

Management's Discussion and Analysis

Canadian Tire Corporation, Limited

Fourth Quarter and Full Year 2016

1.0 Preface

1.1 Definitions

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

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

In this document:

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

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

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

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

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

“Mark’s” refers to the retail business carried on by Mark’s Work Wearhouse Ltd., and “Mark’s stores” including stores operated under the Mark’s, Mark’s Work Wearhouse[®], and L’Équipeur[®] names and trademarks.

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

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

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

1.2 Forward-looking statements

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

1.3 Review and approval by the Board of Directors

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

1.4 Quarterly and annual comparisons in the MD&A

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

1.5 Accounting framework

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

1.6 Accounting estimates and assumptions

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

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

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

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

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

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

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

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

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

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

1.8 Rounding and percentages

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

2.0 Company and industry overview

2.1 Overview of the business

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

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

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

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

2.1.1 Retail segment

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

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

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

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

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

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

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

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

2.1.2 CT REIT segment

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

2.1.3 Financial Services segment

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

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

2.1.4 Foreign operations

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

2.2 Competitive landscape

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

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

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

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

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

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

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

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

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

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

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

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

3.0 Core capabilities

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

Strong brand equity and innovative products

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

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

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

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

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

Marketing expertise

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

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

Loyalty program

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

Dealers

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

Innovative/digital store layouts

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

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

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

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

Real estate expertise

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

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

Technology expertise

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

Global supply chain network

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

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

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

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

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

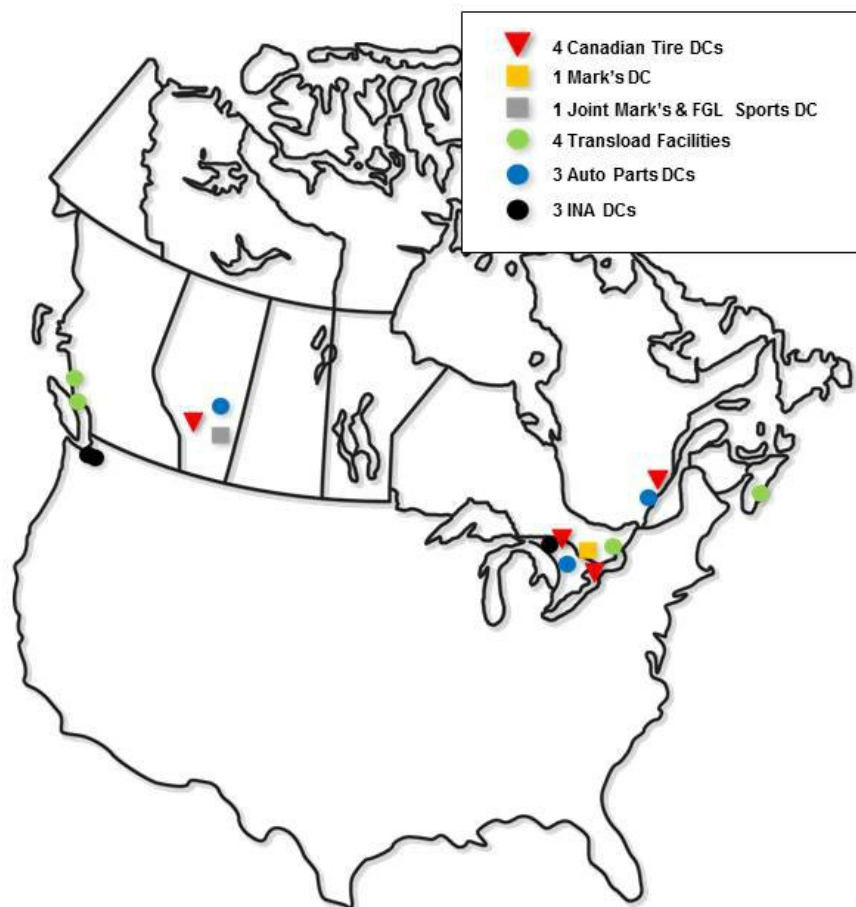
Most FGL Sports products are distributed to stores from two DCs, one in Mississauga, Ontario and the other located in Calgary, Alberta. Both are staffed primarily by Company employees. The Calgary DC opened in 2015 and provided FGL Sports with new distribution capacity in Western Canada and replaced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

