

# Management's Discussion and Analysis

Canadian Tire Corporation, Limited

Third Quarter 2017

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## 1.0 Preface

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### 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<sup>®</sup>, PartSource<sup>®</sup>, Petroleum, Mark’s<sup>®</sup>, Sport Chek<sup>®</sup>, Sports Experts<sup>®</sup>, Atmosphere<sup>®</sup>, 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+<sup>®</sup> 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<sup>®</sup> stores” including stores operated under the Sport Chek, Sports Experts, Atmosphere, PHL, National Sports, Sports Rousseau, and Hockey Experts names and trademarks.

“Mark’s” refers to the retail and commercial wholesale businesses carried on by Mark’s Work Wearhouse Ltd., and “Mark’s stores” including stores operated under the Mark’s, Mark’s Work Wearhouse<sup>®</sup>, and L’Équipeur<sup>®</sup> 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 14.0 in this MD&A for a more detailed discussion of the Company’s use of forward-looking statements.

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

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on November 8, 2017.

### 1.4 Quarterly and annual comparisons in the MD&A

Unless otherwise indicated, all comparisons of results for Q3 2017 (13 and 39 weeks ended September 30, 2017) are compared against results for Q3 2016 (13 and 39 weeks ended October 1, 2016).

## 1.5 Accounting framework

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), also referred to as Generally Accepted Accounting Principles (“GAAP”). The Company prepared the condensed interim consolidated financial statements in accordance with International Accounting Standards (“IAS”) 34 – *Interim Financial Reporting*, using the accounting policies described in Note 2 of the condensed interim consolidated financial statements.

## 1.6 Accounting estimates and assumptions

The preparation of condensed interim 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 condensed interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Refer to section 9.1 in this MD&A for further information.

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

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

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 condensed interim 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 indicators of the strength of the Company’s brand, which ultimately impacts its consolidated financial performance. Refer to section 9.3.1 for additional information on retail sales.

Revenue, as reported in the Company’s condensed interim 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 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 its 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 9.3.1 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 9.3.1 for a description 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 3.0 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 9.3.2 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 measures provide useful information to both Management and investors in measuring the financial performance and financial condition of CT REIT. These measures include funds from operations ("FFO"), adjusted funds from operations ("AFFO"), and net operating income ("NOI"). Refer to section 9.3.2 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

For an overview of the business, a full description of the Company's Retail, CT REIT, and Financial Services operating segments, and a discussion of the competitive landscape affecting the Company, refer to section 2.0 of the MD&A contained in the Company's 2016 Report to Shareholders, available on the Company's website ([www.corp.canadiantire.ca/en/investors](http://www.corp.canadiantire.ca/en/investors)), and SEDAR ([www.sedar.com](http://www.sedar.com)).

## 3.0 Three-Year (2015 to 2017) financial aspirations

For a description of the Company's new three-year (2018-2020) financial aspirations refer to section 13.0 of this MD&A.

### 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 Company aims to achieve these aspirations within the stated three-year period and it is expected that performance in individual fiscal years within that period will vary. On a quarterly basis, Management reviews the significant risks and key underlying assumptions that might impact the achievement of its aspirational targets over the three-year period. Annually, the Company reports on the progress toward achievement of the stated aspirations. The financial aspirations are outlined below:

| Financial Measure                        | Annual Aspiration |
|--|-------------------|
| Canadian Tire retail sales annual growth | 3%+               |
| Mark's retail sales annual growth        | 5%+               |
| FGL Sports retail sales annual growth    | 9%+               |
| Financial Services return on receivables | 6%+               |

In light of the current year sales results at FGL Sports, it is unlikely that its annual sales growth aspiration will be realized in 2017.

| Financial Measure                       | Aspiration over 3-year period 2015 to 2017 |
|---|--|
| Average diluted EPS growth <sup>1</sup> | 8% to 10%                                  |
| Retail return on invested capital       | 9%+  |

<sup>1</sup> Average diluted EPS growth is calculated using normalized diluted EPS.

Given the change in economic conditions since the financial aspirations were announced, Management is pleased with the focused effort that has been made to improve its Retail ROIC metric. Despite the deterioration of the Alberta economy and the decline in the value of the Canadian dollar compared to the U.S. dollar, third quarter reported ROIC increased to 8.86%.

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, and as qualified above, Management's current view of its key assumptions and significant risks that support the Company's financial aspirations are outlined below:

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

## 4.0 2017 Strategic imperatives

As outlined in section 6.0 of the MD&A contained in the Company's 2016 Report to Shareholders, the Company has been pursuing the following strategic imperatives and key initiatives in 2017 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 supporting this strategic imperative will enhance the public's awareness of the Company's brands and their perception that the Company's product offerings 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 owned 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 improvements across the organization as well as 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 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 win in omni-channel
- Deepen customer connections in communities across the country to focus on and expand customer lifecycle engagement

## 5.0 Financial performance

### 5.1 Consolidated financial performance

#### Non-operational items

The results of operations in the current and previous quarters and year-to-date ended September 30, 2017 and October 1, 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.

#### 5.1.1 Consolidated financial results

| (C\$ in millions, except where noted)  |            |            |                 | YTD         |            | YTD             |  |
|--|------------|------------|-----------------|-------------|------------|-----------------|--|
|  | Q3 2017    | Q3 2016    | Change          | Q3 2017     | Q3 2016    | Change          |  |
| Retail sales <sup>1</sup>  | \$ 3,701.1 | \$ 3,521.6 | 5.1 %           | \$ 10,381.4 | \$ 9,987.1 | 3.9 %           |  |
| Revenue  | \$ 3,303.9 | \$ 3,128.4 | 5.6 %           | \$ 9,470.9  | \$ 9,040.0 | 4.8 %           |  |
| Gross margin dollars   | \$ 1,120.6 | \$ 1,071.6 | 4.6 %           | \$ 3,244.5  | \$ 3,095.8 | 4.8 %           |  |
| Gross margin as a % of revenue   | 33.9%      | 34.3%      | (34) bps        | 34.3%       | 34.2%      | 1 bps           |  |
| Other expense  | \$ —       | \$ 1.1     | (94.6)%         | \$ 0.5      | \$ (6.7)   | (107.8)%        |  |
| Selling, general and administrative expenses                                 | 822.3      | 779.4      | 5.5 %           | 2,453.3     | 2,381.1    | 3.0 %           |  |
| Net finance costs  | 31.5       | 24.8       | 27.3 %          | 82.5        | 68.5       | 20.5 %          |  |
| Income before income taxes   | \$ 266.8   | \$ 266.3   | 0.2 %           | \$ 708.2    | \$ 652.9   | 8.5 %           |  |
| Income taxes   | 68.3       | 68.5       | (0.1)%          | 184.8       | 170.5      | 8.4 %           |  |
| Effective tax rate   | 25.6%      | 25.7%      |                 | 26.1%       | 26.1%      |                 |  |
| Net income   | \$ 198.5   | \$ 197.8   | 0.3 %           | \$ 523.4    | \$ 482.4   | 8.5 %           |  |
| Net income attributable to:  |            |            |                 |             |            |                 |  |
| Shareholders of Canadian Tire Corporation                                    | \$ 176.6   | \$ 176.4   | 0.2 %           | \$ 459.3    | \$ 422.3   | 8.8 %           |  |
| Non-controlling interests  | 21.9       | 21.4       | 1.9 %           | 64.1        | 60.1       | 6.6 %           |  |
|  | \$ 198.5   | \$ 197.8   | 0.3 %           | \$ 523.4    | \$ 482.4   | 8.5 %           |  |
| Basic EPS  | \$ 2.59    | \$ 2.45    | 5.9 %           | \$ 6.63     | \$ 5.80    | 14.3 %          |  |
| Diluted EPS  | \$ 2.59    | \$ 2.44    | 5.9 %           | \$ 6.62     | \$ 5.79    | 14.3 %          |  |
| Weighted average number of Common and Class A Non-Voting Shares outstanding: |            |            |                 |             |            |                 |  |
| Basic  | 68,099,921 | 71,980,635 | NM <sup>2</sup> | 69,243,297  | 72,779,775 | NM <sup>2</sup> |  |
| Diluted  | 68,252,446 | 72,145,192 | NM <sup>2</sup> | 69,433,042  | 72,976,210 | NM <sup>2</sup> |  |

