire stores had been converted to the Smart store format and all stores in the network had access to the latest Living category assortments. During the quarter, the Company piloted a new Canadian Tire Showroom concept store in Toronto, which is used to test new and innovative ways to display and merchandise seasonal products in a digitally enhanced environment.

The Q2 2014 FGL Sports total store count reflects the addition of 23 PHL stores in Q3 2013 and the removal of buying members locations. Refer to sections 5.7 and 8.3.1 in this MD&A for additional information.

Mark's continues to focus on its rebranding efforts across the network with both existing and new stores. During the quarter, Mark's rebranded 49 retail locations from Mark's Work Wearhouse to "Mark's".

4.3 Retail segment financial results

(C\$ in millions)	Q2 2014	Q2 2013	Change	YTD Q2 2014	YTD Q2 2013	Change
Retail sales ¹	\$ 3,721.6	\$ 3,551.4	4.8%	\$ 6,182.1	\$ 5,982.6	3.3%
Revenue	\$ 2,879.5	\$ 2,749.6	4.7%	\$ 5,172.6	\$ 4,966.5	4.1%
Gross margin dollars (excluding depreciation and amortization)	\$ 811.5	\$ 758.2	7.0%	\$ 1,467.8	\$ 1,357.7	8.1%
Gross margin (excluding depreciation and amortization) as a % of revenue	28.2%	27.6%	60bps	28.4%	27.3%	104bps
Selling, general and administrative expenses (excluding depreciation & amortization)	622.5	532.9	16.8%	1,221.4	1,019.2	19.8%
Other income (expense)	42.5	(3.6)	1,247.9%	65.5	3.9	1,597.1%
EBITDA ²	\$ 231.5	\$ 221.8	4.4%	\$ 311.9	\$ 342.5	(8.9)%
Depreciation and amortization	71.8	81.9	(12.3)%	140.9	162.1	(13.1)%
Net finance costs	10.1	18.0	(43.1)%	4.8	35.5	(86.3)%
Income before income taxes	\$ 149.6	\$ 121.8	22.7%	\$ 166.2	\$ 144.8	14.7%

¹ Retail sales for the prior year period have been restated. Refer to section 8.3 in this MD&A for additional information.

² Non-GAAP measure. Refer to non-GAAP measures in section 8.3 in this MD&A for additional information.

Retail segment second quarter 2014 versus second quarter 2013

Earnings summary

Income before income taxes in the Retail segment of \$149.6 million was up \$27.8 million or 22.7 per cent compared to the prior year (up 35.0 per cent after normalizing for the one-time charge associated with the early redemption of the medium-term notes). In addition, income before income taxes includes the impact of the operations of CT REIT, which includes a shift from bearing depreciation costs to payment of rent expenses at market rates for properties acquired by CT REIT, partially offset by distributions earned.

Earnings growth largely reflects strong sales and revenue growth across all retail businesses partially offset by increased personnel and occupancy costs associated with increased corporate stores in the network. In addition, Retail segment earnings include \$12.4 million related to real estate gains generated from third parties.

Retail sales

Retail sales at Canadian Tire grew 3.4 per cent over the prior year (same-store sales up 2.8 per cent), with solid sales growth across all categories. Growth was led by strong sales in tools, cycling, and automotive maintenance products reflecting a return to more seasonal weather in the latter part of the quarter.

At FGL Sports, retail sales were up 13.7 per cent (same-store sales up 8.2 per cent), reflecting strong growth across all banners and categories. The strong sales performance was led by both men's and women's athletic and casual apparel, incremental sales of FIFA World Cup apparel, cycling, fitness and team sports apparel.

At Mark's, retail sales growth of 2.6 per cent (same-store sales up 3.2 per cent) was driven by strong industrial and men's apparel and footwear sales reflecting a return to more seasonal weather in the second half of the quarter, as well as incremental promotional activity in June.

Petroleum sales were up 5.3 per cent in the quarter largely related to higher gasoline prices and increased non-gasoline sales.

Revenue

Revenue increased \$129.9 million in the quarter, or 4.7 per cent, as a result of:

- higher shipment levels from increased Dealer replenishment of non-seasonal products at Canadian Tire; and
- higher sales at FGL Sports, Mark's and Petroleum.

Gross margin (excluding depreciation and amortization)

Retail segment margin dollars (excluding depreciation and amortization) increased \$53.3 million in the quarter, or 7.0 per cent. The improved retail gross margin performance was largely attributable to increased revenue across the Retail businesses. Gross margin performance was also influenced by a gross margin rate increase, primarily due to:

- benefits from cost saving initiatives and the timing of certain payments and expenses at Canadian Tire; and
- a more favourable sales mix at FGL Sports; partially offset by
- a change in the mix of shipments to Dealers at Canadian Tire.

Selling, general and administration (excluding depreciation and amortization)

Retail segment selling, general and administrative expenses (excluding depreciation and amortization) increased \$89.6 million (16.8 per cent) due primarily to:

- higher occupancy costs primarily related to market rent paid on the retail properties sold to CT REIT, a greater number of corporate stores in the network and the addition of PHL at FGL Sports; and
- higher personnel costs due to a greater number of corporate stores at FGL Sports and PartSource; partially offset by
- lower marketing and advertising costs largely due to the timing of expenditures compared to the prior year.

Depreciation and amortization expense

Retail segment depreciation and amortization expense decreased \$10.1 million in the quarter (down 12.3 per cent) as properties that have been sold to CT REIT are no longer depreciated in the Retail segment.

Other income/ (expense)

Retail segment other income increased to \$42.5 million compared to an expense of \$3.6 million in the previous year. The increase is largely attributable to distributions earned on CT REIT Class B LP Units and Units held by the Company, real estate gains generated from third parties and a legal settlement.

Net finance costs

Net finance costs decreased \$7.9 million in the quarter (43.1 per cent) due primarily to income earned on the CT REIT Class C LP Units held by CTC and by an increase in interest capitalization on qualifying IT and real estate projects as compared to the prior year. This was partially offset by the early redemption of the medium-term notes in June 2014.

Retail segment year-to-date 2014 versus year-to-date 2013

Retail sales on a year-to-date basis were up 3.3 per cent and revenue was up 4.1 per cent compared to the prior year. Retail sales growth was primarily due to higher sales across all retail banners driven by sales of both seasonal and non-weather-related assortments across the Canadian Tire, FGL Sports and Mark's banners. Revenue growth was attributable to increased sales across all retail banners and to higher shipment volumes in key seasonal and non-seasonal categories at Canadian Tire. Increased gasoline prices and higher non-gasoline sales at Petroleum also contributed to year-to-date sales and revenue growth.

Retail income before income taxes on a year-to-date basis increased 14.7 per cent (up 25.0 per cent after normalizing for the one-time cost associated with the early redemption of the medium-term notes). This amount includes the impact of the operations of CT REIT, which includes a shift from bearing depreciation costs to payment of rent expenses at market rates for properties acquired by CT REIT, partially offset by distributions earned. Income before income taxes reflects solid gross margin performance across all retail businesses and real estate gains generated from third parties, partially offset by increased personnel and occupancy costs due to a greater number of corporate stores in the network and the impact of share price appreciation on share-based compensation expense.

4.3.1 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. These include, but are not limited to, supply chain disruption, seasonality and environmental risks. Refer to section 7.4.1.3 of the MD&A contained in the 2013 Annual Report for a discussion of these business-specific risks. Also refer to section 11.2 of the MD&A contained in the Company's 2013 Annual Report for a discussion of some other industry-wide and company-wide risks affecting the business.

4.4 CT REIT segment

4.4.1 CT REIT segment key operating performance measures

Readers are reminded that 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 8.3 in this MD&A and section 10.3 in the MD&A contained in the Company's 2013 Annual Report for definitions and for further information on changes made to performance measures.

(C\$ in millions)	Q2 2014	Financial Forecast	Variance	YTD Q2 2014	Financial Forecast	Variance
Net operating income ¹	\$ 58.7	\$ 57.6	\$ 1.1	\$ 116.7	\$ 115.0	\$ 1.7
Funds from operations ¹	42.9	42.2	0.7	85.6	84.5	1.1
Adjusted funds from operations ¹	32.2	31.6	0.6	64.5	63.2	1.3

¹ Non-GAAP measures. Refer to section 8.3 in this MD&A for additional information.

4.4.2 CT REIT segment financial results

CT REIT's operations for the second quarter of 2014 have been compared to the financial forecast included in its final Prospectus dated October 10, 2013. Results of CT REIT operations in the second quarter of 2014 and year-to-date 2014 were largely in line with the financial forecast, except as noted below.

(C\$ in millions)	Q2 2014	Financial Forecast	Variance	YTD Q2 2014	Financial Forecast	Variance
Property revenue	\$ 83.4	\$ 83.3	\$ 0.1	\$ 166.1	\$ 166.4	\$ (0.3)
Property expense	(17.7)	(18.7)	1.0	(35.6)	(37.4)	1.8
General and administrative expense	(2.5)	(2.0)	(0.5)	(4.4)	(4.1)	(0.3)
Interest income	0.1	-	0.1	0.3	-	0.3
Interest and other financing charges	(20.4)	(20.4)	-	(40.8)	(40.4)	(0.4)
Fair value adjustment on investment properties	2.8	-	2.8	129.8	-	129.8
Net income	\$ 45.7	\$ 42.2	\$ 3.5	\$ 215.4	\$ 84.5	\$ 130.9

Revenue

Revenue for the quarter was \$83.4 million, of which \$81.0 million was received from CTC. Revenue consists of base rent, operating cost and property tax recoveries.

Property expense

Property expense for the quarter was \$17.7 million, of which the majority of costs are recoverable from tenants. Property expense consists primarily of realty taxes and costs pursuant to the property management agreement between CT REIT and the Company.

General and administrative expense

General and administrative expenses are primarily related to ongoing operational costs associated with the public entity and outsourced costs which are largely related to the services provided by CTC pursuant to the services agreement between CT REIT and the Company.

Interest and other financing charges

Interest expense for the quarter is primarily related to distributions on the Class C LP Units held by CTC.

Fair value adjustment on investment properties

During the quarter, CT REIT recorded a fair value gain of \$2.8 million on the portfolio of investment properties as a result of increased expected cash flows during the time frame of the valuation models.

Net operating income

During the quarter, NOI was \$58.7 million which consists of cash rental revenue less property operating costs. NOI is a non-GAAP measure. Refer to section 8.3 in this MD&A for additional information.

Funds from operations and adjusted funds from operations

FFO and AFFO for the quarter were \$42.9 million and \$32.2 million, respectively. FFO and AFFO are non-GAAP measures. Refer to section 8.3 in this MD&A for additional information.

Seven acquisitions were completed at a total cost of \$94.1 million which was settled with a combination of cash and the issuance of additional Class B LP Units and Class C LP Units.

CT REIT segment year-to-date 2014 versus year-to-date Forecast

Revenue on a year-to-date basis was \$166.1 million of which \$161.4 million was received from CTC. Property expense on a year-to-date basis was \$35.6 million, of which the majority of costs are recoverable from tenants. NOI on a year-to-date basis was \$116.7 million and FFO and AFFO on a year-to-date basis were \$85.6 million and \$64.5 million respectively.

Eight acquisitions were completed at a total cost of \$108.2 million which was settled with a combination of cash and the issuance of additional Class B LP Units and Class C LP Units.