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

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

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

The Company's distribution network at a glance:



Prudent credit risk management

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

World-class customer contact centres

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

Sport sponsorships

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

4.0 Historical performance highlights

4.1 Selected annual consolidated financial trends

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

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

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

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

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

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

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

partially offset by:

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

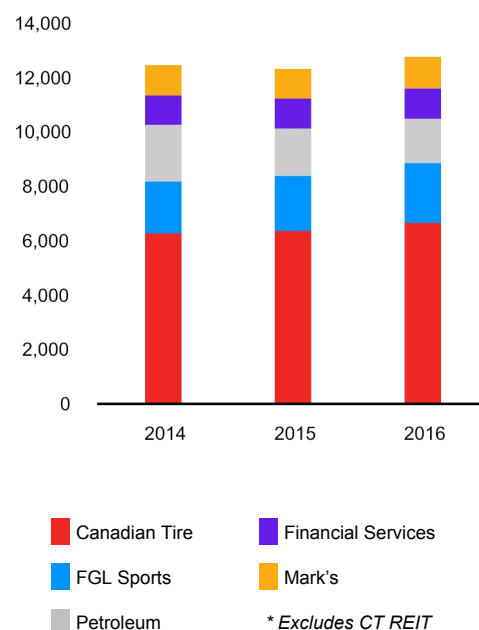
Consolidated revenue increased in 2016 compared to 2015 primarily due to:

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

partially offset by:

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

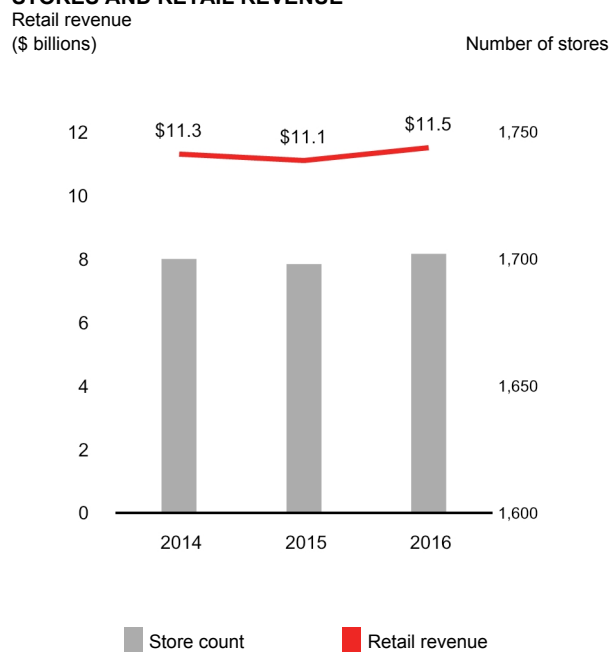
REVENUE BY BANNER/UNIT*
(\$ millions)



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

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

STORES AND RETAIL REVENUE



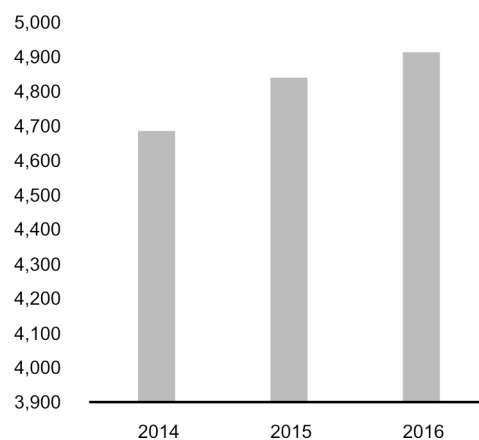
Financial Services gross average accounts receivable ("GAAR") for the total portfolio has increased over the past three years.