<sup>1</sup> Key operating performance measure. Refer to section 9.3.1 in this MD&A for additional information.

<sup>2</sup> 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)  |         |         | YTD     |         | YTD     |         |
|--|---------|---------|---------|---------|---------|---------|
|  | Q3 2017 | Q3 2016 | Q3 2017 | Q3 2016 | Q3 2017 | Q3 2016 |
| Financial Services                                       |         |         |         |         |         |         |
| Non-controlling interest percentage 20.0% (2016 - 20.0%) | \$ 14.5 | \$ 13.7 | \$ 43.1 | \$ 40.2 |         |         |
| CT REIT  |         |         |         |         |         |         |
| Non-controlling interest percentage 14.5% (2016 - 14.9%) | 5.7     | 5.7     | 17.5    | 16.2    |         |         |
| Retail segment subsidiary                                |         |         |         |         |         |         |
| Non-controlling interest percentage 50.0% (2016 - 50.0%) | 1.7     | 2.0     | 3.5     | 3.7     |         |         |
| Net income attributable to non-controlling interests     | \$ 21.9 | \$ 21.4 | \$ 64.1 | \$ 60.1 |         |         |

## **Consolidated third-quarter 2017 versus third-quarter 2016**

### **Earnings summary**

Diluted EPS was \$2.59 in the quarter, an increase of \$0.15 per share, or 5.9 percent, compared to the prior year. The earnings performance reflects increased revenue and gross margin dollars from the Retail and Financial Services segments, partially offset by higher selling, general and administrative expenses, including the cost of operating the Bolton distribution centre ("Bolton DC"), which commenced operations on July 3, 2017. Diluted EPS benefited from the favourable impact of share repurchases, which resulted in a lower share base.

### **Retail sales**

Consolidated retail sales increased \$179.5 million, or 5.1 percent, which includes a 10.0 percent increase in Petroleum retail sales primarily due to higher per litre gas prices. Excluding Petroleum consolidated retail sales increased 4.3 percent, reflecting increased sales at Canadian Tire, Mark's, and FGL Sports. Refer to section 5.2 for further information regarding Retail segment sales in the quarter.

### **Revenue**

Consolidated revenue increased \$175.5 million, or 5.6 percent, which includes a \$47.6 million increase in Petroleum revenue primarily due to higher per litre gas prices. Excluding Petroleum consolidated revenue increased 4.7 percent, primarily due to increased revenue across all Retail banners and in the Financial Services segment. Refer to sections 5.2 and 5.4 for further information regarding revenue in the Retail and Financial Services segments.

### **Gross margin**

Consolidated gross margin dollars increased \$49.0 million, or 4.6 percent, driven by increased revenue at Canadian Tire, Mark's, and FGL Sports, and in the Financial Services segment. The consolidated gross margin rate decrease of 34 basis points reflects a lower gross margin rate in Petroleum. Excluding Petroleum the gross margin rate was flat compared to last year. Refer to sections 5.2 and 5.4 for further information regarding gross margin in the Retail and Financial Services segments.

### **Selling, general and administrative expenses**

Consolidated selling, general and administrative expenses increased \$42.9 million, or 5.5 percent, primarily due to higher year-over-year occupancy expense due to a larger than typical property tax refund received in the prior year, increased costs relating to the Bolton DC, which commenced operations in July 2017, and the execution of planned investment in the business to support the Company's strategic initiatives. Prior year expenses included severance costs associated with organizational changes and costs related to the Rio Olympics.

### **Income taxes**

The effective tax rate decreased to 25.6 percent from 25.7 percent in the prior year. Refer to Tax Matters in section 8.0 of this MD&A for further details.

## **Consolidated year-to-date 2017 versus year-to-date 2016**

Consolidated year-to-date net income attributable to owners of CTC increased \$37.0 million, or 8.8 percent, over the prior year. The increase in earnings reflects year-to-date retail sales and revenue growth across all Retail segment banners and the Financial Services segment. Increased earnings were partially offset by increased selling, general and administrative expenses, lower real estate gains than in the prior year, and higher net finance costs.

### 5.1.2 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 9.3.1 in this MD&A for definitions and further information.

| (C\$ in millions)   |          |          |          | YTD        |            | Change   |
|---|----------|----------|----------|------------|------------|----------|
|   | Q3 2017  | Q3 2016  | Change   | Q3 2017    | Q3 2016    |          |
| Net income attributable to Shareholders of Canadian Tire Corporation  | \$ 176.6 | \$ 176.4 | 0.2%     | \$ 459.3   | \$ 422.3   | 8.8%     |
| Adjusted EBITDA <sup>1</sup>  | \$ 417.7 | \$ 402.7 | 3.8%     | \$ 1,135.3 | \$ 1,055.2 | 7.6%     |
| Selling, general and administrative expenses (excluding depreciation and amortization) as a % of revenue <sup>2</sup> | 21.3%    | 21.4%    | (10) bps | 22.3%      | 22.7%      | (40) bps |
| Adjusted EBITDA <sup>1</sup> as a % of revenue  | 12.6%    | 12.9%    | (22) bps | 12.0%      | 11.7%      | 32 bps   |

<sup>1</sup> Adjusted EBITDA is a non-GAAP measure; refer to section 9.3.2 in this MD&A for a reconciliation of Adjusted EBITDA to net income attributable to shareholders of Canadian Tire Corporation and additional information.

<sup>2</sup> Selling, general and administrative expenses exclude depreciation and amortization of \$117.7 million in Q3 2017 (2016 - \$109.4 million) and \$339.6 million Q3 YTD (2016 - \$327.7 million).

In the quarter, selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue decreased 10 basis points compared to the prior year. Excluding Petroleum revenue, selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue increased 10 basis points compared to the prior year. On a year-to-date basis, selling, general and administrative expense (excluding depreciation and amortization) as a percentage of revenue decreased 40 basis points. Excluding Petroleum revenue this measure decreased 21 basis points compared to the prior year as a result of revenue growth outpacing growth in expenses due to the strong performance of the Retail and Financial Services segments.