4.4.3 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. These include, but are not limited to, financial risks, real property ownership and tenant risks and tax-related risks. Refer to section 7.4.2.3 of the MD&A contained in the Company's 2013 Annual Report for a discussion of these business-specific risks. Also refer to section 4 in CT REIT's Annual Information Form for the period ended December 31, 2013 for a comprehensive discussion of risks that affect its operations and also to section 11.2 in the Company's 2013 MD&A contained in the Company's 2013 Annual Report for a discussion of industry-wide and company-wide risks affecting the business.

4.5 Financial Services segment

4.5.1 Financial Services segment key operating performance measures

Readers are reminded that 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 8.3 in this MD&A and to section 10.3 in the MD&A contained in the Company's 2013 Annual Report for definitions and further information on changes made to performance measures.

(year-over-year percentage change, C\$ in millions, except where noted)	Q2 2014	Q2 2013	Change	YTD Q2 2014	YTD Q2 2013	Change
Revenue	\$ 267.7	\$ 254.2	5.3%	\$ 532.3	\$ 504.2	5.6%
Credit card sales growth ¹	4.9%	2.2%		5.2%	0.5%	
Gross average accounts receivable (GAAR)	\$ 4,629.9	\$ 4,309.1	7.4%	\$ 4,586.0	\$ 4,280.1	7.1%
Revenue ² (as a % of GAAR)	23.28%	23.73%		n/a	n/a	
Average number of accounts with a balance ³ (thousands)	1,829	1,754	4.2%	1,813	1,745	3.9%
Average account balance ³ (whole \$)	\$ 2,528	\$ 2,452	3.1%	\$ 2,526	\$ 2,448	3.2%
Net credit card write-off rate ^{2,3}	6.02%	5.86%		n/a	n/a	
Past due credit card receivables ^{3,4} (PD2+)	2.86%	2.80%		n/a	n/a	
Allowance rate ⁵	2.24%	2.47%		n/a	n/a	
Operating expenses ² (as a % of GAAR)	6.62%	6.32%		n/a	n/a	
Return on receivables ²	7.21%	7.19%		n/a	n/a	

¹ Credit card sales excludes balance transfers. Prior year figures have been updated to reflect current year presentation.

² Figures are calculated on a rolling 12-month basis.

³ Credit card portfolio only.

⁴ Credit card receivables more than 30 days past due as a percentage of total ending credit card receivables.

⁵ The allowance rate was calculated on the total managed portfolio of loans receivable.

4.5.2 Financial Services segment financial results

(C\$ in millions)	Q2 2014	Q2 2013	Change	YTD Q2 2014	YTD Q2 2013	Change
Revenue	\$ 267.7	\$ 254.2	5.3%	\$ 532.3	\$ 504.2	5.6%
Gross margin dollars	172.0	158.3	8.7%	322.4	298.1	8.2%
Gross margin (% of revenue)	64.3%	62.3%	196bps	60.6%	59.1%	144bps
Other (expense) income	(0.1)	(0.1)	(139.1)%	(0.3)	0.1	(321.2)%
Selling, general and administrative expenses	81.8	67.5	21.0%	151.8	130.4	16.3%
Net finance income	2.2	0.3	818.9%	4.2	0.5	758.4%
Income before income taxes	\$ 92.3	\$ 91.0	1.6%	\$ 174.5	\$ 168.3	3.8%

Financial Services segment second quarter 2014 versus second quarter 2013

Earnings summary

Financial Services income before income taxes was \$92.3 million, an increase of 1.6 per cent in the quarter compared to the prior year due to higher revenue from gross average accounts receivables growth, partially offset by increased expenses related to account acquisition and credit card operation costs.

Revenue

Financial Services revenue increased \$13.5 million (5.3 per cent) in the quarter compared to the prior year due to higher credit charges related to gross average accounts receivables growth.

Gross margin

Financial Services gross margin dollars increased \$13.7 million (8.7 per cent) from the prior year primarily due to higher credit charges related to gross average accounts receivables growth and an improvement in the gross margin rate. The improvement in gross margin rate is due to a lower cost of funding and a reduction in the allowance for future write-offs of the credit card portfolio due to Management's assessment of the effect of changes made to the monthly minimum payment requirements implemented in 2012 and an improvement in account aging, partially offset by an increase in the net write-off rate.

Selling, general and administrative expenses

Financial Services operating expenses increased \$14.3 million (21.0 per cent) in the quarter from the prior year due primarily to increased costs related to account acquisition and credit card operations, including a one-time settlement of a contingency based contract.

Net finance income

Net finance income increased \$1.9 million in the quarter due primarily to higher inter-company interest earned on loans.

Financial Services segment year-to-date 2014 versus year-to date 2013

Revenue on a year-to-date basis was up 5.6 per cent compared to the prior year due to higher credit charges related to gross average accounts receivable growth.

Income before income taxes increased 3.8 per cent compared to the prior year. This reflected increased revenue, partially offset by higher costs related to account acquisition and credit card operations.

4.5.3 Financial Services segment business risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. These include, but are not limited to, consumer credit risk, securitization funding risk, interest rate and regulatory risk. Refer to sections 7.4.3.3 of the MD&A contained in the Company's 2013 Annual Report for a discussion of these business-specific risks. Also refer to section 11.2 in the MD&A contained in the Company's 2013 Annual Report for a discussion of additional industry-wide and company-wide risks.

5.0 Liquidity, capital resources and contractual obligations

5.1 Balance sheet and cash flows

5.2 Summary balance sheet highlights

Selected line items from the Company's assets, liabilities and equity as at the quarters ended June 28, 2014, June 29, 2013 and December 28, 2013 are noted below.

(C\$ in millions)	June 28, 2014	June 29, 2013 ¹	December 28, 2013
Assets			
Cash and cash equivalents	\$ 307.8	\$ 571.9	\$ 643.2
Short-term investments	189.9	157.1	416.6
Trade and other receivables	534.2	528.4	758.5
Loans receivable	4,663.5	4,297.0	4,569.7
Merchandise inventories	1,555.5	1,442.4	1,481.0
Long-term investments	65.4	170.8	134.7
Goodwill and intangible assets	1,213.0	1,071.9	1,185.5
Property and equipment	3,517.7	3,326.7	3,516.1
Total assets	\$ 13,033.2	\$ 12,582.8	\$ 13,630.0
Liabilities			
Deposits	\$ 978.9	\$ 1,358.9	\$ 1,178.4
Trade and other payables	1,705.6	1,468.6	1,817.4
Current portion of long-term debt	318.7	273.9	272.2
Long-term debt	1,841.0	2,080.3	2,339.1
Long-term deposits	1,266.8	1,047.4	1,152.0
Total liabilities	\$ 7,576.6	\$ 7,639.6	\$ 8,180.1
Total equity	\$ 5,456.6	\$ 4,943.2	\$ 5,449.9

¹ Prior year figures have been restated. Refer to note 17 of the condensed consolidated financial statements.

The year-over-year increase in total assets of \$450.4 million is due primarily to:

- an increase in loans receivable of \$366.5 million largely related to credit card receivables growth at Financial Services;
- an increase in goodwill and intangible assets of \$141.1 million related to an increase in investment in intangible assets, including software, and goodwill related to the PHL acquisition;
- an increase in property and equipment of \$191.0 million for investments in retail store assets and supporting technology investments as well as land purchased for future distribution capacity; and
- an increase in merchandise inventories of \$113.1 million due to increased inventory at FGL Sports resulting from the addition of PHL and new store openings, as well as increased seasonal inventory at Canadian Tire due to the delay of seasonal weather; partially offset by
- a decrease in cash and cash equivalents and long term investments of \$369.5 million relating to the early redemption of the medium-term notes in June 2014 and a reduction in liquidity requirements at Financial Services.

The \$63.0 million year-over-year decrease in total liabilities reflects a net decrease in debt of \$194.5 million primarily due to the early redemption of the medium-term notes of the Company and a net decrease in deposits of \$160.6 million at Financial Services, partially offset by an increase in trade and other payables from improved working capital management and the PHL acquisition.

Total assets decreased by \$596.8 million compared to year-end, primarily due to a decrease in cash and cash equivalents and short term investments as year-end balances and cash from operations was used to fund the maturing Glacier term notes and early redemption of the Company's medium-term notes, a reduction in liquidity requirements at Financial Services and a decrease in trade and other receivables due to improvements in working capital management.

Total liabilities decreased by \$603.5 million compared to year-end, primarily due to a reduction in debt relating to the repayment of Glacier term notes and early redemption of the medium-term notes combined with a reduction in trade and other payables and a reduction in deposits at Financial Services.

For the complete balance sheet, refer to the condensed consolidated balance sheets included in the condensed consolidated financial statements for the second quarter of 2014.

5.3. Summary cash flows

The Company's cash and cash equivalents position, net of bank indebtedness, was \$239.1 million as at June 28, 2014.

The increase in cash used in the quarter compared with cash generated in the prior year was primarily driven by the financing activities at CTC and Financial Services from debt repayments in the current period. The Company redeemed debt totaling \$200.0 million with an original maturity of June 1, 2016 and Glacier repaid \$252.6 million of maturing term debt.

On a year-to-date basis, cash used in the period decreased, primarily due to lower debt repayments in the current year.

Selected line items from the Company's condensed consolidated statements of cash flows for the periods ended June 28, 2014 and June 29, 2013 are noted below.

(C\$ in millions)	Q2 2014	Q2 2013	Change	YTD Q2 2014	YTD Q2 2013	Change
Cash generated from operating activities before the undernoted items	\$ 441.0	\$ 388.8	\$ 52.2	\$ 750.8	\$ 678.3	\$ 72.5
Change in operating working capital and other	286.7	362.3	(75.6)	(27.6)	161.0	(188.6)
Change in loans receivable	(315.8)	(252.5)	(63.3)	(259.1)	(211.1)	(48.0)
Change in deposits	(95.0)	(50.3)	(44.7)	(86.5)	(18.4)	(68.1)
Cash generated from operating activities before interest and income taxes	316.9	448.3	(131.4)	377.6	609.8	(232.2)
Interest paid	(58.5)	(39.5)	(19.0)	(73.8)	(71.2)	(2.6)
Interest received	3.0	2.5	0.5	6.5	6.4	0.1
Income taxes paid	(50.2)	(48.5)	(1.7)	(133.0)	(116.5)	(16.5)
Cash generated from operating activities	211.2	362.8	(151.6)	177.3	428.5	(251.2)
Cash generated from (used for) investing activities	21.4	(38.3)	59.7	60.2	(138.3)	198.5
Cash used for financing activities	(490.7)	(47.4)	(443.3)	(572.6)	(736.6)	164.0
Cash (used) generated in the period	\$ (258.1)	\$ 277.1	\$ (535.2)	\$ (335.1)	\$ (446.4)	\$ 111.3

5.4 Capital management

In order to support its growth agenda and meet the goals highlighted in its strategic objectives, the Company actively manages its capital in the following manner.

5.4.1 Capital management objectives

The Company's objectives when managing capital are:

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

The current economic environment, as described in section 6.0 of the MD&A contained in the Company's 2013 Annual Report, has not changed the Company's objectives in managing capital.

5.4.2 Capital under management

The definition of capital varies from company to company, from industry to industry and for different purposes. The Company's definition of capital is the same as that detailed in note 4 of the annual financial statements contained in the Company's 2013 Annual Report, which includes Glacier indebtedness but excludes Franchise Trust indebtedness.