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

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

FINANCIAL SERVICES GROSS AVERAGE ACCOUNTS RECEIVABLE

(\$ millions)



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

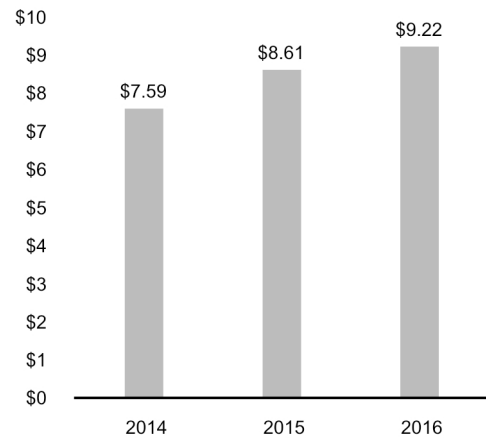
- solid gross margin growth from both the Retail and Financial Services segments, due to strong revenue as well as improvement in gross margin rate in both segments;
- strong retail sales growth at Canadian Tire and FGL Sports (2015) and across all banners (2016);
- increased credit card charges on increased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

partially offset by:

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

DILUTED EPS

(\$ per share)



5.0 Three-Year (2015 to 2017) financial aspirations

Financial aspirations: 2015 to 2017

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

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

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

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

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

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

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

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

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

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

1. Annual retail sales growth of 3+ percent at Canadian Tire, 5+ percent at Mark's, and 9+ percent at FGL Sports
<p>Key assumptions:</p> <ul style="list-style-type: none"> • Strong and consistent same-store sales growth across core retail businesses • Retail square footage growth at Canadian Tire and Mark's in line with recent years • Continued Sport Chek network expansion • Growth in eCommerce sales across all retail banners • Positive customer response to brand and product-focused marketing, in-store merchandising, category specific tactical growth initiatives, and digital initiatives • Effective use of loyalty program customer shopping data to create targeted customer offerings and enhance in-store experience
<p>Significant risks:</p> <ul style="list-style-type: none"> • Limitations on availability of preferred retail locations due to continued competition and demand for retail space in Canada • Increased competition due to expanding and new U.S. retailers, new and existing online competitors, or a significant change in the Canadian retail landscape • Decline in economic growth, consumer confidence, and household spending • The competitiveness of the Company's loyalty programs • Customers' willingness to participate in and the relative attractiveness of the Company's marketing offers • Impact of commodity prices and other factors on the economic condition of various geographic or customer segments
2. Average diluted EPS growth of 8 to 10 percent over the three-year period
<p>Key assumptions:</p> <ul style="list-style-type: none"> • Realization of retail sales growth aspirations • Increased bottom-line earnings across all businesses through strong margin management, operating expense growth in line with revenue growth, and growth in GAAR in the Financial Services segment • Realization of cost savings and benefits from initiatives aimed at improving gross margin and operating expenses, including Dealer contract initiatives and enterprise-wide operating efficiency initiatives
<p>Significant risks:</p> <ul style="list-style-type: none"> • Revenue growth not achieved; refer to significant risks associated with retail sales aspirations described above • Increased costs relating to foreign exchange and global sourcing of key products impacting the Company's ability to maintain or reduce operating, supply chain, and/or product costs • Inability to achieve enhanced purchasing efficiencies and a reduction of overhead expenses • Short-term effect on EPS from the Company's capital-allocation initiatives including the potential impact of organic and inorganic growth initiatives designed to create long-term growth • GAAR growth could be challenged by new regulations and adverse economic conditions
3. Financial Services return on receivables of 6+ percent annually
<p>Key assumptions:</p> <ul style="list-style-type: none"> • Continued GAAR growth • Customers respond positively to new marketing initiatives, including enhanced loyalty program and in-store financing across the retail banners • Continued prudent expense management
<p>Significant risks:</p> <ul style="list-style-type: none"> • Decline in economic growth, consumer confidence, and household spending • Higher credit or default risk resulting in incremental allowance for future write-offs • GAAR growth could be challenged by new regulations and adverse economic conditions
4. Retail return on invested capital of 9+ percent by the end of 2017
<p>Key assumptions:</p> <ul style="list-style-type: none"> • Growth in retail earnings due to sales growth and successful execution of operating efficiency initiatives that increase retail gross margin and reduce operating expense as a percentage of revenue • Increased return from existing assets including enhanced same-store productivity and prudent working capital management • Continued successful investments in businesses to achieve organic growth and in projects and initiatives to improve returns • Average annual operating capital expenditures of \$450 million to \$500 million over the three-year period (updated from the original assumption of an investment between \$600 million and \$625 million, over the three-year period, given actual spend for 2015 and 2016 and the revised forecasts for 2017 operating capital expenditures)
<p>Significant risks:</p> <ul style="list-style-type: none"> • Earnings growth not achieved; refer to significant risks associated with retail sales and EPS growth aspirations described above • Increased capital investment due to inorganic growth opportunities that the Company may pursue