In the quarter Adjusted EBITDA increased while Adjusted EBITDA as a percentage of revenue decreased 22 basis points. Year to date Adjusted EBITDA and Adjusted EBITDA as a percentage of revenue increased compared to the prior year due to the strong performance in the Retail and Financial Services segments.

### 5.1.3 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 certain merchandise and the timing of marketing programs in the retail businesses. In the first quarter, retail revenue is approximately 20 percent of total annual revenue and retail earnings is typically less than five percent of the total annual earnings for the Retail segment. 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) | Q3 2017    | Q2 2017    | Q1 2017    | Q4 2016    | Q3 2016    | Q2 2016    | Q1 2016    | Q4 2015    |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Revenue                                     | \$ 3,303.9 | \$ 3,413.5 | \$ 2,753.5 | \$ 3,641.0 | \$ 3,128.4 | \$ 3,352.2 | \$ 2,559.4 | \$ 3,380.2 |
| Net income                                  | 198.5      | 217.0      | 107.9      | 265.1      | 197.8      | 199.0      | 85.6       | 241.5      |
| Basic EPS                                   | 2.59       | 2.82       | 1.24       | 3.47       | 2.45       | 2.47       | 0.90       | 3.02       |
| Diluted EPS                                 | 2.59       | 2.81       | 1.24       | 3.46       | 2.44       | 2.46       | 0.90       | 3.01       |

## 5.2 Retail segment performance

### 5.2.1 Retail segment financial results

| (C\$ in millions)                            |            |            |          | YTD         |            |          |
|--|------------|------------|----------|-------------|------------|----------|
|  | Q3 2017    | Q3 2016    | Change   | Q3 2017     | Q3 2016    | Change   |
| Retail sales <sup>1</sup>                    | \$ 3,701.1 | \$ 3,521.6 | 5.1 %    | \$ 10,381.4 | \$ 9,987.1 | 3.9 %    |
| Revenue                                      | \$ 2,978.5 | \$ 2,822.7 | 5.5 %    | \$ 8,515.8  | \$ 8,120.6 | 4.9 %    |
| Gross margin dollars                         | \$ 898.7   | \$ 863.6   | 4.1 %    | \$ 2,586.6  | \$ 2,479.4 | 4.3 %    |
| Gross margin as a % of revenue               | 30.2%      | 30.6%      | (42) bps | 30.4%       | 30.5%      | (16) bps |
| Other (income)                               | \$ (31.8)  | \$ (29.1)  | 9.1 %    | \$ (93.7)   | \$ (92.2)  | 1.5 %    |
| Selling, general and administrative expenses | 775.3      | 737.4      | 5.1 %    | 2,311.8     | 2,246.3    | 2.9 %    |
| Net finance (income)                         | (5.1)      | (6.9)      | (26.1)%  | (19.8)      | (30.6)     | (35.3)%  |
| Income before income taxes                   | \$ 160.3   | \$ 162.2   | (1.2)%   | \$ 388.3    | \$ 355.9   | 9.1 %    |

<sup>1</sup> Retail sales is a key operating performance measure. Refer to section 9.3.1 in this MD&A for additional information.

## 5.2.2 Retail segment key operating performance measures

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

| (Year-over-year percentage change, C\$ in millions, except as noted) | Q3 2017    | Q3 2016    | Change | YTD Q3 2017 | YTD Q3 2016 | Change |
|--|------------|------------|--------|-------------|-------------|--------|
| <b>Retail segment - total</b>  |            |            |        |             |             |        |
| Retail sales growth  | 5.1%       | 3.4 %      |        | 3.9%        | 2.6 %       |        |
| Consolidated same-store sales growth <sup>1</sup>                    | 3.9%       | 4.1 %      |        | 2.2%        | 3.4 %       |        |
| Revenue <sup>2</sup>   | \$ 2,978.5 | \$ 2,822.7 | 5.5 %  | \$ 8,515.8  | \$ 8,120.6  | 4.9 %  |
| Retail ROIC <sup>3</sup>   | 8.86%      | 8.15 %     |        | n/a         | n/a         |        |
| Income before income taxes   | \$ 160.3   | \$ 162.2   | (1.2)% | \$ 388.3    | \$ 355.9    | 9.1 %  |
| EBITDA <sup>4</sup>  | \$ 250.9   | \$ 246.0   | 2.0 %  | \$ 647.8    | \$ 598.9    | 8.1 %  |
| <b>Retail segment - by banner</b>                                    |            |            |        |             |             |        |
| <b>Canadian Tire</b>   |            |            |        |             |             |        |
| Retail sales growth <sup>5</sup>                                     | 5.3%       | 4.9 %      |        | 3.2%        | 4.0 %       |        |
| Same-store sales growth <sup>1, 5</sup>                              | 4.7%       | 3.5 %      |        | 2.3%        | 2.7 %       |        |
| Sales per square foot <sup>6</sup> (whole \$)                        | \$ 410     | \$ 409     | 0.2 %  | n/a         | n/a         |        |
| Revenue <sup>2, 7</sup>  | \$ 1,690.5 | \$ 1,612.5 | 4.8 %  | \$ 4,963.8  | \$ 4,773.4  | 4.0 %  |
| <b>FGL Sports</b>  |            |            |        |             |             |        |
| Retail sales growth <sup>8</sup>                                     | 0.5%       | 8.5 %      |        | 1.0%        | 7.2 %       |        |
| Same-store sales growth <sup>1, 8</sup>                              | 0.4%       | 6.2 %      |        | 0.2%        | 6.5 %       |        |
| Sales per square foot <sup>9</sup> (whole \$)                        | \$ 292     | \$ 298     | (2.0)% | n/a         | n/a         |        |
| Revenue <sup>2</sup>   | \$ 555.5   | \$ 534.8   | 3.9 %  | \$ 1,440.6  | \$ 1,416.0  | 1.7 %  |
| <b>Mark's</b>  |            |            |        |             |             |        |
| Retail sales growth <sup>10</sup>                                    | 5.2%       | 4.4 %      |        | 5.2%        | 3.1 %       |        |
| Same-store sales growth <sup>1, 10</sup>                             | 4.6%       | 4.3 %      |        | 4.6%        | 3.4 %       |        |
| Sales per square foot <sup>11</sup> (whole \$)                       | \$ 345     | \$ 325     | 6.2 %  | n/a         | n/a         |        |
| Revenue <sup>2, 12</sup>   | \$ 251.5   | \$ 238.1   | 5.6 %  | \$ 753.4    | \$ 711.7    | 5.9 %  |
| <b>Petroleum</b>   |            |            |        |             |             |        |
| Gasoline volume growth in litres                                     | 0.9%       | (0.4)%     |        | 0.4%        | (0.8)%      |        |
| Same-store gasoline volume growth in litres <sup>1</sup>             | 1.1%       | 0.0 %      |        | 0.4%        | (1.1)%      |        |
| Retail sales growth  | 10.0%      | (7.8)%     |        | 10.4%       | (7.3)%      |        |
| Revenue <sup>2</sup>   | \$ 477.2   | \$ 429.6   | 11.1 % | \$ 1,346.3  | \$ 1,209.0  | 11.4 % |
| Gross margin dollars   | \$ 49.5    | \$ 48.9    | 1.1 %  | \$ 135.3    | \$ 135.8    | (0.4)% |

<sup>1</sup> Refer to section 9.3.1 in this MD&A for additional information on same-store sales growth.