The Company monitors its capital structure through measuring various debt-to-capitalization and debt-to-earnings ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other fixed-charge coverage ratios. As part of this process, Management calculates and monitors its consolidated adjusted net debt metric which includes Glacier indebtedness but excludes Franchise Trust indebtedness. A reconciliation of the Company's adjusted net debt as at June 28, 2014 to reported GAAP measures is provided in section 8.3.2 of this MD&A.

The Company manages its capital structure with a view to maintaining an investment-grade rating from two credit rating agencies. Management calculates its ratios to approximate the methodology of debt rating agencies and other market participants on a current and prospective basis. To assess its effectiveness in managing capital, Management monitors these ratios against targeted ranges.

The Company was in compliance with key covenants as at June 28, 2014 and June 29, 2013. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy. The Company was in compliance with all regulatory capital guidelines established by the Office of the Superintendent of Financial Institutions of Canada and its Internal Capital Adequacy Assessment Process which it utilizes to achieve its goals and objectives associated with the operations of CTB, a federally chartered bank.

5.5 Liquidity and financing

The Company is in a strong liquidity position with the ability to access multiple sources of funding to ensure that the appropriate level of liquidity is available to meet the Company's strategic objectives. A detailed description of credit market conditions, the Company's sources of funding and credit ratings were provided in section 8.3 of the MD&A contained in the Company's 2013 Annual Report. Bank lines of credit totaling \$1.5 billion are available to the Corporation and Glacier through a four-year \$1.2 billion syndicated credit facility, and \$300.0 million is available to the Company pursuant to bilateral credit agreements. Bank lines totaling \$200.0 million are available to CT REIT under a four-year syndicated revolving credit facility maturing in October 2017.

Subsequent to the quarter, the Company extended its \$1.2 billion syndicated credit facility to June 2019.

5.6 Capital expenditures

The Company's capital expenditures for the periods ended June 28, 2014 and June 29, 2013 were as follows:

(C\$ in millions)	Q2 2014	Q2 2013	YTD Q2 2014	YTD Q2 2013
Real estate projects	\$ 58.9	\$ 56.0	\$ 102.7	\$ 98.2
Information technology	38.1	16.8	56.4	30.2
Supply chain and distribution centres	23.5	2.7	25.1	6.9
CT REIT	1.5	-	7.3	-
Other purposes	10.1	5.2	14.6	7.4
Total capital expenditures ¹	\$ 132.1	\$ 80.7	\$ 206.1	\$ 142.7

¹ Capital expenditures are presented on an accrual basis, include software additions and reflect external additions only.

There have been no material changes to the Company's previously disclosed planned capital expenditures for 2014. Refer to section 8.2.1 in the MD&A contained in the Company's 2013 Annual Report for further details regarding the Company's planned capital expenditures for 2014.

5.7 Business acquisition

As part of its growth strategy, the Company actively pursues acquisition candidates that are a strategic fit with its retail and retail-related businesses. Major acquisitions are only consummated, however, when the acquiree's business complements the Company's major offering of products and services and is expected to be accretive to earnings and strengthen its market position. As a result of its measured approach to acquiring new businesses, the Company has completed two major acquisitions within the past twelve years: Mark's Work Wearhouse Limited in 2002 and The Forzani Group Limited in 2011.

In addition, in August 2013, the Company acquired 100 per cent of the issued and outstanding shares of PHL, a Canadian retailer of sporting goods, with 23 urban, high-end hockey stores operating in five provinces across Canada under various trade names. The acquisition was a natural extension of the Company's sporting goods business. Refer to section 8.2.3 of the MD&A contained in the Company's 2013 Annual Report for additional information including the details of the consideration transferred and the estimates of the fair value of identifiable assets acquired, liabilities assumed and goodwill recognized as a result of the acquisition.

5.8 Funding requirements

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 a normal course issuer bid ("NCIB") program, from a combination of sources. In addition, the Company has a number of obligations related to finance leases, operating leases and purchase obligations. For a complete description of contractual obligations as at December 28, 2013, refer to section 8.3.1 of the MD&A contained in the Company's 2013 Annual Report. There were no significant changes to the outstanding contractual obligations identified at year-end, other than those discussed in this document. The Company believes it has sufficient liquidity available to meet its contractual obligations as at June 28, 2014.

6.0 Equity

6.1 Shares outstanding

(C\$ in millions)	June 28, 2014	June 29, 2013	December 28, 2013
Authorized			
3,423,366 Common Shares			
100,000,000 Class A Non-Voting Shares			
Issued			
3,423,366 Common Shares (June 29, 2013 - 3,423,366; December 28, 2013 - 3,423,366)	\$ 0.2	\$ 0.2	\$ 0.2
75,482,607 Class A Non-Voting Shares (June 29, 2013 - 77,103,237; December 28, 2013 - 76,560,851)	475.9	638.6	586.8
	\$ 476.1	\$ 638.8	\$ 587.0

On February 21, 2014 the TSX accepted the Company's notice of intention to make a normal course issuer bid to purchase, between February 26, 2014 and February 25, 2015, up to 2.5 million Class A Non-Voting Shares (the "2014/2015 NCIB").

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

On May 8, 2014, the Company announced its intention to utilize a further \$100 million of anticipated free cash flow, in addition to the \$100 million previously announced on February 13, 2014 (for an aggregate of \$200 million), for the purchase of Class A Non-Voting Shares, in addition to shares purchased for anti-dilutive purposes, under its NCIB program. The Company intends to purchase such Class A Non-Voting Shares if, after consideration of various factors, the Company determines that the purchase would be expected to be in the best interests of the Company and contribute to enhancing the value of the remaining Class A Non-Voting Shares.

As at June 28, 2014, the Company had purchased 1,078,244 Class A Non-Voting Shares at a cost of \$110.2 million towards its intended \$200 million share repurchase consisting of:

- 978,244 shares purchased at a cost of \$100.4 million under the 2014/2015 NCIB; and
- 100,000 shares purchased at a cost of \$9.8 million under its NCIB which expired on February 25, 2014.

In addition, during the quarter the Company purchased 15,356 (31,775 year-to-date) Class A Non-Voting Shares at a cost of \$1.6 million (\$3.2 million year-to-date) for anti-dilutive purposes.

6.2 Dividends

As of June 28, 2014, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of \$39.5 million (2013 – \$28.2 million) at a rate of \$0.50 per share (2013 – \$0.35 per share).

6.3 Equity derivative contracts

The Company enters into equity derivative contracts to provide a partial offset to its exposure to fluctuations in stock option and performance share unit plan expense. Equity derivatives commonly used by the Company include total return swaps, floating-rate equity forwards and fixed-rate equity forwards.

No equity derivatives were entered into or settled during the second quarter of 2014.

7.0 Tax matters

In the ordinary course of business, the Company is subject to on-going 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.

There have been no material changes in the status of ongoing audits by tax authorities as disclosed in section 9.0 in the MD&A contained in the Company's 2013 Annual Report.

As a result of the Company's investment in and development of certain qualifying information technology Scientific Research and Experimental Development (SR&ED) projects, a claim was filed during the quarter with the Canada Revenue Agency for SR&ED tax credits relating to a prior period. No amounts have been accrued in the Company's condensed consolidated financial statements.

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

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.

The effective tax rates for the 13 and 26 weeks ended June 28, 2014 were approximately 27.49 per cent (Q2 2013 – 27.25 per cent) and 27.35 per cent (Q2 2013 – 27.25 per cent), respectively. The effective tax rates were primarily impacted by adjustments to prior year's tax estimates offset by the non-taxability to the Company of the non-controlling interests' share of the Company's income. There were no unusual adjustments in the comparative 2013 periods.

8.0 Accounting policies and estimates

8.1 Critical accounting estimates

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

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

8.2 Changes in accounting policies

New standards implemented

Financial instruments: Asset and liability offsetting

In December 2011, the International Accounting Standard Board ("IASB") amended IAS 32 – *Financial Instruments: Presentation* ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments are effective for annual periods beginning on or after January 1, 2014 and have been applied retrospectively. The implementation of IAS 32 amendments did not have a significant impact on the Company.

Financial Instruments: Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*. This amendment to IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The IAS 39 amendments are effective for annual periods beginning on or after January 1, 2014 and have been applied retrospectively. The implementation of IAS 39 amendments did not have a significant impact on the Company.

Levies

In May 2013, the IASB issued IFRIC Interpretation 21 – *Levies* ("IFRIC 21"), which is an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The implementation of IFRIC 21 did not have a significant impact on the Company.

Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ending January 3, 2015, and, accordingly, have not been applied in preparing the condensed consolidated financial statements.

Financial instruments

In November 2009, the IASB issued IFRS 9 – *Financial Instruments* (“IFRS 9”), which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace 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. For financial liabilities measured at fair value, fair value changes due to changes in an entity'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 or 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.

In November 2013, the IASB issued a new version of IFRS 9 which incorporates a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting.

IFRS 9 does not have a mandatory effective date. Early adoption is permitted. The Company is assessing the potential impact of this standard.

8.3 Key operating performance measures and non-GAAP financial measures

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

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

8.3.1 Key operating performance measures

Retail sales

Retail sales refers to the point of sale (i.e., cash register) value of all goods and services sold to retail customers at Canadian Tire Dealer-operated, Mark's and FGL Sports franchisee-operated, Petroleum retailer-operated and corporately-owned stores across the retail banners and for services provided as part of the Home Services offering as well as through its online sales channels and in aggregate does not form part of the Company's consolidated financial statements. Revenue, as reported in the Company's consolidated financial statements, is comprised primarily of the sales of goods to Canadian Tire Dealers and to Mark's and FGL Sports franchisees, the sale of gasoline through Petroleum agents and the sale of goods to retail customers by Mark's, PartSource and FGL Sports corporately-owned stores.

In addition, in Q3 2013, FGL Sports made a change to how it defines its retail sales. As a result of the change, sales from 18 of the Company's non-franchised retail locations that participate in wholesale buying shows on an ad hoc basis were removed from the calculation of retail sales, store count and retail square footage. Prior year figures and metrics have been restated.

Sales definitions for the Retail banners can be found in sections 4.2.1 of this MD&A and in the glossary contained in the Company's 2013 Annual Report.

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 them assess the size and financial health of the 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.

Same-store sales

Same-store sales is a metric used by Management and is also commonly used in the retail industry to identify sales growth generated by a Company's existing store network and removes the effect of opening and closing stores. For Canadian Tire stores, the calculation also excludes stores that have been retrofitted, replaced or expanded where the percentage change in square footage exceeds 25 per cent of the original store size, and includes sales from all stores that have been open for a minimum of one year and one week. For Mark's and FGL Sports, same-store sales include sales from all stores that have been open since at least the beginning of the comparative quarter period in the prior year. Prior year same-store sales results have been restated for the retail sales definition change made by FGL Sports as noted above. Additional information on same-store sales definitions for Canadian Tire, Mark's and FGL Sports can be found in section 4.2.1 of this MD&A.

Sales per square foot

Management and investors use comparisons of sales per square foot metrics over several periods to help identify whether existing assets are being made more productive by the Company's introduction of new store layouts and merchandising strategies. Q2 2013 and prior period sales results have been restated for the retail sales definition change made by FGL Sports as noted above. Sales per square foot definitions for Canadian Tire, Mark's and FGL Sports can be found in section 4.2.1 of this MD&A.