6.0 2016 and 2017 Strategic imperatives

6.1 2016 Strategic imperatives

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

1. Strengthen brands and enhance customer experiences

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

2016 Initiatives	Final Assessment
<ul style="list-style-type: none"> • Continue to keep the Company's brands relevant through innovative marketing campaigns and taking advantage of opportunities to highlight innovation and digital capabilities to its target customers • Continue to build customer connections across all banners by offering unparalleled shopping experiences both in-store and online • Activate sports and community partnerships to keep the Company's brand in the minds of Canadians • Grow customer-loyalty program through in-store acquisition and through mobile apps and other digital channels • Continue to create and offer high-quality, innovative private-brand assortments across the Company's retail banners that will drive customer loyalty and increase brand awareness 	<ul style="list-style-type: none"> • Achieved • Achieved • Achieved • Achieved • Achieved

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

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

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

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

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

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

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

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

2016 Initiatives	Final Assessment
<ul style="list-style-type: none"> • Create world-class digital experiences through digital marketing, in-store technology, eCommerce, and integrated loyalty programs that complement physical retail stores • Utilize customer data and shopping insights to personalize and enhance offers, communication and content, and achieve efficiencies 	<ul style="list-style-type: none"> • Achieved • Achieved

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

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

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

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

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

3. Drive growth and productivity in core businesses

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

2016 Initiatives	Final Assessment
<ul style="list-style-type: none"> • Continue to drive sales and revenue across all banners through ongoing category management, innovative marketing campaigns, new product assortments, and enhanced in-store and digital experiences • Achieve sustainable and profitable growth through productivity initiatives that target the operating expense structure and gross margins • Continue to increase the retail footprint by adding flagship stores at FGL Sports and building new or expanded Canadian Tire and Mark’s stores • Pursue selective acquisitions that strengthen and grow our existing portfolio of brands and bring new-world capabilities • Allocate capital through a balanced approach to maximize growth and long-term shareholder returns • Re-invigorate GAAR growth by investing in in-store financing programs that drive sales at Canadian Tire 	<ul style="list-style-type: none"> • Achieved • Achieved • Achieved • Achieved • Achieved • Achieved

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

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

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

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

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

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

4. Create an agile and high-performing corporate culture

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

2016 Initiatives	Final Assessment
<ul style="list-style-type: none"> • Attract and develop talent to ensure required capabilities and expertise to bring the Company into the new world of retail • Engage employees to stimulate innovation and growth • Develop and share capabilities by collaborating across the businesses • Deepen connections in communities across the country 	<ul style="list-style-type: none"> • Achieved • Achieved • Achieved • Achieved

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

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

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

6.2 2017 Strategic imperatives

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

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

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

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

2017 Initiatives

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

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

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

2017 Initiatives

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

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

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

2017 Initiatives

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

7.0 Financial performance

7.1 Consolidated financial performance

Non-operational items

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

7.1.1 Consolidated financial results

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

¹ Key operating performance measure. Refer to section 11.3.1 in this MD&A for additional information.

² Not meaningful.

Non-controlling interests

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

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

Consolidated fourth quarter 2016 versus fourth quarter 2015

Earnings Summary

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

Retail sales

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

Revenue

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

Gross margin

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

Other expense (income)

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

Selling, general and administrative expenses

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

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

Net finance costs

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

Income taxes

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

Consolidated full year 2016 versus full year 2015

Earnings Summary

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

Retail sales

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

Revenue

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

Gross margin

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

Other income

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

Selling, general and administrative expenses

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

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

Income taxes

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

7.1.2 Consolidated key operating performance measures

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

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

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

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

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

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

7.1.3 Seasonal trend analysis

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

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

7.2 Retail segment performance

7.2.1 Retail segment key operating performance measures

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

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

¹ Refer to section 11.3.1 in this MD&A for additional information on same-store sales growth.