<sup>2</sup> Revenue reported for Canadian Tire, FGL Sports, Mark's, and Petroleum includes intersegment revenue. FGL Sports revenue has been restated for the 13 and 39 weeks ended October 1, 2016 to exclude revenue from its business-to-business operation. Therefore, in aggregate revenue for Canadian Tire, FGL Sports, Mark's, and Petroleum will not equal total revenue for the Retail segment.

<sup>3</sup> Retail ROIC is calculated on a rolling 12-month basis. Refer to section 9.3.1 in this MD&A for additional information.

<sup>4</sup> EBITDA is a non-GAAP measure. Refer to section 9.3.2 in this MD&A for a reconciliation of EBITDA to income before income taxes and additional information.

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

<sup>6</sup> 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.

<sup>7</sup> Revenue includes revenue from Canadian Tire, PartSource, and Franchise Trust.

<sup>8</sup> Retail sales growth includes sales from both corporate and franchise stores.

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

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

<sup>11</sup> 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.

<sup>12</sup> Revenue includes sale of goods to Mark's franchise stores, retail sales from Mark's corporate stores, Mark's wholesale revenue from its commercial division, and includes ancillary revenue relating to embroidery and alteration services.

## 5.2.3 Retail banner network at a glance

| Number of stores and retail square footage                          | September 30, 2017 | October 1, 2016 | December 31, 2016 |
|---|--------------------|-----------------|-------------------|
| <b>Consolidated store count</b>                                     |                    |                 |                   |
| Canadian Tire stores <sup>1</sup>                                   |                    |                 |                   |
| Smart stores  | 408                | 407             | 420               |
| Traditional stores  | 35                 | 34              | 31                |
| Updated and expanded stores   | 31                 | 31              | 22                |
| Small market stores   | 25                 | 25              | 25                |
| Other   | 2                  | 2               | 2                 |
| <b>Total Canadian Tire stores</b>                                   | <b>501</b>         | 499             | 500               |
| PartSource stores   | 90                 | 91              | 91                |
| FGL Sports stores   |                    |                 |                   |
| Sport Chek  | 195                | 192             | 196               |
| Sports Experts  | 69                 | 72              | 68                |
| Atmosphere  | 68                 | 67              | 69                |
| Other   | 98                 | 98              | 100               |
| <b>Total FGL Sports stores</b>                                      | <b>430</b>         | 429             | 433               |
| Mark's stores <sup>1</sup>  |                    |                 |                   |
| Mark's  | 333                | 325             | 330               |
| L'Équipeur  | 46                 | 45              | 45                |
| Mark's Work Wearhouse   | 6                  | 12              | 7                 |
| <b>Total Mark's stores</b>  | <b>385</b>         | 382             | 382               |
| Canadian Tire gas bar locations                                     | 296                | 296             | 296               |
| <b>Total stores<sup>2</sup></b>                                     | <b>1,702</b>       | 1,697           | 1,702             |
| <b>Consolidated retail square footage<sup>3</sup> (in millions)</b> |                    |                 |                   |
| Canadian Tire   | 21.4               | 21.3            | 21.6              |
| FGL Sports  | 7.7                | 7.5             | 7.7               |
| Mark's  | 3.6                | 3.5             | 3.6               |
| PartSource  | 0.3                | 0.3             | 0.3               |
| <b>Total retail square footage<sup>3</sup></b>                      | <b>33.0</b>        | 32.6            | 33.2              |

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

<sup>2</sup> Store count does not include the retail locations acquired as part of the acquisition of the Canadian rights to the Paderno brand.

<sup>3</sup> The retail square footage excludes Petroleum's convenience store rental space.

## Retail segment third-quarter 2017 versus third-quarter 2016

### Earnings summary

Income before income taxes decreased \$1.9 million, or 1.2 percent. Solid revenue and gross margin growth across the Retail segment banners was more than offset by increased selling, general and administrative expenses, which reflected property tax refunds received in the prior year, costs relating to operating the new Bolton DC and increased investment by the Company to support its strategic initiatives in the current year.

### Retail sales

Canadian Tire retail sales increased 5.3 percent (same-store sales increased 4.7 percent). The increase in retail sales reflects consistently strong performance throughout the quarter in non-seasonal categories including automotive and fixing and strong customer demand in the spring/summer categories particularly through July and August. The positive trend of sales growth of owned brands such as Noma, Master Chef, and Canvas continued this quarter.

FGL Sports retail sales increased 0.5 percent (same-store sales increased 0.4 percent) due to solid growth in hard goods, casual apparel and footwear categories which was partially offset by softness in athletic clothing. Prior year sales benefited from strong licensed and Olympic-themed apparel which were boosted by the success of the Blue Jays, the Rio Olympics and the World Cup of Hockey. eCommerce continued to contribute to sales growth.

Retail sales at Mark's increased 5.2 percent (same-store sales increased 4.6 percent). The increase in retail sales was driven by growth in footwear, industrial apparel, and jeans. eCommerce continued to contribute to sales growth.

Petroleum retail sales increased 10.0 percent primarily due to an increase in year-over-year per litre gas prices.

### **Revenue**

Revenue increased \$155.8 million, or 5.5 percent, compared to the prior year, excluding the impact of Petroleum which increased 11.1 percent, Retail segment revenue increased 4.5 percent. Revenue growth in the quarter was driven by increased product shipments to Dealers, retail sales growth at Mark's, and increased revenue at FGL Sports due to growth in franchise revenues and higher retail sales.

### **Gross margin**

Gross margin dollars increased \$35.1 million, or 4.1 percent, reflecting an increase in revenue. The gross margin rate decreased 42 basis points; excluding Petroleum the gross margin rate was flat. Operational efficiencies which continued to contribute to margin expansion were offset by the impact of promotional activity at FGL Sports, the timing of sharing enterprise gross margin with the Dealers, and incremental product costs due to foreign exchange, which while still a headwind was less than the prior year.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses increased \$37.9 million, or 5.1 percent, primarily due to:

- higher occupancy expense due to higher than typical property tax refunds received in 2016;
- execution of planned investment in the Company's strategic initiatives, which resulted in higher information systems and personnel costs;
- higher marketing and advertising expenses at FGL Sports; and
- increased costs relating to operating the newly opened Bolton DC;

partially offset by:

- prior year severance costs; and
- sponsorship and marketing costs relating to the Rio Olympics and the World Cup of Hockey in 2016.

### **Net finance income**

Net finance income decreased \$1.8 million primarily due to lower capitalized interest expense relating to the Bolton DC.