ROIC

The Company believes ROIC is useful in assessing the return on capital invested in various assets. In Q4 2013, with the addition of CT REIT to the Company's financial results and operations, Management changed the definition of ROIC to better reflect the manner in which Management views ROIC. The new definition is the consolidated after-tax earnings and non-controlling interest before interest expense and minimum lease payments on operating leases and excluding operations of the Financial Services business, divided by average invested capital. Invested capital is defined as consolidated assets, less current liabilities, excluding the current portion of long-term debt plus capitalized operating leases, net of Financial Services. Prior year metrics have been restated. An aspiration with respect to ROIC has been included as one of the Company's financial aspirations. Refer to section 5.1 in the MD&A contained in the Company's 2013 Annual Report for additional information regarding the Company's ROIC performance in 2013.

Return on receivables

ROR is used by Management to assess the profitability of the Financial Services total portfolio of receivables. ROR is calculated by dividing income before income tax and gain/loss on disposal of property and equipment by the average total managed portfolio over a 12-month period. An aspiration with respect to ROR has been included as one of the Company's financial aspirations. Refer to section 5.1 in the MD&A contained in the Company's 2013 Annual Report for additional information on the Company's ROR performance in 2013.

8.3.2 Non-GAAP financial measures

EBITDA

The following table reconciles consolidated income before income taxes, net finance costs and depreciation and amortization, or EBITDA, to net income which is a GAAP measure reported in the condensed consolidated financial statements for the periods ended June 28, 2014 and June 29, 2013. Management uses EBITDA as a supplementary measure when assessing the performance of its on-going operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital expenditures.

(C\$ in millions, except where noted)	Q2 2014	Q2 2013	Change	YTD Q2 2014	YTD Q2 2013	Change
EBITDA	\$ 374.6	\$ 323.7	15.6%	\$ 587.0	\$ 535.4	9.6%
Depreciation and amortization	87.9	84.8	3.7%	172.6	167.5	3.0%
Net finance costs	40.0	26.1	53.3%	64.1	54.8	17.0%
Income before income taxes	\$ 246.7	\$ 212.8	15.9%	\$ 350.3	\$ 313.1	11.9%
Income taxes	67.8	57.9	17.1%	95.8	85.2	12.4%
Effective tax rate	27.5%	27.2%		27.4%	27.2%	
Net income	\$ 178.9	\$ 154.9	15.4%	\$ 254.5	\$ 227.9	11.6%
Net income attributable to:						
Owners of Canadian Tire Corporation	\$ 169.9	\$ 154.9	9.7%	\$ 240.5	\$ 227.9	5.5%
Non-controlling interests	9.0	-	-	14.0	-	-
	\$ 178.9	\$ 154.9	15.4%	\$ 254.5	\$ 227.9	11.6%
Basic earnings per share attributable to owners of Canadian Tire Corporation	\$ 2.14	\$ 1.92	11.5%	\$ 3.02	\$ 2.82	7.1%
Diluted earnings per share attributable to owners of Canadian Tire Corporation	\$ 2.12	\$ 1.91	11.0%	\$ 2.99	\$ 2.80	6.8%

Adjusted net debt

The following table reconciles adjusted net debt to GAAP measures reported as at the periods ended as indicated. The Company believes that adjusted net debt is relevant in assessing the amount of financial leverage employed.

The Company calculates debt as the sum of short-term debt, long-term debt, short-term deposits, long-term deposits and certain other short-term borrowings. The Company calculates adjusted debt as debt less inter-company debt and liquid assets.

(C\$ in millions)	Consolidated Q2 2014	Retail	CT REIT	Financial Services
Consolidated net debt				
Bank indebtedness	\$ 68.7	\$ 48.5	\$ -	\$ 20.2
Short-term deposits	978.9	-	-	978.9
Long-term deposits	1,266.8	-	-	1,266.8
Short-term borrowings	200.9	79.9	-	121.0
Current portion of long-term debt	318.7	317.9	-	0.8
Long-term debt	1,841.0	680.7	-	1,160.3
Debt	4,675.0	1,127.0	-	3,548.0
Liquid assets ¹	(563.1)	(211.9)	(9.8)	(341.4)
Net debt (cash)	4,111.9	915.1	(9.8)	3,206.6
Inter-company debt	-	(2,519.8)	1,847.3	672.5
Adjusted net debt (cash)	\$ 4,111.9	\$ (1,604.7)	\$ 1,837.5	\$ 3,879.1

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

(C\$ in millions)	Consolidated Q2 2013	Retail	CT REIT	Financial Services
Consolidated net debt				
Bank indebtedness	\$ 89.1	\$ 89.1	\$ -	\$ -
Short-term deposits	1,358.9	-	-	1,358.9
Long-term deposits	1,047.4	-	-	1,047.4
Short-term borrowings	119.6	-	-	119.6
Current portion of long-term debt	273.9	19.8	-	254.1
Long-term debt	2,080.3	1,183.7	-	896.6
Debt	4,969.2	1,292.6	-	3,676.6
Liquid assets ¹	(899.8)	(533.9)	-	(365.9)
Net debt (cash)	4,069.4	758.7	-	3,310.7
Inter-company debt	-	(237.4)	-	237.4
Adjusted net debt (cash)	\$ 4,069.4	\$ 521.3	\$ -	\$ 3,548.1

¹ Liquid assets include cash, 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 over which Management has control.

CT REIT evaluates its performance by comparing the performance of the portfolio adjusted for the effects of one-time items and current year acquisitions. The following table shows the relationship of NOI to GAAP property revenue and property expense to the Consolidated Statement of Income and Comprehensive Income for the three and six month periods ended June 28, 2014.

(C\$ in millions)	Q2 2014	Financial Forecast	Variance	YTD Q2 2014	Financial Forecast	Variance
Property revenue	\$ 83.4	\$ 83.3	\$ 0.1	\$ 166.1	\$ 166.4	\$ (0.3)
Less:						
Property expense	(17.7)	(18.7)	1.0	(35.6)	(37.4)	1.8
Straight-line rent adjustment	(7.0)	(7.0)	-	(13.9)	(14.1)	0.2
Add:						
Straight-line land lease expense adjustment	-	-	-	0.1	0.1	-
Net operating income	\$ 58.7	\$ 57.6	\$ 1.1	\$ 116.7	\$ 115.0	\$ 1.7

Funds from operations

CT REIT calculates its FFO in accordance with the Real Property Association of Canada White Paper on FFO for IFRS issued in March 2014. The purpose of the White Paper was to provide reporting issuers and investors with greater guidance on the definition of FFO and to help promote more consistent disclosure from reporting issuers.

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

Adjusted funds from operations

AFFO is a supplemental measure of operating performance widely used in the real estate industry. Management believes that AFFO is an effective measure of the cash generated from operations, after providing for operating capital requirements which are referred to as "productive capacity maintenance expenditures".

CT REIT calculates AFFO by adjusting FFO for non-cash income and expense items such as amortization of straight-line rents. FFO is also adjusted for expenditures for maintaining productive capacity required for sustaining property infrastructure and revenue from real estate properties and direct leasing costs. Property capital expenditures do not occur evenly over the fiscal year. The property capital expenditures in the AFFO calculation are adjusted to reflect an average annual spending level.

The following table reconciles FFO and AFFO to GAAP net income and comprehensive income as reported in the Consolidated Statement of Income and Comprehensive Income for the period ended June 28, 2014.

(C\$ in millions, except per unit amounts)				YTD		
	Q2 2014	Financial Forecast	Variance	Q2 2014	Financial Forecast	Variance
Property revenue	\$ 83.4	\$ 83.3	\$ 0.1	166.1	\$ 166.4	\$ (0.3)
Property expense	(17.7)	(18.7)	1.0	(35.6)	(37.4)	1.8
General and administrative expense	(2.5)	(2.0)	(0.5)	(4.4)	(4.1)	(0.3)
Interest income	0.1	-	0.1	0.3	-	0.3
Interest and other financing charges	(20.4)	(20.4)	-	(40.8)	(40.4)	(0.4)
Fair value adjustment on investment properties	2.8	-	2.8	129.8	-	129.8
Net income and comprehensive income	45.7	42.2	3.5	215.4	84.5	130.9
Fair value adjustment of investment property	(2.8)	-	(2.8)	(129.8)	-	(129.8)
Funds from operations	42.9	42.2	0.7	85.6	84.5	1.1
Properties straight-line rent adjustment	(7.0)	(7.0)	-	(13.9)	(14.1)	0.2
Land lease straight-line expense adjustment	-	-	-	0.1	0.1	-
Capital expenditure reserve	(3.7)	(3.6)	(0.1)	(7.3)	(7.3)	-
Adjusted funds from operations	\$ 32.2	\$ 31.6	\$ 0.6	\$ 64.5	\$ 63.2	\$ 1.3

9.0 Enterprise risk management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its enterprise risk management program ("ERM Program"). The Company's comprehensive ERM Program addresses the identification, quantification, monitoring and integration of risk. In addition, protecting and enhancing CTC's brand and reputation is a key consideration in the effective management of each of the Principal Risks.

The ERM Program provides an integrated approach to the management of risks, supporting the Company's strategies and objectives and is described in detail in sections 11.0 and 11.2, respectively, in the MD&A contained in the Company's 2013 Annual Report.

The Company's ERM Program continues to further develop and refine underlying processes and tools aimed at supporting the identification, evaluation, monitoring and reporting of key risks across the Company. Management reviews risks on an ongoing basis and did not identify any new principal risks during Q2 2014.

10.0 Controls and procedures

Details related to disclosure controls and procedures and internal controls over financial reporting are disclosed in section 12.0 of the MD&A contained in the Company's 2013 Annual Report.

Changes in internal control over financial reporting

During the quarter ended June 28, 2014, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting except as noted below.

In accordance with the provisions of National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, Management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude such controls, policies and procedures of PHL. The scope limitation is primarily based on the time required to assess PHL's disclosure controls and procedures and internal controls over financial reporting in a manner consistent with the Company's other operations. Further details related to the acquisition of PHL are disclosed in section 8.2.3 of the MD&A contained in the Company's 2013 Annual Report.

11.0 Social and environmental responsibility

11.1 Overview

The Company integrates responsible, sustainable business practices into its values, operations and strategy. The following three sections include information about selected social and environmental programs, initiatives and policies related to the Company's business operations.

11.2 Community activities

The Company's charitable efforts are reflected in the work of Canadian Tire Jumpstart Charities ("Canadian Tire Jumpstart"). Canadian Tire Jumpstart helps financially disadvantaged children gain the life benefits associated with participating in organized sports and recreational activities. The program assists with the cost of registration, equipment and transportation. Through its 330 active chapters, Canadian Tire Jumpstart has funded the programming costs for over 764,000 children since the launch of the program in 2005.

Year-to-date, Canadian Tire Jumpstart has raised over \$12.6 million across Canada, helping over 66,000 children participate in sports and recreation programs.

Helping Canadians enjoy life in Canada has always been at the centre of the Company's activities. The Canadian Tire family of companies is proud to support local initiatives across all its banners through community and organizational support, including support of amateur sport, injury prevention programs and disaster relief.

11.3 Sustainability

Strategy

The Company's sustainability strategy supports its corporate strategic objectives as outlined in section 5.2 of the MD&A contained in the Company's 2013 Annual Report. It is an innovation strategy that aims to achieve productivity gains and economic benefits from enhanced environmental and social outcomes by integrating sustainability into business operations. Through this strategy, the Company aims to serve its customers, communities, employees and shareholders, both now and in the future. Refer to section 13.3 in the MD&A contained in the Company's 2013 Annual Report for further information on the Company's sustainability imperatives.