² Inter-segment revenue within the retail banners of \$40.0 million in the fourth quarter (2015 - \$29.1 million) and \$188.5 million in 2016 (2015 - \$133.1 million) has been eliminated at the Retail segment level. Revenue reported for Canadian Tire, FGL Sports, Mark's, and Petroleum includes inter-segment revenue.

³ Retail ROIC is calculated on a rolling 12-month basis. Refer to section 11.3.1 in this MD&A for additional information.

⁴ EBITDA is a non-GAAP measure. Refer to section 11.3.2 in this MD&A for a reconciliation of EBITDA to income before income taxes and additional information.

⁵ Retail sales growth includes sales from Canadian Tire stores, PartSource stores, and the labour portion of Canadian Tire's auto service sales.

⁶ Sales per square foot figures are calculated on a rolling 12-month basis and exclude PartSource stores. Retail space does not include seasonal outdoor garden centres, auto service bays, or warehouse and administrative space.

⁷ Revenue includes revenue from Canadian Tire, PartSource, and Franchise Trust.

⁸ Retail sales growth includes sales from both corporate and franchise stores.

⁹ Sales per square foot figures are calculated on a rolling 12-month basis, include both corporate and franchise stores and warehouse and administrative space.

¹⁰ Retail sales growth includes retail sales from Mark's corporate and franchise stores and ancillary revenue relating to embroidery and alteration services.

¹¹ Sales per square foot figures are calculated on a rolling 12-month basis, include sales from both corporate and franchise stores and exclude ancillary revenue. Sales per square foot do not include warehouse and administrative space.

¹² Revenue includes sale of goods to Mark's franchise stores, retail sales from Mark's corporate stores, and includes ancillary revenue relating to embroidery and alteration services.

7.2.2 Retail banner network at a glance

Number of stores and retail square footage	2016	2015
Consolidated store count		
Canadian Tire stores ¹		
Smart stores	420	385
Traditional stores	31	35
Updated and expanded stores	22	50
Small market stores	25	25
Other	2	3
Total Canadian Tire stores	500	498
PartSource stores	91	91
FGL Sports stores		
Sport Chek	196	190
Atmosphere	69	69
Sports Experts	68	74
Other	100	100
Total FGL Sports stores	433	433
Mark's stores ¹		
Mark's	330	323
L'Équipeur	45	45
Mark's Work Wearhouse	7	12
Total Mark's stores	382	380
Canadian Tire gas bar locations	296	296
Total stores	1,702	1,698
Consolidated retail square footage² (in millions)		
Canadian Tire	21.6	20.9
FGL Sports	7.7	7.3
Mark's	3.6	3.5
PartSource	0.3	0.3
Total retail square footage²	33.2	32.0

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

² The retail square footage excludes Petroleum's convenience store rental space.

7.2.3 Retail segment financial results

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

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

Retail segment fourth quarter 2016 versus fourth quarter 2015

Earnings Summary

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

Retail sales

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

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

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

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

Revenue

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

Gross margin

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

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

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

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

Other income

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

Selling, general and administrative expenses

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

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

Net finance income

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

Retail segment full year 2016 versus full year 2015

Earnings Summary

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

Retail sales

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

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

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

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

Revenue

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

Gross margin

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

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

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

Other income

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

Selling, general and administrative expenses

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

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

Net finance income

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

7.2.4 Retail segment business risks

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

Seasonality risk

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

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

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

Supply chain disruption risk

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

Environmental risk

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

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

Commodity price and disruption risk

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

Market obsolescence risk

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

Global sourcing risk

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

7.3 CT REIT segment performance

7.3.1 CT REIT segment financial results

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

CT REIT segment key operating performance measures

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

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

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

CT REIT segment fourth quarter 2016 versus fourth quarter 2015

Earnings summary

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

Property revenue

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

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

Property expense

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

General and administrative expense

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

Net operating income

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

Funds from operations and adjusted funds from operations

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

CT REIT segment full year 2016 versus full year 2015

Earnings summary

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

Property revenue

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

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

Property expense

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

General and administrative expense

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

Net operating income

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

Funds from operations and adjusted funds from operations

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

7.3.2 CT REIT segment business risks

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

Financial risks

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

Real estate ownership and tenant risks

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

Tax-related risks

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

7.4 Financial Services segment performance

7.4.1 Financial Services segment key operating performance measures

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

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

¹ Credit card sales growth excludes balance transfers.