### **Retail segment year-to-date 2017 versus year-to-date 2016**

Retail sales on a year-to-date basis increased 3.9 percent. Petroleum retail sales increased 10.4 percent, primarily resulting from higher year-over-year gas prices. Excluding Petroleum, retail sales grew 2.9 percent driven by both seasonal and non-seasonal categories at Canadian Tire and Mark's, as well as owned brands at Canadian Tire. In addition, retail sales growth at FGL Sports reflects successful promotional events and continued increases in eCommerce sales. Revenue increased by 4.9 percent compared to the prior year. Excluding the impact of Petroleum, which increased 11.4 percent, Retail segment revenue increased 3.7 percent primarily attributable to the increased retail sales at Mark's and increased shipments to Canadian Tire Dealers.

Income before income taxes increased \$32.4 million, or 9.1 percent. This increase is primarily attributable to strong revenue growth and improved gross margin rate at Canadian Tire. These positive impacts to earnings performance more than offset increased selling, general and administrative expenses and lower net finance income.

## 5.2.4 Retail segment business risks

The Retail segment is exposed to a number of risks in the normal course of business that have the potential to affect its operating performance. These include, but are not limited to, supply chain disruption, seasonality, environmental, commodity price, market obsolescence and global sourcing risks. Refer to section 7.2.4 of the MD&A contained in the Company's 2016 Report to Shareholders for a discussion of these business-specific risks. Also refer to section 12.2 of the MD&A contained in the Company's 2016 Report to Shareholders for a discussion of other industry-wide and Company-wide risks affecting the business.

## 5.3 CT REIT segment performance

### 5.3.1 CT REIT segment financial results

| (C\$ in millions)                  |          |          |         | YTD      |          |        |
|------------------------------------|----------|----------|---------|----------|----------|--------|
|                                    | Q3 2017  | Q3 2016  | Change  | Q3 2017  | Q3 2016  | Change |
| Property revenue                   | \$ 109.3 | \$ 102.9 | 6.2 %   | \$ 332.0 | \$ 302.9 | 9.6%   |
| Property expense                   | 22.7     | 24.2     | (6.2)%  | 74.6     | 71.9     | 3.8%   |
| General and administrative expense | 2.1      | 2.0      | 10.9 %  | 8.2      | 7.9      | 6.2%   |
| Net finance costs                  | 24.4     | 20.2     | 20.3 %  | 72.0     | 65.2     | 10.2%  |
| Fair value (gain) adjustment       | (10.5)   | (15.6)   | (32.8)% | (43.0)   | (35.7)   | 20.5%  |
| Income before income taxes         | \$ 70.6  | \$ 72.1  | (2.2)%  | \$ 220.2 | \$ 193.6 | 13.7%  |

### CT REIT segment key operating performance measures

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

| (C\$ in millions)                           |         |         |        | YTD      |          |        |
|---|---------|---------|--------|----------|----------|--------|
|   | Q3 2017 | Q3 2016 | Change | Q3 2017  | Q3 2016  | Change |
| Net operating income <sup>1</sup>           | \$ 80.9 | \$ 72.8 | 11.1%  | \$ 240.3 | \$ 213.4 | 12.6%  |
| Funds from operations <sup>1</sup>          | 59.7    | 56.5    | 5.7%   | 177.2    | 158.1    | 12.1%  |
| Adjusted funds from operations <sup>1</sup> | \$ 48.9 | \$ 45.9 | 6.5%   | \$ 144.7 | \$ 126.8 | 14.2%  |

<sup>1</sup> Non-GAAP measures, refer to section 9.3.2 in this MD&A for additional information.

## CT REIT segment third-quarter 2017 versus third-quarter 2016

### Earnings summary

Income before income taxes decreased by \$1.5 million, or 2.2 percent, primarily due to a decrease of \$5.1 million in the fair market value gain over the prior year and increased interest expense, partially offset by the income generated from properties acquired and intensification activities completed during 2017 and 2016.

### Property revenue

Property revenue consists of base rent as well as operating cost and property tax recoveries. Property revenue increased by \$6.4 million, or 6.2 percent, primarily due to higher base rent relating to properties acquired and intensification activities completed during 2017 and 2016.

Of the \$109.3 million in property revenue received, \$100.7 million was from CTC. The property revenue received from CTC was 4.8 percent higher than the prior year of \$96.1 million.

### Property expense

Property expense for the quarter was \$22.7 million, a decrease of \$1.5 million or 6.2 percent over the prior year, primarily due to reduced property taxes, partially offset by costs relating to properties acquired in 2017 and 2016. The majority of the property expense costs are recoverable from tenants, with CT REIT absorbing these expenses to the extent that vacancies exist. Property expense consists primarily of property taxes, other recoverable operating expenses, property management expenses (including the outsourcing of property management services pursuant to the Property Management Agreement between CT REIT and CTC), and ground rent.

### **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 the prior year with higher personnel costs being offset by decreased outsourced costs provided by CTC pursuant to the Services Agreement.

### **Net finance costs**

Net finance costs consist of distributions on the Class C LP Units held by CTC, mortgage and debenture interest, bank credit facility interest expense, capitalized interest, and the amortization of financing costs. Net financed costs increased \$4.2 million primarily due to lower capitalized interest expense relating to the Bolton DC and higher interest expense from the issuance of Series E debentures in June 2017, partially offset by the redemption of Series 10-15 Class C LP Units in May 2017.

### **Net operating income**

NOI was \$80.9 million, an increase of \$8.1 million, or 11.1 percent, primarily due to property acquisitions completed in 2017 and 2016. NOI is a non-GAAP measure. Refer to section 9.3.2 for additional information.

### **Funds from operations and adjusted funds from operations**

FFO and AFFO for the quarter were \$59.7 million and \$48.9 million, respectively. FFO and AFFO were higher compared to the prior year by \$3.2 million and \$3.0 million, respectively, primarily due to property acquisitions completed in 2017 and 2016, partially offset by higher interest expense. FFO and AFFO are non-GAAP measures. Refer to section 9.3.2 for additional information.

### **CT REIT segment year-to-date 2017 versus year-to-date 2016**

Property revenue was \$332.0 million, of which \$306.7 million was received from CTC. Property expense was \$74.6 million, of which the majority of the costs are recoverable from tenants. Property revenue and property expense increased 9.6 percent and 3.8 percent, respectively, primarily due to property acquisitions and intensification activities completed during 2017 and 2016.

NOI was \$240.3 million and FFO and AFFO were \$177.2 million and \$144.7 million, respectively. NOI, FFO and AFFO increased \$26.9 million, \$19.1 million and \$17.9 million, respectively, primarily due to property acquisitions completed in 2017 and 2016, partially offset by higher interest expense. FFO and AFFO are non-GAAP measures. Refer to section 9.3.2 for additional information.

### **5.3.2 CT REIT segment business risks**

CT REIT is exposed to a number of risks in the normal course of business that have the potential to affect its operating performance. These include, but are not limited to, financial risks, real property ownership and tenant risks, and tax-related risks. Refer to section 7.3.2 of the MD&A contained in the Company's 2016 Report to Shareholders for a discussion of these business-specific risks and to section 12.2 of the MD&A contained in the Company's 2016 Report to Shareholders for a discussion of industry-wide and Company-wide risks affecting the business. Also refer to section 4 in CT REIT's Annual Information Form and section 11 - Enterprise Risk Management in CT REIT's MD&A for the year ended December 31, 2016, which are not incorporated herein by reference, for further discussion of risks that affect CT REIT's operations.