Sustainability reporting

The Company reports annually on the environmental footprint and quarterly on the benefits from sustainability initiatives. Beginning in Q1 2014, the Company started reporting on realized benefits achieved over the preceding 12-month period from projects completed in the same quarter of the previous year. This methodology moves the Company's sustainability reporting away from forecasted annual benefits to reporting actual results, which will enable the Company to create a foundation for measuring multi-year benefits from initiatives. The Company expects to capture the benefits of all new and ongoing projects which are expected to continue to grow on a cumulative basis over time.

Environmental footprint

Refer to section 13.3 in the MD&A contained in the Company's 2013 Annual Report for the latest measurement of the Company's extended value-chain footprint.

Sustainability initiatives

For the year to date, the Company realized benefits of approximately \$2.7 million for projects completed in the first half of 2013. In addition, environmental benefits from these initiatives resulted in energy use improvements of 10 per cent and annual waste avoidance of 1,014 tonnes. The energy use and greenhouse gas emissions avoidance are equivalent to powering more than 1,200 Canadian homes for a year. Included in these initiatives is the realized energy cost avoidance of \$1.2 million from the roll-out of demand-control ventilation systems at 129 Canadian Tire stores in Ontario in early 2013.

The following table summarizes the year to date realized benefits for sustainability projects completed in the first half of 2013.

	Enterprise Cost Avoidance	Waste Avoidance	Energy Use Avoidance	GHG Emissions Avoidance
(\$C in millions, except where indicated)		(tonnes)	(per cent improvement ¹)	(tonnes CO ₂ e)
Product & Packaging ²	\$ 0.5	1,002	3%	351
Product Transport ³	0.3	n/a	49%	307
Business & Retail Operations ⁴	1.9	12	10%	5,728
Total	\$ 2.7	1,014	10%	6,386

¹Improvements refer 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 project". Improvements are related to the specific projects reported and do not represent total improvements to the value-chain segment.

²Realized reductions in energy use from transportation of optimized product and packaging as well as waste reductions (reduced packaging, damages and product waste).

³Realized reductions in energy use from increased fuel efficiency in transportation modes and vehicles (e.g. use of long-combination vehicles).

⁴Realized reductions in energy use in buildings and their operations through energy efficiency initiatives as well as water use reductions (e.g. new construction, retrofits and signage optimization, irrigation system retrofits).

Environmental stewardship compliance

As an active product steward, Canadian Tire participates in over 60 provincial product stewardship programs that fund the safe disposal or recycling of Canadian Tire products and packaging at end of life. For 2014, on a year-to-date basis, Canadian Tire has remitted \$8.7 million to provincial product stewardship programs.

For further details, refer to the Company's Business Sustainability Performance Reports on Making a Difference at: corp.canadiantire.ca/EN/CorporateCitizenship/BusinessSustainability/Pages/OurProgressReports.aspx.

12.0 Scotiabank strategic partnership

On May 8, 2014, the Company agreed to enter into a strategic partnership pursuant to which Scotiabank will acquire 20.0 per cent of the Company's financial services business for proceeds of \$500.0 million. The agreement includes a credit card funding facility from Scotiabank of up to \$2.25 billion of credit card receivables and an option for the Company to sell an additional 29.0 per cent of the financial services business to Scotiabank within 10 years at fair market value. The agreement also includes an option for Scotiabank to sell its shares in the Company's financial services business back to Canadian Tire Corporation after 10 years at fair market value. Scotiabank's option will be recorded as a liability in Canadian Tire Corporation's consolidated financial statements. The deal is subject to customary closing conditions and regulatory approvals.

13.0 Subsequent events

In July 2014, CT REIT completed two investment property acquisitions, a distribution centre in Calgary, and a one-third interest in Canada Square, a mixed use commercial development in Toronto. The total purchase price of approximately \$90.0 million was satisfied by a draw on CT REIT's credit facility combined with the assumption of existing mortgages on the properties and cash on hand.

14.0 Forward-looking statements and other investor communication

Caution regarding forward-looking statements

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

- financial aspirations in section 3.1;
- strategic objectives and initiatives in section 3.2;
- capital management objectives in section 5.4.1;
- liquidity and availability of financing in sections 5.5;
- capital expenditures in section 5.6;
- the purchase of Class A Non-Voting Shares under the Company's NCIB program in section 6.1;
- tax matters in section 7.0; and
- benefits from sustainability initiatives in section 11.3.

Forward-looking statements are provided for the purposes of providing information about Management's current expectations and plans and allowing investors and others to get a better understanding of 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.

All 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 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", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. Forward-looking 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 Management's beliefs, which may prove to be incorrect include, but are not limited to, beliefs about the effectiveness of certain performance measures, beliefs about current and future competitive conditions and the Company's position in the competitive environment, beliefs about the Company's core capabilities and beliefs regarding the availability of sufficient liquidity to meet the Company's contractual obligations. Although the Company believes that the forward-looking statements in this document are based on information, assumptions and beliefs that are current, reasonable and complete, these statements are 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 agents and Mark's Work Wearhouse and FGL Sports franchisees, as well as the Company's financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at its stores or acquire its financial products and services; (d) the Company's margins and sales and those of its competitors; (e) the changing consumer preferences toward e-commerce, online retailing and the introduction of new technologies; (f) risks and uncertainties relating to information management, technology, property management and development, supply chain, product safety, changes in law, regulation, competition, seasonality, weather patterns, commodity price 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; and (g) the Company's capital structure, funding strategy, cost

management programs and share price. 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 sections 7.4.1.3 (Retail segment business risks), 7.4.2.3 (CT REIT segment business risks), 7.4.3.3 (Financial Services segment business risks) and 11.0 (Enterprise risk management) and all subsections thereunder of the MD&A contained in the Company's 2013 Annual Report. Also refer to the "Risk Factors" section of the Company's Annual Information Form for fiscal 2013, as well as the Company's other public filings, available on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com and at www.corp.canadiantire.ca.

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

The forward-looking statements and information contained herein are based on certain factors and assumptions as of the date hereof. The Company does not undertake to update any forward-looking 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 is 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 all references in this MD&A to websites are inactive textual references and are for your information only.

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 corp.canadiantire.ca/en/investors includes the following documents and information of interest to investors:

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

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

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

August 7, 2014

CANADIAN TIRE CORPORATION, LIMITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Q2 2014

Condensed Consolidated Balance Sheets (Unaudited)

As at				
(C\$ in millions)	June 28, 2014	June 29, 2013	December 28, 2013	
		(Note 17)		
ASSETS				
Cash and cash equivalents (Note 13)	\$ 307.8	\$ 571.9	\$ 643.2	
Short-term investments	189.9	157.1	416.6	
Trade and other receivables	534.2	528.4	758.5	
Loans receivable (Note 5)	4,663.5	4,297.0	4,569.7	
Merchandise inventories	1,555.5	1,442.4	1,481.0	
Income taxes recoverable	38.5	58.8	31.5	
Prepaid expenses and deposits	94.2	91.9	68.2	
Assets classified as held for sale	1.4	11.8	9.1	
Total current assets	7,385.0	7,159.3	7,977.8	
Long-term receivables and other assets	686.2	737.8	686.0	
Long-term investments	65.4	170.8	134.7	
Goodwill and intangible assets	1,213.0	1,071.9	1,185.5	
Investment property	110.5	91.5	93.5	
Property and equipment	3,517.7	3,326.7	3,516.1	
Deferred income taxes	55.4	24.8	36.4	
Total assets	\$ 13,033.2	\$ 12,582.8	\$ 13,630.0	
LIABILITIES				
Bank indebtedness (Note 13)	\$ 68.7	\$ 89.1	\$ 69.0	
Deposits	978.9	1,358.9	1,178.4	
Trade and other payables	1,705.6	1,468.6	1,817.4	
Provisions	193.3	185.1	196.1	
Short-term borrowings	200.9	119.6	120.3	
Loans payable	600.5	640.5	611.2	
Income taxes payable	26.1	34.1	57.5	
Current portion of long-term debt	318.7	273.9	272.2	
Total current liabilities	4,092.7	4,169.8	4,322.1	
Long-term provisions	40.0	48.8	38.2	
Long-term debt	1,841.0	2,080.3	2,339.1	
Long-term deposits	1,266.8	1,047.4	1,152.0	
Deferred income taxes	99.0	82.4	100.4	
Other long-term liabilities	237.1	210.9	228.3	
Total liabilities	7,576.6	7,639.6	8,180.1	
EQUITY				
Share capital (Note 7)	476.1	638.8	587.0	
Contributed surplus	7.2	3.3	6.2	
Accumulated other comprehensive (loss) income	(7.2)	54.6	47.4	
Retained earnings	4,692.8	4,246.5	4,526.7	
Equity attributable to owners of Canadian Tire Corporation	5,168.9	4,943.2	5,167.3	
Non-controlling interests	287.7	-	282.6	
Total equity	5,456.6	4,943.2	5,449.9	
Total liabilities and equity	\$ 13,033.2	\$ 12,582.8	\$ 13,630.0	

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

Condensed Consolidated Statements of Income (Unaudited)

	13 weeks ended		26 weeks ended	
(C\$ in millions, except per share amounts)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Revenue (Note 9)	\$ 3,166.1	\$ 3,021.1	\$ 5,739.2	\$ 5,500.9
Cost of producing revenue (Note 10)	(2,153.2)	(2,077.1)	(3,891.0)	(3,790.2)
Gross margin	1,012.9	944.0	1,848.2	1,710.7
Other income (expense)	18.1	(3.7)	16.6	4.0
Selling, general and administrative expenses (Note 11)	(744.3)	(701.4)	(1,450.4)	(1,346.8)
Net finance costs (Note 12)	(40.0)	(26.1)	(64.1)	(54.8)
Income before income taxes	246.7	212.8	350.3	313.1
Income taxes	(67.8)	(57.9)	(95.8)	(85.2)
Net income	\$ 178.9	\$ 154.9	\$ 254.5	\$ 227.9
Net income attributable to:				
Owners of Canadian Tire Corporation	\$ 169.9	\$ 154.9	\$ 240.5	\$ 227.9
Non-controlling interests	9.0	-	14.0	-
	\$ 178.9	\$ 154.9	\$ 254.5	\$ 227.9
Basic earnings per share attributable to owners of Canadian Tire Corporation	\$ 2.14	\$ 1.92	\$ 3.02	\$ 2.82
Diluted earnings per share attributable to owners of Canadian Tire Corporation	\$ 2.12	\$ 1.91	\$ 2.99	\$ 2.80
Weighted average number of Common and Class A Non-Voting Shares outstanding:				
Basic	79,478,587	80,797,965	79,714,965	80,963,413
Diluted	80,095,905	81,298,882	80,323,762	81,342,663