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

³ Credit card portfolio only.

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

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

7.4.2 Financial Services segment financial results

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

Financial Services segment fourth quarter 2016 versus fourth quarter 2015

Earnings summary

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

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

Revenue

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

Gross margin

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

Selling, general and administrative expenses

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

Financial Services segment full year 2016 versus full year 2015

Earnings summary

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

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

Revenue

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

Gross margin

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

Selling, general and administrative expenses

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

7.4.3 Financial Services segment business risks

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

Consumer credit risk

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

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

Liquidity and funding risk

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

Interest rate risk

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

Regulatory risk

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

8.0 Balance sheet analysis, liquidity, and capital resources

8.1 Selected balance sheet highlights

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

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

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

The year-over-year increase in total assets of \$315.0 million was primarily due to:

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

partially offset by:

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

The year-over-year increase in total liabilities of \$367.4 million was primarily due to:

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

partially offset by:

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

8.2 Summary cash flows

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

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

Consolidated fourth quarter 2016 versus fourth quarter 2015

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

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

partially offset by:

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

Consolidated full year 2016 versus full year 2015

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

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

partially offset by:

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

8.3 Capital management

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

8.3.1 Capital management objectives

The Company's objectives when managing capital are:

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

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

8.3.2 Capital under management

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

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

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

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

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

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

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

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

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

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

8.3.3 Canadian Tire Bank's regulatory environment

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

The Bank's objectives include:

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

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

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

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

8.4 Investing

8.4.1 Capital expenditures

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

(C\$ in millions)	2016	2015
Real estate ¹	\$ 232.8	\$ 259.9
Information technology	181.4	212.2
Other operating	41.6	56.9
Operating capital expenditures	455.8	529.0
CT REIT acquisitions and developments excluding vend-ins from CTC ²	176.8	42.4
Distribution capacity	122.3	144.7
Total capital expenditures³	\$ 754.9	\$ 716.1

¹ Retail capital expenditures include \$17.7 million relating to the acquisition of 12 real estate leases, formerly held by Target Canada which were acquired during 2015, and are recorded in long-term receivables and other assets on the Consolidated Balance Sheets.

² CT REIT capital expenditures include the construction of stores under Mark's and FGL Sports banners of \$2.0 million (2015 – \$17.7 million).

³ Capital expenditures are presented on an accrual basis and include software additions.

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

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

Capital commitments

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

Capital expenditure update

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

Operating capital expenditures

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

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

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

Distribution capacity capital expenditures

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

8.4.2 Business acquisition

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

8.5 Liquidity and financing

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

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

Committed bank lines of credit

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

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

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

Medium-term notes and debentures

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

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

Securitization of receivables

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

Broker GIC deposits

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

Retail deposits

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

Real estate

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

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

Credit rating

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

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

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

8.5.1 Contractual obligations, guarantees, and commitments

8.5.1.1 Contractual obligations

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

Contractual obligations due by period

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

¹ Excludes senior and subordinated notes at GCCT.

² Represents senior and subordinated notes.

³ Excludes interest obligations on debt or deposits.

⁴ Includes interest obligations on finance leases.

8.5.1.2 Guarantees and commitments

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

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

8.6 Funding costs

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

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

¹ Represents the interest expense relating to short-term and long-term debt. Short-term debt includes lines of credit. Long-term debt includes medium-term, debentures, senior, and subordinated notes.

² Represents the weighted average cost of short-term and long-term debt during the period.

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

9.0 Equity

9.1 Shares outstanding

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

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

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

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

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

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

9.2 Dividends

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

9.3 Equity derivative contracts

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

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

10. Tax matters

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

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

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

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

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

The following represents forward-looking information and users are cautioned that actual results may vary.
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In Q3 2016, the Company announced the annual effective tax rate, excluding any impact for a potential change in fair value of the redeemable financial instrument, for fiscal 2017, to be approximately 27.0 percent.