## 5.4 Financial Services segment performance

### 5.4.1 Financial Services segment financial results

| (C\$ in millions)                            |          |          |          | YTD      |          | Change   |
|--|----------|----------|----------|----------|----------|----------|
|  | Q3 2017  | Q3 2016  | Change   | Q3 2017  | Q3 2016  |          |
| Revenue                                      | \$ 294.6 | \$ 278.3 | 5.9 %    | \$ 863.9 | \$ 837.6 | 3.1 %    |
| Gross margin dollars                         | 176.4    | 168.0    | 5.0 %    | 524.9    | 496.5    | 5.7 %    |
| Gross margin (% of revenue)                  | 59.9%    | 60.3%    | (48) bps | 60.8%    | 59.3%    | 148 bps  |
| Other (income) expense                       | (0.1)    | 0.3      | (135.1)% | (0.1)    | 0.1      | (348.8)% |
| Selling, general and administrative expenses | 76.5     | 71.7     | 6.7 %    | 226.4    | 217.1    | 4.3 %    |
| Net finance (income)                         | (0.2)    | (0.1)    | 48.6 %   | (0.4)    | (0.5)    | (23.7)%  |
| Income before income taxes                   | \$ 100.2 | \$ 96.1  | 4.3 %    | \$ 299.0 | \$ 279.8 | 6.9 %    |

### 5.4.2 Financial Services segment key operating performance measures

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

| (C\$ in millions)  |            |            |        | YTD        |            | Change |
|--|------------|------------|--------|------------|------------|--------|
|  | Q3 2017    | Q3 2016    | Change | Q3 2017    | Q3 2016    |        |
| Credit card sales growth <sup>1</sup>                              | 7.6%       | 1.7%       |        | 7.8%       | 2.1%       |        |
| Gross average accounts receivable (GAAR)                           | \$ 5,313.8 | \$ 4,921.5 | 8.0%   | \$ 5,199.0 | \$ 4,866.8 | 6.8%   |
| Revenue <sup>2</sup> (as a % of GAAR)                              | 21.98%     | 22.68%     |        | n/a        | n/a        |        |
| Average number of accounts with a balance <sup>3</sup> (thousands) | 1,918      | 1,840      | 4.2%   | 1,876      | 1,821      | 3.0%   |
| Average account balance <sup>3</sup> (whole \$)                    | \$ 2,769   | \$ 2,673   | 3.6%   | \$ 2,769   | \$ 2,670   | 3.7%   |
| Net credit card write-off rate <sup>2,3</sup>                      | 5.50%      | 6.06%      |        | n/a        | n/a        |        |
| Past due credit card receivables <sup>3,4</sup> (PD2+)             | 2.53%      | 2.78%      |        | n/a        | n/a        |        |
| Allowance rate <sup>5</sup>  | 1.97%      | 2.18%      |        | n/a        | n/a        |        |
| Operating expenses <sup>2</sup> (as a % of GAAR)                   | 5.87%      | 5.88%      |        | n/a        | n/a        |        |
| Return on receivables <sup>2</sup>                                 | 7.45%      | 7.40%      |        | n/a        | n/a        |        |

<sup>1</sup> Credit card sales growth excludes balance transfers.

<sup>2</sup> Figures are calculated on a rolling 12-month basis.

<sup>3</sup> Credit card portfolio only.

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

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

### Financial Services segment third-quarter 2017 versus third-quarter 2016

#### Earnings summary

Income before income taxes of \$100.2 million increased \$4.1 million, or 4.3 percent, primarily due to an increase in revenue, which was partially offset by an increase in the incremental allowance for future write-offs and increased selling, general and administrative expenses.

GAAR increased 8.0 percent driven by increased average account balances and a higher number of average active accounts compared to the prior year. The continued increase in the average number of active accounts reflects positive results from the Company's initiatives to stimulate receivables growth and the continued focus on integration initiatives with the retail businesses.

#### Revenue

Revenue increased \$16.3 million, or 5.9 percent, due to higher credit card charges resulting from increased GAAR. This was partially offset by increased loyalty costs due to increased card sales.

## Gross margin

Gross margin dollars increased 5.0 percent primarily due to the increase in revenue, partially offset by an increase in the incremental allowance for future write-offs and increased interest expense as a result of continued GAAR growth.

## Selling, general and administrative expenses

Selling, general and administrative expenses increased \$4.8 million, or 6.7 percent, primarily due to higher marketing costs to support the Company's digital strategy and increased costs for credit card operations.

## Financial Services segment year-to-date 2017 versus year-to-date 2016

Revenue increased \$26.3 million, or 3.1 percent, compared to the prior year due to increased credit card charges as a result of increased GAAR, which were partially offset by lower insurance revenue, increased loyalty expenses, and the impact relating to a change in Management's estimate of the amortization period for loan acquisition costs which benefited revenue in the prior year.

Income before income taxes of \$299.0 million increased \$19.2 million, or 6.9 percent, primarily due to strong revenue growth, which was partially offset by increased personnel expense, marketing costs, and costs for credit card operations.

### 5.4.3 Financial Services segment business risks

The Financial Services segment is exposed to a number of risks in the normal course of business that have the potential to affect its operating performance. These include, but are not limited to, consumer credit risk, securitization funding risk, interest rate, and regulatory risk. Refer to sections 7.4.3 of the MD&A contained in the Company's 2016 Report to Shareholders for a discussion of these business-specific risks. Also refer to section 12.2 in the MD&A contained in the Company's 2016 Report to Shareholders for a discussion of additional industry-wide and Company-wide risks.

## 6.0 Balance sheet analysis, liquidity, and capital resources

### 6.1 Selected balance sheet highlights

Selected line items from the Company's assets, liabilities, and shareholders' equity as at September 30, 2017, October 1, 2016, and December 31, 2016 are noted below:

| (C\$ in millions)                 | September 30, 2017 | October 1, 2016 | December 31, 2016 |
|-----------------------------------|--------------------|-----------------|-------------------|
| <b>Assets</b>                     |                    |                 |                   |
| Cash and cash equivalents         | \$ 653.4           | \$ 300.2        | \$ 829.7          |
| Trade and other receivables       | 810.4              | 883.4           | 690.8             |
| Loans receivable                  | 5,295.7            | 4,868.9         | 5,138.4           |
| Merchandise inventories           | 2,280.9            | 2,206.8         | 1,710.7           |
| Investment property               | 293.8              | 232.5           | 266.4             |
| <b>Total assets</b>               | <b>16,078.9</b>    | <b>15,254.1</b> | <b>15,302.8</b>   |
| <b>Liabilities</b>                |                    |                 |                   |
| Bank indebtedness                 | \$ —               | \$ 38.5         | \$ 5.9            |
| Deposits                          | 994.1              | 901.8           | 950.7             |
| Trade and other payables          | 2,172.7            | 2,054.9         | 1,856.9           |
| Short-term borrowings             | 228.1              | 106.3           | 199.4             |
| Current portion of long-term debt | 456.7              | 231.2           | 653.4             |
| Long-term debt                    | 3,377.5            | 3,094.0         | 2,667.1           |
| Long-term deposits                | 1,374.5            | 1,272.5         | 1,230.8           |
| <b>Total liabilities</b>          | <b>10,575.1</b>    | <b>9,663.7</b>  | <b>9,565.5</b>    |