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		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	\$ 178.9	\$ 154.9	\$ 254.5	\$ 227.9
Other comprehensive (loss) income				
Items that may be reclassified subsequently to net income:				
Cash flow hedges:				
(Losses) gains, net of tax of \$17.7 and \$4.2 (2013 - \$14.9 and \$22.7)	(49.7)	41.7	(9.8)	63.1
Reclassification of gains to non-financial assets, net of tax of \$5.8 and \$15.1 (2013 - \$2.1 and \$2.5)	(16.3)	(5.9)	(43.8)	(6.9)
Reclassification of gains to income, net of tax of \$0.1 and \$0.3 (2013 - \$nil and \$nil)	(0.4)	(0.1)	(0.9)	-
Available-for-sale financial assets:				
(Losses) gains, net of tax of \$nil and \$nil (2013 - \$nil and \$nil)	(0.1)	-	(0.1)	0.1
Other comprehensive (loss) income	(66.5)	35.7	(54.6)	56.3
Comprehensive income	\$ 112.4	\$ 190.6	\$ 199.9	\$ 284.2
Comprehensive income attributable to:				
Owners of Canadian Tire Corporation	\$ 103.4	\$ 190.6	\$ 185.9	\$ 284.2
Non-controlling interests	9.0	-	14.0	-
	\$ 112.4	\$ 190.6	\$ 199.9	\$ 284.2

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

	13 weeks ended		26 weeks ended	
(C\$ in millions)	June 28, 2014	June 29, 2013 (Note 17)	June 28, 2014	June 29, 2013 (Note 17)
Cash (used for) generated from :				
Operating activities				
Net income	\$ 178.9	\$ 154.9	\$ 254.5	\$ 227.9
Adjustments for:				
Gross impairment loss on loans receivable (Note 5)	69.6	72.3	160.5	154.4
Depreciation of property and equipment and investment property (Note 10 and 11)	67.0	62.4	130.1	123.1
Income tax expense	67.8	57.9	95.8	85.2
Net finance costs	40.0	26.1	64.1	54.8
Amortization of intangible assets (Note 11)	20.9	22.4	42.5	44.4
Changes in fair value of derivative instruments	6.1	(3.6)	7.8	(6.2)
Gain on disposal of property and equipment, investment property and assets held for sale	(12.4)	(8.0)	(12.7)	(11.7)
Other	3.1	4.4	8.2	6.4
	441.0	388.8	750.8	678.3
Change in operating working capital and other (Note 13)	286.7	362.3	(27.6)	161.0
Change in loans receivable	(315.8)	(252.5)	(259.1)	(211.1)
Change in deposits	(95.0)	(50.3)	(86.5)	(18.4)
Cash generated from operating activities before interest and income taxes	316.9	448.3	377.6	609.8
Interest paid	(58.5)	(39.5)	(73.8)	(71.2)
Interest received	3.0	2.5	6.5	6.4
Income taxes paid	(50.2)	(48.5)	(133.0)	(116.5)
Cash generated from operating activities	211.2	362.8	177.3	428.5
Investing activities				
Acquisition of short-term investments	(27.0)	(6.6)	(154.5)	(32.2)
Proceeds from the maturity and disposition of short-term investments	184.5	56.8	442.5	85.5
Acquisition of long-term investments	-	-	-	(30.0)
Proceeds from the disposition of long-term investments	-	0.2	7.6	0.4
Additions to property and equipment and investment property	(77.0)	(53.4)	(152.4)	(128.6)
Proceeds on disposition of property and equipment, investment property and assets held for sale	18.2	10.4	18.5	18.8
Additions to intangible assets	(47.3)	(18.6)	(73.8)	(29.3)
Long-term receivables and other assets	(20.9)	(25.1)	(18.7)	(21.1)
Other	(9.1)	(2.0)	(9.0)	(1.8)
Cash generated from (used for) investing activities	21.4	(38.3)	60.2	(138.3)
Financing activities				
Net issuance of short-term borrowings	80.2	0.4	80.5	0.7
Issuance of loans payable	45.6	72.0	73.0	136.6
Repayment of loans payable	(47.2)	(51.3)	(83.6)	(119.8)
Repurchase of share capital (Note 7)	(72.8)	(36.5)	(103.6)	(51.8)
Repayment of long-term debt and finance lease liabilities	(458.6)	(5.0)	(462.7)	(648.6)
Dividends paid	(33.2)	(27.0)	(66.6)	(53.7)
Distributions paid to non-controlling interests	(4.4)	-	(8.9)	-
Payment of transaction costs related to long-term debt	(0.3)	-	(0.7)	-
Cash used for financing activities	(490.7)	(47.4)	(572.6)	(736.6)
Cash (used) generated in the period	(258.1)	277.1	(335.1)	(446.4)
Cash and cash equivalents, net of bank indebtedness, beginning of period	497.1	205.5	574.2	929.5
Effect of exchange rate fluctuations on cash held	0.1	0.2	-	(0.3)
Cash and cash equivalents, net of bank indebtedness, end of period (Note 13)	\$ 239.1	\$ 482.8	\$ 239.1	\$ 482.8

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

Condensed Consolidated Statements of Changes in Equity (Unaudited)

	Total accumulated other comprehensive income (loss)									
(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	Equity attributable to owners of Canadian Tire Corporation	Equity attributable to non-controlling interests	Total equity	
Balance at December 28, 2013	\$ 587.0	\$ 6.2	\$ 47.0	\$ 0.4	\$ 47.4	\$ 4,526.7	\$ 5,167.3	\$ 282.6	\$ 5,449.9	
Total comprehensive income (loss)										
Net income						240.5	240.5	14.0	254.5	
Other comprehensive loss										
Items that may be reclassified subsequently to net income:										
Cash flow hedges:										
Losses, net of tax of \$4.2			(9.8)		(9.8)		(9.8)		(9.8)	
Reclassification of gains to non-financial asset, net of tax of \$15.1			(43.8)		(43.8)		(43.8)		(43.8)	
Reclassification of gains to income, net of tax of \$0.3			(0.9)		(0.9)		(0.9)		(0.9)	
Available-for-sale financial assets:										
Losses, net of tax of \$nil				(0.1)	(0.1)		(0.1)		(0.1)	
Total other comprehensive loss	-	-	(54.5)	(0.1)	(54.6)	-	(54.6)	-	(54.6)	
Total comprehensive (loss) income	-	-	(54.5)	(0.1)	(54.6)	240.5	185.9	14.0	199.9	
Contributions by and distributions to owners of Canadian Tire Corporation										
Issuance of Class A Non-Voting Shares (Note 7)	3.2						3.2		3.2	
Repurchase of Class A Non-Voting Shares (Note 7)	(113.4)						(113.4)		(113.4)	
Excess of issue price over repurchase price (Note 7)	(0.7)	0.7					-		-	
Dividends						(74.4)	(74.4)		(74.4)	
Contributed surplus arising on sale of property to CT REIT		0.3					0.3		0.3	
Contributions by and distributions to non-controlling interests										
Issuance of Units								1.0	1.0	
Distributions								(9.9)	(9.9)	
Total contributions and distributions	(110.9)	1.0	-	-	-	(74.4)	(184.3)	(8.9)	(193.2)	
Balance at June 28, 2014	\$ 476.1	\$ 7.2	\$ (7.5)	\$ 0.3	\$ (7.2)	\$ 4,692.8	\$ 5,168.9	\$ 287.7	\$ 5,456.6	
Balance at December 29, 2012	\$ 688.0	\$ 2.9	\$ (2.0)	\$ 0.3	\$ (1.7)	\$ 4,075.1	\$ 4,764.3	\$ -	4,764.3	
Total comprehensive income										
Net income						227.9	227.9	-	227.9	
Other comprehensive income										
Items that may be reclassified subsequently to net income:										
Cash flow hedges:										
Gains, net of tax of \$22.7			63.1		63.1		63.1		63.1	
Reclassification of gains to non-financial asset, net of tax of \$2.5			(6.9)		(6.9)		(6.9)		(6.9)	
Available-for-sale financial assets:										
Gains, net of tax of \$nil				0.1	0.1		0.1		0.1	
Total other comprehensive income	-	-	56.2	0.1	56.3	-	56.3	-	56.3	
Total comprehensive income	-	-	56.2	0.1	56.3	227.9	284.2	-	284.2	
Contributions by and distributions to owners of Canadian Tire Corporation										
Issuance of Class A Non-Voting Shares (Note 7)	3.0						3.0		3.0	
Repurchase of Class A Non-Voting Shares (Note 7)	(51.8)						(51.8)		(51.8)	
Excess of issue price over repurchase price (Note 7)	(0.4)	0.4					-		-	
Dividends						(56.5)	(56.5)		(56.5)	
Total contributions and distributions	(49.2)	0.4	-	-	-	(56.5)	(105.3)	-	(105.3)	
Balance at June 29, 2013	\$ 638.8	\$ 3.3	\$ 54.2	\$ 0.4	\$ 54.6	\$ 4,246.5	\$ 4,943.2	\$ -	\$ 4,943.2	

The related notes form an integral part of these condensed 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 condensed interim consolidated financial statements as the “Company” or “Canadian Tire Corporation”.

The Company is comprised of three main business operations, which offer a range of retail goods and services, including general merchandise, apparel, sporting goods, petroleum, financial services including a bank and real estate operations. Details of its three reportable operating segments are provided in Note 4.

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 revenue and net income due to the seasonal nature of some merchandise in its retail operations and timing of marketing programs.

2. Basis of preparation

Statement of compliance

These condensed interim consolidated financial statements (“interim financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company prepared these interim financial statements for the 13 and 26 weeks ended June 28, 2014 (and comparative results for the 13 and 26 weeks ended June 29, 2013) in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting*. These interim financial statements should be read in conjunction with the annual consolidated financial statements contained in the Company's 2013 Annual Report. They have been prepared using the same accounting policies that were described in Note 3 to the annual consolidated financial statements contained in the Company's 2013 Annual Report, except as described in this note under New standards implemented.

These interim financial statements were authorized for issuance by the Company's Board of Directors on August 7, 2014.

Basis of presentation

These interim 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 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 interim financial statements are presented in Canadian dollars (“C\$”), the Company's functional currency. All financial information is presented in millions of dollars, except per share amounts, which are presented in dollars, and the number of shares or the weighted average number of shares, which are presented in whole numbers.

Judgments and estimates

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

Judgments are made in the selection and application 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 that are 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.

Details of 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 interim financial statements are described in Note 2 to the annual consolidated financial statements contained in the Company's 2013 Annual Report.

New standards implemented

Financial instruments: Asset and liability offsetting

In December 2011, the International Accounting Standard Board ("IASB") amended IAS 32 – *Financial Instruments: Presentation* ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments are effective for annual periods beginning on or after January 1, 2014 and have been applied retrospectively. The implementation of IAS 32 amendments did not have a significant impact on the Company.

Financial Instruments: Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*. This amendment to IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The IAS 39 amendments are effective for annual periods beginning on or after January 1, 2014 and have been applied retrospectively. The implementation of IAS 39 amendments did not have a significant impact on the Company.

Levies

In May 2013, the IASB issued IFRIC Interpretation 21 – *Levies* ("IFRIC 21"), which is an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and has been applied retrospectively. The implementation of IFRIC 21 did not have a significant impact on the Company.

Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended January 3, 2015, and, accordingly, have not been applied in preparing these interim financial statements.

Financial instruments

In November 2009, the IASB issued IFRS 9 – *Financial Instruments* ("IFRS 9"), which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace 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. For financial liabilities measured at fair value, fair value changes due to changes in an entity'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 or 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.

In November 2013, the IASB issued a new version of IFRS 9 which incorporates a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting.

IFRS 9 does not have a mandatory effective date. Early adoption is permitted. The Company is assessing the potential impact of this standard.

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 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 4 to the annual consolidated financial statements contained in the Company's 2013 Annual Report, which includes Glacier Credit Card Trust ("GCCT") indebtedness but excludes Franchise Trust indebtedness.