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

11.1 Critical accounting estimates

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

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

11.2 Changes in accounting policies

Standards, amendments, and interpretations issued and adopted

Disclosure initiative (IAS 1)

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

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

Standards, amendments, and interpretations issued but not yet adopted

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

Financial instruments

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

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

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

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

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

Revenue from contracts with customers

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

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

Disclosure initiative (IAS 7)

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

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

Leases

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

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

Income taxes

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

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

Share-based payment

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

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

Insurance contracts

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

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

11.3 Key operating performance measures and non-GAAP financial measures

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

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

11.3.1 Key operating performance measures

Retail sales

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

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

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

Same-store sales

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

Sales per square foot

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

Retail return on invested capital

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

Return on receivables

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

11.3.2 Non-GAAP financial measures

Adjusted EBITDA

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

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

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

Retail segment EBITDA

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

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

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

Adjusted net debt

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

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

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

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

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

CT REIT Non-GAAP financial measures

Net operating income

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

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

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

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

Funds from operations

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

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

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

Adjusted funds from operations

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

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

12.0 Enterprise risk management

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

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

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

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

12.1 Risk governance

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

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

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

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

12.2 Principal risks

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

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

Global and domestic marketplace

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

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

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

Risk management strategy:

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

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

Strategy

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

Risk management strategy:

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

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

Brand

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

Risk management strategy:

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

People

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

Risk management strategy:

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

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

Technology innovation and investment

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

Risk management strategy:

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

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

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

Key business relationships

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

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

Risk management strategy:

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

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

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

Cyber

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

Risk management strategy:

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

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

Information

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

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

Risk management strategy:

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

Operations

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

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

Risk management strategy:

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

Financial

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

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

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

Risk management strategy:

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

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

Financial reporting

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

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

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

Risk management strategy:

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

Legal and litigation

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

Risk management strategy:

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

Credit

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

Risk management strategy:

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

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

12.3 Financial risks

Financial instrument risk

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

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

Liquidity risk

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

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

Foreign currency risk

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

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

Interest rate risk

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

12.4 Credit risks

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

Financial instrument counterparty credit risk

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

Consumer and Dealer credit risk

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

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

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

Allowance for credit losses

The Company's allowances for receivables are maintained at levels that are considered adequate to provide for future credit losses. A continuity of the Company's allowances for loans receivable¹ is as follows:

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

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

12.5 Legal risks

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

13.0 Controls and procedures

13.1 Disclosure controls and procedures

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

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

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

13.2 Internal control over financial reporting

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

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

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

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

13.3 Changes in internal control over financial reporting

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

14.0 Social and environmental responsibility

14.1 2016 Sustainability initiatives

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

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

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

¹ Economic benefit refers to cost avoidance (e.g. energy costs) and income earned (e.g. from the sale of recyclable materials) associated with sustainability initiatives.

² Avoidance refers to savings in comparison to the baseline scenario, where the baseline scenario is defined as "what would have most likely occurred in the absence of the sustainability initiative". Improvements are relating to the specific initiatives reported and do not represent total improvements to the value-chain segment.

³ Refers to energy generated from on-site solar installations. To be considered "low-carbon", the GHG emissions associated with the energy generated must be lower than traditional means of power generation. This energy is fed into the Ontario electrical grid for general consumption in the province.

⁴ Materials diverted from landfill through reuse, recycling or composting.

⁵ Realized reductions in energy use resulting from the transportation of optimized product and packaging, realized reductions in customer energy use resulting from the sale of energy efficient products, and waste reductions stemming from reduced packaging, damages, and product waste at end-of-life.

⁶ Realized reductions in energy use from increased fuel efficiency in transportation modes and vehicles (e.g. use of long-combination vehicles).

⁷ Realized reductions in energy use in buildings and their operations through energy efficiency initiatives (e.g. new construction and retrofits), renewable energy generated from rooftop solar installations, and percentage of waste diverted from landfill as a result of waste management initiatives at stores and DCs.

14.2 Environmental footprint

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

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

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

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

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

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

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

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

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

14.3 Responsible sourcing practices

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

14.4 Corporate Philanthropy

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

15.0 Related parties

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

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

16.0 Forward-looking statements and other investor communication

Caution regarding forward-looking statements

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

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

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

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

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

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

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

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

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

Commitment to disclosure and investor communication

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

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

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

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

February 15, 2017