The year-over-year increase in total assets of \$824.8 million was primarily due to:

- an increase in loans receivable of \$426.8 million largely relating to GAAR growth in the Financial Services segment;
- an increase in cash and cash equivalents, net of bank indebtedness, of \$391.7 million (refer to Summary cash flows in section 6.2 of this MD&A);
- an increase in merchandise inventories of \$74.1 million driven by increased inventory at Canadian Tire to support sales in the fall and winter seasons, partially offset by a decrease in inventory at FGL Sports; and
- an increase in investment property of \$61.3 million primarily due to CT REIT's acquisitions of a multi-tenanted property in British Columbia in Q4 2016 and 12 single tenant free standing buildings, occupied by CIBC branches, in Q3 2017;

partially offset by:

- a decrease in trade and other receivables of \$73.0 million due to the timing of payments relating to the Company's Dealer cost and margin sharing arrangement, a decrease in the fair value of derivative assets arising from less favourable valuation of the foreign exchange portfolios and a decrease in mortgage receivables due to timing of payments, partially offset by an increase at FGL Sports driven by the timing of franchisee payments.

The year-over-year increase in total liabilities of \$911.4 million was primarily due to:

- a net increase in debt (current portion and long-term) of \$509.0 million primarily due to the issuance of \$560 million of Series 2017-1 term notes at Financial Services in June 2017 and the issuance of \$175 million senior debentures at CT REIT in June 2017, offset by the maturity of \$211.6 million senior and subordinated notes in Financial Services in May 2017;
- a net increase in deposits (current portion and long-term) of \$194.3 million due to an increase in GIC deposits, partially offset by a lower volume of high interest savings accounts in the Financial Services segment;
- an increase in short-term borrowings of \$121.8 million driven by drawings on the Company's line of credit facility; and
- an increase in trade and other payables of \$117.8 million caused by an increase in the fair value of derivative liabilities arising from less favourable valuation of the foreign exchange portfolios, higher accruals for shared-based payments, and the timing of payments across all retail banners.

Total assets increased \$776.1 million compared to December 31, 2016 primarily due to an increase in merchandise inventories driven by a build-up of seasonal inventory for the winter season across all retail banners. The increase was further driven by a higher number of active accounts and higher average account balances in the Financial Services segment, as well as an increase in trade and other receivables from a higher level of shipments to Canadian Tire and FGL Sports as the stores prepare for the winter season. Partially offsetting these increases was a decrease in cash and cash equivalents, net of bank indebtedness (for details refer to the Summary of cash flows in section 6.2 of this MD&A) and a decrease in derivative assets due to less favourable valuation of the foreign exchange and equity hedge portfolios.

Total liabilities increased \$1,009.6 million compared to December 31, 2016 primarily due to a net increase in long-term debt as a result of the reasons noted above, an increase in trade and other payables due to higher inventory purchases in preparation for the winter season and higher derivative liabilities. This was partially offset by a decrease in accrued liabilities relating to gift cards and consulting fees. Net increase in deposits is due to an increase in GICs deposits, partially offset by a lower volume of high interest savings accounts in the Financial Services segment.

For the complete balance sheet, refer to the Condensed Interim Consolidated Balance Sheets included in the condensed interim consolidated financial statements for the third quarter of 2017.

## 6.2 Summary cash flows

The Company's cash and cash equivalents position, net of bank indebtedness, was \$653.4 million at September 30, 2017.

The Company's Condensed Interim Consolidated Statements of Cash Flows for the periods ending September 30, 2017 and October 1, 2016 are noted in the following table:

| (C\$ in millions)   | Q3 2017   | Q3 2016    | Change    | YTD<br>Q3 2017 | YTD<br>Q3 2016 | Change   |
|---|-----------|------------|-----------|----------------|----------------|----------|
| Cash generated from operating activities before the undernoted item             | \$ 64.4   | \$ 108.0   | \$ (43.6) | \$ 295.6       | \$ 259.1       | \$ 36.5  |
| Change in loans receivable  | (45.2)    | (5.4)      | (39.8)    | (159.9)        | (46.8)         | (113.1)  |
| Cash generated from operating activities  | 19.2      | 102.6      | (83.4)    | 135.7          | 212.3          | (76.6)   |
| Cash (used for) generated from investing activities before the undernoted items | (26.0)    | 2.0        | (28.0)    | (49.7)         | (15.4)         | (34.3)   |
| Change in short-term investments  | 231.7     | 72.4       | 159.3     | 5.9            | (40.5)         | 46.4     |
| Additions to property and equipment, investment property and intangibles        | (144.6)   | (154.7)    | 10.1      | (338.9)        | (596.6)        | 257.7    |
| Cash generated from (used for) investing activities                             | 61.1      | (80.3)     | 141.4     | (382.7)        | (652.5)        | 269.8    |
| Cash (used for) financing activities before the undernoted items                | (93.0)    | (86.0)     | (7.0)     | (170.4)        | (130.2)        | (40.2)   |
| Change in long-term debt and short-term borrowings                              | 134.2     | (2.8)      | 137.0     | 540.3          | 345.6          | 194.7    |
| Repurchase of share capital   | (153.7)   | (113.6)    | (40.1)    | (478.0)        | (332.8)        | (145.2)  |
| Change in deposits  | (3.7)     | (81.7)     | 78.0      | 184.7          | (81.3)         | 266.0    |
| Cash (used for) generated from financing activities                             | (116.2)   | (284.1)    | 167.9     | 76.6           | (198.7)        | 275.3    |
| Cash (used) in the period   | \$ (35.9) | \$ (261.8) | \$ 225.9  | \$ (170.4)     | \$ (638.9)     | \$ 468.5 |

The Company's cash used in the quarter decreased to \$35.9 million from \$261.8 million in the prior year. The \$225.9 million decrease in cash used was primarily due to:

- the maturity of approximately \$160.4 million in short-term investments;
- short-term borrowings of \$137.0 million due to drawings on the Company's credit facility; and
- an increase of \$78.0 million in GIC deposits in the Financial Services segment;

partially offset by:

- a \$40.1 million increase in payments in connection with the Company's share repurchase plan; and
- an increase of \$39.8 million in loans receivable as a result of the growth in the credit card portfolio.