The Company manages its capital structure with a view to maintaining an investment-grade rating from two credit rating agencies. Management calculates its ratios to approximate the methodology of debt-rating agencies and other market participants on a current and prospective basis. To assess its effectiveness in managing capital, management monitors these ratios against targeted ranges.

The Company was in compliance with key covenants under its existing debt agreements as at the quarter ended June 28, 2014. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy. The Company was in compliance with all regulatory capital guidelines established by the Office of the Superintendent of Financial Institutions of Canada and its Internal Capital Adequacy Assessment Process which it utilizes to achieve its goals and objectives associated with the operations of Canadian Tire Bank ("Bank"), a federally chartered bank.

4. 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 natures. The following summary describes the operations in each of the Company's reportable segments:

- Retail is comprised of the Living, Playing, Fixing, Automotive, Seasonal & Gardening, Apparel and Sporting Goods categories. The retail business is conducted through a number of banners, including Canadian Tire, Canadian Tire Gas ("Petroleum"), Mark's, PartSource, and various FGL Sports banners. Retail also includes the Dealer Loan Program (the portion (silo) of Franchise Trust that issues loans to Dealers), 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. 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 and one distribution centre.
- Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, the Cash Advantage MasterCard, the Gas Advantage MasterCard and the Sport Chek MasterCard. Financial Services also markets insurance and warranty products. The Bank, a wholly owned subsidiary of Canadian Tire Financial Services Limited, is a federally regulated bank that manages and finances the Company's consumer MasterCard, Visa and retail credit card portfolios, as well as an existing block of Canadian Tire-branded personal loan and line of credit portfolios. The Bank also offers and markets high-interest savings account deposits, tax free savings account deposits and guaranteed investment certificate deposits, both directly and through third-party brokers. Financial Services includes GCCT, a financing program 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 reviewed by the Company's chief operating decision maker. Management has determined that this measure is the most relevant in evaluating segment results.

Information regarding the results of each reportable operating segment is as follows:

	13 weeks ended									
	June 28, 2014					June 29, 2013				
(C\$ in millions)	Retail	CT REIT	Financial Services	Eliminations and adjustments	Total	Retail	Financial Services	Eliminations and adjustments	Total	
External revenue	\$ 2,878.8	\$ 2.3	\$ 263.2	\$ 21.8	\$ 3,166.1	\$ 2,749.6	\$ 250.6	\$ 20.9	\$ 3,021.1	
Intercompany revenue	0.7	81.1	4.5	(86.3)	-	-	3.6	(3.6)	-	
Total revenue	2,879.5	83.4	267.7	(64.5)	3,166.1	2,749.6	254.2	17.3	3,021.1	
Cost of producing revenue	2,071.2	-	95.7	(13.7)	2,153.2	1,991.4	95.9	(10.2)	2,077.1	
Gross margin	808.3	83.4	172.0	(50.8)	1,012.9	758.2	158.3	27.5	944.0	
Other income (expense)	42.5	-	(0.1)	(24.3)	18.1	(3.6)	(0.1)	-	(3.7)	
Selling, general and administrative expenses	691.1	20.2	81.8	(48.8)	744.3	614.8	67.5	19.1	701.4	
Net finance costs (income)	10.1	20.3	(2.2)	11.8	40.0	18.0	(0.3)	8.4	26.1	
Fair value adjustment on investment properties	-	2.8	-	(2.8)	-	-	-	-	-	
Income before income taxes	\$ 149.6	\$ 45.7	\$ 92.3	\$ (40.9)	\$ 246.7	\$ 121.8	\$ 91.0	\$ -	\$ 212.8	
Items included in the above:										
Depreciation and amortization	\$ 71.8	\$ -	\$ 2.2	\$ 13.9	\$ 87.9	\$ 81.9	\$ 2.9	\$ -	\$ 84.8	
Interest income	30.0	0.1	193.9	(25.9)	198.1	8.8	181.3	(0.5)	189.6	
Interest expense	36.5	20.4	28.3	(26.1)	59.1	20.7	27.8	(0.5)	48.0	

	26 weeks ended									
	June 28, 2014					June 29, 2013				
(C\$ in millions)	Retail	CT REIT	Financial Services	Eliminations and adjustments	Total	Retail	Financial Services	Eliminations and adjustments	Total	
External revenue	\$ 5,169.8	\$ 4.7	\$ 524.2	\$ 40.5	\$ 5,739.2	\$ 4,966.4	\$ 497.1	\$ 37.4	\$ 5,500.9	
Intercompany revenue	2.8	161.4	8.1	(172.3)	-	0.1	7.1	(7.2)	-	
Total revenue	5,172.6	166.1	532.3	(131.8)	5,739.2	4,966.5	504.2	30.2	5,500.9	
Cost of producing revenue	3,708.0	-	209.9	(26.9)	3,891.0	3,608.8	206.1	(24.7)	3,790.2	
Gross margin	1,464.6	166.1	322.4	(104.9)	1,848.2	1,357.7	298.1	54.9	1,710.7	
Other income (expense)	65.5	-	(0.3)	(48.6)	16.6	3.9	0.1	-	4.0	
Selling, general and administrative expenses	1,359.1	40.0	151.8	(100.5)	1,450.4	1,181.3	130.4	35.1	1,346.8	
Net finance costs (income)	4.8	40.5	(4.2)	23.0	64.1	35.5	(0.5)	19.8	54.8	
Fair value adjustment on investment properties	-	129.8	-	(129.8)	-	-	-	-	-	
Income before income taxes	\$ 166.2	\$ 215.4	\$ 174.5	\$ (205.8)	\$ 350.3	\$ 144.8	\$ 168.3	\$ -	\$ 313.1	
Items included in the above:										
Depreciation and amortization	\$ 140.9	\$ -	\$ 4.2	\$ 27.5	\$ 172.6	\$ 162.1	\$ 5.4	\$ -	\$ 167.5	
Interest income	59.0	0.3	389.5	(49.7)	399.1	18.0	363.9	(1.0)	380.9	
Interest expense	56.6	40.8	56.4	(50.1)	103.7	41.3	60.4	(1.0)	100.7	

The eliminations and adjustments include the following items:

- reclassifications of certain revenues and costs in the Financial Services segment to finance income and finance costs;
- reclassifications of revenues and operating expenses to reflect loyalty program accounting in accordance with IFRS Interpretations Committee ("IFRIC") 13 for the Company's Canadian Tire Money programs;
- conversion from CT REIT's fair value investment property valuation policy to the Company's historic cost method, including the recording of depreciation; and
- inter-segment eliminations.

Capital expenditures by reportable operating segment are as follows:

	13 weeks ended									
	June 28, 2014					June 29, 2013				
(C\$ in millions)	Retail	CT REIT	Financial Services	Total		Retail	CT REIT	Financial Services	Total	
Capital expenditures ¹	\$ 128.3	\$ 1.5	\$ 2.3	\$ 132.1		\$ 79.8	\$ -	\$ 0.9	\$ 80.7	

¹Capital expenditures are presented on an accrual basis, include software additions and reflect external additions only.

	26 weeks ended									
	June 28, 2014					June 29, 2013				
(C\$ in millions)	Retail	CT REIT	Financial Services	Total		Retail	CT REIT	Financial Services	Total	
Capital expenditures ¹	\$ 193.9	\$ 7.3	\$ 4.9	\$ 206.1		\$ 141.6	\$ -	\$ 1.1	\$ 142.7	

¹Capital expenditures are presented on an accrual basis, include software additions and reflect external additions only.

Total assets by reportable operating segment are as follows:

(C\$ in millions)	June 28, 2014		June 29, 2013 ³		December 28, 2013 ³	
Retail	\$	10,332.6	\$	7,863.6	\$	10,509.0
CT REIT ¹		3,842.2		-		3,603.2
Financial Services		5,475.5		4,984.7		5,384.6
Eliminations ¹		(6,617.1)		(265.5)		(5,866.8)
Total assets ²	\$	13,033.2	\$	12,582.8	\$	13,630.0

¹CT REIT uses the fair value model for its investment properties. The adjustment to convert to the Company's historic cost method is included in Eliminations.

²The 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 related to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated between segments in the presented measures of segmented assets and liabilities.

³The prior period's figures have been reclassified to correspond to the current period presentation.

Total liabilities by reportable operating segment are as follows:

(C\$ in millions)	June 28, 2014		June 29, 2013 ²		December 28, 2013 ²	
Retail	\$	4,173.0	\$	3,784.9	\$	4,322.1
CT REIT		1,884.5		-		1,822.9
Financial Services		4,374.8		4,120.2		4,408.3
Eliminations		(2,855.7)		(265.5)		(2,373.2)
Total liabilities ¹	\$	7,576.6	\$	7,639.6	\$	8,180.1

¹The 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 related to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated between segments in the presented measures of segmented assets and liabilities.

²The prior period's figures have been reclassified to correspond to the current period presentation.

5. Loans receivable

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

(C\$ in millions)	Total principal amount of receivables ¹			Average balance ¹	
	June 28, 2014	June 29, 2013	December 28, 2013	June 28, 2014	June 29, 2013
Credit card loans	\$ 4,632.7	\$ 4,275.6	\$ 4,522.7	\$ 4,458.0	\$ 4,160.4
Line of credit loans	5.9	6.9	6.5	6.2	7.2
Personal loans ²	0.2	0.1	0.1	0.2	0.2
Total Financial Services' loans receivable	4,638.8	4,282.6	4,529.3	4,464.4	4,167.8
Dealer loans ³	600.3	640.5	611.2		
Other loans	5.8	7.6	6.4		
Total loans receivable	5,244.9	4,930.7	5,146.9		
Less: long-term portion ⁴	581.4	633.7	577.2		
Current portion of loans receivable	\$ 4,663.5	\$ 4,297.0	\$ 4,569.7		

¹Amounts shown are net of allowance for loan impairment.

²Personal loans are unsecured loans that are provided to qualified existing credit card holders for terms of one 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.

³Dealer loans issued by Franchise Trust.

⁴The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer Loans of \$576.2 million (June 29, 2013 – \$626.9 million and December 28, 2013 – \$571.6 million).

The gross impairment loss on loans receivable for the 13 and 26 weeks ended June 28, 2014 was \$69.6 million (2013 – \$72.3 million) and \$160.5 million (2013 – \$154.4 million), respectively. Recoveries of bad debts for the 13 and 26 weeks ended June 28, 2014 was \$15.1 million (2013 – \$15.9 million) and \$28.6 million (2013 – \$30.7 million), respectively.

For the 13 and 26 weeks ended June 28, 2014, the amount of cash received from interest earned on credit cards and loans was \$175.7 million (2013 – \$165.3 million) and \$358.8 million (2013 – \$336.7 million), respectively.

6. Long-term debt

On June 25, 2014, the Company redeemed \$200.0 million of medium-term notes, which were to mature on June 1, 2016, and bore interest at 5.65 per cent. Upon redemption, the Company paid a redemption premium of \$15.0 million, which is included in net finance costs.

7. Share capital

(C\$ in millions)	June 28, 2014	June 29, 2013	December 28, 2013
Authorized			
3,423,366 Common Shares			
100,000,000 Class A Non-Voting Shares			
Issued			
3,423,366 Common Shares (June 29, 2013 - 3,423,366; December 28, 2013 - 3,423,366)	\$ 0.2	\$ 0.2	\$ 0.2
75,482,607 Class A Non-Voting Shares (June 29, 2013 - 77,103,237; December 28, 2013 - 76,560,851)	475.9	638.6	586.8
	\$ 476.1	\$ 638.8	\$ 587.0

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 2014 and 2013, 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, with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2014 and 2013:

(C\$ in millions)	26 weeks ended			
	June 28, 2014		June 29, 2013	
	Number	\$	Number	\$
Shares outstanding at beginning of the year	76,560,851	\$ 586.8	77,720,401	\$ 687.8
Issued				
Dividend reinvestment plan	31,775	3.2	35,011	2.8
Stock option plan	-	-	2,725	0.2
Repurchased ¹	(1,110,019)	(113.4)	(654,900)	(51.8)
Excess of issue price over repurchase price	-	(0.7)	-	(0.4)
Shares outstanding at end of the period	75,482,607	\$ 475.9	77,103,237	\$ 638.6

¹Repurchased shares have been restored to the status of authorized but unissued shares. The Company records shares repurchased on a transaction date basis. Of the 1,110,019 shares repurchased during the 26 weeks ended June 28, 2014, 96,900 had not been settled as at June 28, 2014. The associated costs of \$9.8 million are included within trade and other payables on the condensed consolidated balance sheet as at June 28, 2014.

As of June 28, 2014, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of \$39.5 million (2013 – \$28.2 million) at a rate of \$0.50 per share (2013 – \$0.35 per share).

On August 7, 2014 the Company's Board of Directors declared a dividend of \$0.50 per share payable on December 1, 2014 to shareholders of record as of October 31, 2014.

8. Share-based payments

During the 26 weeks ended June 28, 2014, the Company issued the following share-based payment awards:

Stock options

The Company granted 323,112 stock options to certain employees. These stock options generally vest on a graduated basis over a three-year period, are exercisable over a term of seven years and have an exercise price of \$99.72.

Performance share unit plans

The Company granted performance share units ("PSUs") to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average price of Class A Non-Voting Shares traded on the Toronto Stock Exchange during the 10 calendar day period commencing on the first business day after the last day of the performance period, multiplied by a factor determined by specific performance-based criteria. Compensation expense related to the PSUs is accrued over the performance period based on the expected total compensation to be paid out at the end of the performance period. The performance period of each plan is approximately three years from the date of issuance.

9. Revenue

(C\$ in millions) ¹	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Sale of goods	\$ 2,778.9	\$ 2,645.7	\$ 4,970.3	\$ 4,756.0
Interest income on loans receivable	193.5	185.3	388.9	370.5
Services rendered	94.0	92.7	179.9	177.4
Royalties and licence fees	87.7	86.2	175.7	173.3
Rental income	12.0	11.2	24.4	23.7
	\$ 3,166.1	\$ 3,021.1	\$ 5,739.2	\$ 5,500.9

¹The prior period's figures have been reclassified to correspond to the current period presentation.

Major customers

The Company does not have reliance on any one customer.

10. Cost of producing revenue

(C\$ in millions)	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Inventory cost of sales ¹	\$ 2,070.5	\$ 1,990.7	\$ 3,707.1	\$ 3,607.9
Net impairment loss on loans receivable	53.4	55.3	129.2	121.0
Finance costs on deposits	14.5	17.6	29.4	35.5
Other	14.8	13.5	25.3	25.8
	\$ 2,153.2	\$ 2,077.1	\$ 3,891.0	\$ 3,790.2

¹ Inventory cost of sales includes depreciation and amortization for the 13 and 26 weeks ended June 28, 2014 of \$3.2 million (2013 – \$nil) and \$3.2 million (2013 – \$nil), respectively.

Inventory writedowns as a result of net realizable value being lower than cost, recognized in the 13 and 26 weeks ended June 28, 2014 were \$3.2 million (2013 – \$19.1 million) and \$19.0 million (2013 – \$36.9 million), respectively.

Inventory writedowns recognized in prior periods and reversed in the 13 and 26 weeks ended June 28, 2014 were \$6.2 million (2013 – \$5.3 million) and \$7.8 million (2013 – \$8.7 million), respectively. 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.

11. Selling, general and administrative expenses by nature

(C\$ in millions)	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Personnel expenses	\$ 271.8	\$ 252.1	\$ 538.1	\$ 488.7
Occupancy	154.7	143.1	311.0	290.9
Marketing and advertising	93.6	99.0	169.4	163.7
Depreciation of property and equipment and investment property	63.8	62.4	126.9	123.1
Amortization of intangible assets	20.9	22.4	42.5	44.4
Other	139.5	122.4	262.5	236.0
	\$ 744.3	\$ 701.4	\$ 1,450.4	\$ 1,346.8

12. Net finance costs

(C\$ in millions)	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Finance income	\$ (4.6)	\$ (4.3)	\$ (10.2)	\$ (10.4)
Finance costs	44.6	30.4	74.3	65.2
	\$ 40.0	\$ 26.1	\$ 64.1	\$ 54.8

13. Notes to the condensed consolidated statements of cash flows

Cash and cash equivalents, net of bank indebtedness, comprise the following:

(C\$ in millions)	June 28, 2014	June 29, 2013	December 28, 2013
Cash	\$ 73.1	\$ 51.2	\$ 91.5
Cash equivalents	231.8	517.3	546.1
Restricted cash and cash equivalents ¹	2.9	3.4	5.6
Total cash and cash equivalents	307.8	571.9	643.2
Bank indebtedness	(68.7)	(89.1)	(69.0)
Cash and cash equivalents, net of bank indebtedness	\$ 239.1	\$ 482.8	\$ 574.2

¹ Relates to GCCT and is restricted for the purpose of paying out note holders and additional funding costs.

Changes in operating working capital and other comprise the following:

(C\$ in millions)	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013 ¹	June 28, 2014	June 29, 2013 ¹
Change in operating working capital				
Trade and other receivables	\$ 252.3	\$ 315.9	\$ 189.2	\$ 299.4
Merchandise inventories	134.9	227.6	(70.7)	49.0
Income taxes	(0.3)	0.5	(1.7)	0.7
Prepaid expenses and deposits	(9.8)	(10.2)	(25.9)	(52.7)
Trade and other payables	(93.1)	(169.9)	(122.2)	(124.3)
Total	284.0	363.9	(31.3)	172.1
Changes in other				
Provisions	(0.8)	0.2	(0.2)	(2.8)
Long-term provisions	0.3	(0.7)	(0.5)	(4.9)
Other long term liabilities	3.2	(1.1)	4.4	(3.4)
Total	2.7	(1.6)	3.7	(11.1)
Changes in operating working capital and other	\$ 286.7	\$ 362.3	\$ (27.6)	\$ 161.0

¹The prior period's figures have been reclassified to correspond to the current period presentation.

Supplementary information

During the 13 and 26 weeks ended June 28, 2014, the Company acquired property and equipment and investment property at an aggregate cost of \$96.2 million (2013 – \$65.6 million) and \$153.8 million (2013 – \$117.7 million), respectively. During the 13 and 26 weeks ended June 28, 2014, intangible assets were internally developed or acquired at an aggregate cost of \$49.2 million (2013 – \$15.1 million) and \$65.6 million (2013 – \$25.0 million), respectively.

The amount related to property and equipment and investment property acquired that is included in trade and other payables at June 28, 2014, is \$44.3 million (2013 – \$32.9 million). The amount related to intangible assets that is included in trade and other payables at June 28, 2014, is \$9.1 million (2013 – \$1.1 million).

During the 13 and 26 weeks ended June 28, 2014, the Company also included in the additions to property and equipment and investment property and intangible assets non-cash items relating to finance leases, asset retirement obligations and capitalized interest in the amount of \$12.2 million (2013 – \$0.3 million) and \$17.1 million (2013 – \$3.8 million), respectively.

Capital Commitments

The Company had commitments of approximately \$58.5 million at June 28, 2014 for the acquisition of property and equipment (2013 – \$30.7 million).

14. 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 condensed consolidated statements of income, cash flows or financial position.

The Bank is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank-issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank believes that it has a solid defence to both actions on the basis that banking and cost of borrowing disclosure are matters 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 the court rules against the Company, the total aggregate exposure would be approximately \$29.3 million at June 28, 2014.

15. Tax matters

In the ordinary course of business, the Company is subject to on-going 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.

There have been no material changes in ongoing audits by tax authorities as disclosed in Note 18 to the annual consolidated financial statements contained in the Company's 2013 Annual Report.

The Company regularly reviews the potential for adverse outcomes with respect of 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.

16. Financial instruments

16.1 Fair value of financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the following:

The carrying amount of the Company's cash and cash equivalents, trade and other receivables, loans receivable, bank indebtedness, trade and other payables, short-term borrowings and loans payable approximate their fair value either due to their short-term nature or because they are derivatives.

The carrying amount of the Company's long-term receivables and other assets approximates their fair value either because the interest rates applied to measure their carrying amount approximate current market rates or because they are derivatives.

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Investments in equity and debt securities

The fair values of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets that are traded in active markets are determined by reference to their quoted closing bid price or dealer price quotations at the reporting date. For investments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models, comparison to similar instruments for which market-observable prices exist and other valuation models. The fair values of loans and receivables and held-to-maturity investments are determined for disclosure purposes only.

Derivatives

The fair value of a forward exchange contract is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market interest rates for a similar instrument at the measurement date.

The fair value of equity derivatives is determined by reference to share price movement adjusted for interest using market interest rates specific to the terms of the underlying derivative contracts.

The fair value measurement of debt and deposits is categorized within Level 2 of the fair value hierarchy as described in Note 35 to the annual consolidated financial statements contained in the Company's 2013 Annual Report.

The fair values of the Company's debt and deposits compared to the carrying amounts are as follows:

(C\$ in millions)	June 28, 2014		June 29, 2013		December 28, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities carried at amortized cost						
Debt	\$ 2,159.7	\$ 2,302.8	\$ 2,354.2	\$ 2,467.0	\$ 2,611.3	\$ 2,707.4
Deposits	\$ 2,245.7	\$ 2,261.8	\$ 2,406.3	\$ 2,428.2	\$ 2,330.4	\$ 2,341.4

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 decreases in market interest rates for similar instruments. The fair values are determined by discounting the associated future cash flows using current market interest rates for items of similar risk.

16.2 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 following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

(C\$ in million)		June 28, 2014		June 29, 2013		December 28, 2013	
Balance sheet line	Category	Level		Level		Level	
Short-term investments	Fair value through profit or loss	2	\$ -	2	\$ -	2	\$ 211.9
Short-term investments	Available for sale	2	189.9	2	157.1	2	204.7
Long-term investments	Fair value through profit or loss	2	-	2	7.2	2	7.6
Long-term investments	Available for sale	2	65.4	2	163.6	2	127.1
Trade and other receivables	Derivatives	2	30.3	2	77.7	2	72.9
Long-term receivables and other assets	Derivatives	2	30.6	2	18.5	2	40.3
Trade and other payables	Derivatives	2	23.1	2	3.1	2	-
Other long-term liabilities	Derivatives	2	8.2	2	-	2	-

17. Comparative figures

Certain of the prior period's figures have been reclassified to correspond to the current period presentation.

18. Subsequent events

In July 2014, CT REIT completed two investment property acquisitions, a distribution centre in Calgary, and a one-third interest in Canada Square, a mixed-use commercial development in Toronto. The total purchase price of approximately \$90.0 million was satisfied by a draw on CT REIT's credit facility combined with the assumption of existing mortgages on the properties and cash on hand.