On a year-to-date basis, the Company's cash used decreased to \$170.4 million from \$638.9 million in the prior year. The \$468.5 million decrease in cash used was primarily due to:

- an increase of \$266.0 million relating to GIC deposits in the Financial Services segment;
- a \$257.7 million decrease in additions to property and equipment, investment property, and intangibles due to fewer third-party acquisitions by CT REIT over the same period in 2016, as well as lower spending on real estate and the Bolton DC compared to the prior year;
- an increase of \$194.7 million from the issuance of Series 2017-1 term notes by Glacier, partially offset by the repayment of senior and subordinated notes and a year-over-year decrease in debenture issuances by CT REIT; and
- an increase of \$46.4 million in short-term investments;

partially offset by:

- a \$145.2 million increase in payments in connection with the Company's share repurchase plan; and
- an increase of \$113.1 million in loans receivable as a result of the growth in the credit card portfolio.

## 6.3 Capital management

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

### 6.3.1 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.

### 6.3.2 Capital under management

The definition of capital varies from company to company, from industry to industry, and for different purposes. The Company's definition of capital is the same as that detailed in Note 4 of the consolidated financial statements contained in the Company's 2016 Report to Shareholders, which includes Glacier Credit Card Trust ("GCCT" or "Glacier") indebtedness but excludes Franchise Trust indebtedness.

The Company monitors its capital structure by measuring debt-to-earnings ratios and manages its debt service and other fixed obligations by tracking its interest and other coverage ratios, and forecasting corporate liquidity. As part of this process, Management calculates and monitors its consolidated adjusted net debt metric. A reconciliation of the Company's adjusted net debt as at September 30, 2017 to reported GAAP measures is provided in section 9.3.2 of this MD&A.

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.

The Company was in compliance with all financial covenants under its existing debt agreements as at September 30, 2017 and October 1, 2016. Under these covenants, the Company has sufficient flexibility to support business growth. CT REIT was in compliance with all financial covenants established under its Trust Indenture, bank credit agreement, and the Declaration of Trust as at September 30, 2017 and October 1, 2016. In addition, the Company was in compliance with all regulatory capital guidelines established by the Office of the Superintendent of Financial Institutions of Canada and its Internal Capital Adequacy Assessment Process associated with the operations of CTB, a federally chartered bank and complied with all financial covenants under its credit facilities.

### 6.4 Capital expenditures

The Company's capital expenditures for the periods ended September 30, 2017 and October 1, 2016 were as follows:

| (C\$ in millions)  | Q3 2017         | Q3 2016  | YTD<br>Q3 2017  | YTD<br>Q3 2016 |
|--|-----------------|----------|-----------------|----------------|
| Real estate  | \$ 46.0         | \$ 87.3  | \$ 100.3        | \$ 197.4       |
| Information technology   | 38.9            | 47.9     | 111.3           | 136.3          |
| Other operating  | 14.3            | 11.6     | 26.4            | 26.3           |
| <b>Operating capital expenditures</b>  | <b>99.2</b>     | 146.8    | <b>238.0</b>    | 360.0          |
| CT REIT acquisitions and developments excluding vend-ins from CTC <sup>1</sup> | 41.6            | 13.7     | 55.3            | 131.9          |
| Distribution capacity  | 4.7             | 25.4     | 33.2            | 93.1           |
| <b>Total capital expenditures<sup>2</sup></b>                                  | <b>\$ 145.5</b> | \$ 185.9 | <b>\$ 326.5</b> | \$ 585.0       |

<sup>1</sup> CT REIT capital expenditures include the construction of stores under Mark's and FGL Sports banners of \$0.2 million in Q3 2017 (2016 – \$1.0 million) and \$1.0 million Q3 YTD 2017 (2016 – \$1.4 million).

<sup>2</sup> Capital expenditures are presented on an accrual basis and include software additions, but exclude acquisitions relating to business combinations and intellectual properties.

Total capital expenditures decreased \$40.4 million in Q3 2017 compared to Q3 2016 primarily due to a reduction in real estate spending as a result of fewer projects this year compared to the prior year and decreased spending on distribution capacity as the Bolton DC is now fully operational, partially offset by CT REIT's acquisition of 12 single tenant free standing buildings that are occupied by CIBC branches.

Total year-to-date capital expenditures decreased by \$258.5 million year-over-year primarily due to lower spending on real estate, CT REIT acquisitions and distribution capacity as discussed above. Real estate spending was \$97.1 million lower, as the prior year included spending relating to the conversion of five former Target locations to Canadian Tire stores and additional stores built for FGL Sports in 2016. The investments from CT REIT third-party acquisitions were \$76.6 million lower due to the acquisition of the Sears Canada Distribution Centre in the second quarter of 2016 for \$84.0 million.

### **Capital commitments**

The Company had commitments of approximately \$61.2 million as at September 30, 2017 (2016 – \$99.4 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 (2017)**

As previously announced, the Company expects its three-year average annual operating capital expenditures to be within the range of \$450 million to \$500 million from 2015 to 2017. This forecast excludes spending for operational efficiency initiatives that may be identified.

For fiscal 2017, the Company expects annual operating capital expenditures to be at the low end of the previously disclosed range of \$400 million to \$425 million.

#### **Distribution capacity capital expenditures (2017)**

For fiscal 2017, the Company expects capital expenditures required for distribution capacity to be at the high end of the previously disclosed range of \$25 million to \$50 million, which include expenditures required to bring the Bolton DC into active service.

#### **Operating capital expenditures (2018)**

The Company expects 2018 annual and 2018 to 2020 three-year average annual operating capital expenditure to be within the range of \$450 million to \$500 million. This forecast excludes spending for operational efficiency initiatives that may be identified.

The annual and average annual operating capital expenditures outlined above do not include spending related 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 efficiency.

### **6.5 Business acquisition**

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

On July 14, 2017, the Company completed the acquisition of Padinox Inc., the company that owned the Canadian rights to the Paderno brand, for cash consideration of \$19.3 million. The fair value of the net assets acquired approximates the total consideration transferred.

### **6.6 Liquidity and financing**

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

#### **Committed bank lines of credit**

On July 7, 2017, the term of Canadian Tire Corporation's committed bank line of credit was extended to July 2022. As at September 30, 2017, the Company had \$125.0 million of borrowings outstanding under its bank line of credit.

On September 27, 2017, CT REIT extended its bank credit facility totaling \$300 million to September 2022. As at September 30, 2017, CT REIT had \$1.8 million of letters of credit and \$13.0 million of borrowings outstanding under its bank line of credit. The Company had no other borrowings outstanding under its bank lines of credit.

Subsequent to September 30, 2017, CTB extended the term of its committed bank line of credit totaling \$250 million to October 2020 and extended the terms of its committed note purchase facilities, for purchase of up to \$2 billion of senior and subordinated notes issued by GCCT, to October 2020. As at September 30, 2017, CTB had no borrowings outstanding under either of these funding facilities.

### ***Short form base-shelf prospectuses***

On April 5, 2017, CT REIT renewed its short form base-shelf prospectus under which a total of \$2.0 billion of debt and equity capital can be issued.

On May 19, 2017, GCCT renewed its short form base-shelf prospectus under which it can issue up to \$2.0 billion of credit card asset-backed debt.

### ***Debentures***

On June 16, 2017, CT REIT completed the issuance of \$175 million 3.469 percent Series E senior unsecured debentures due June 16, 2027. The debenture issuance was made under CT REIT's short form base-shelf prospectus dated April 5, 2017 and prospectus supplement dated June 13, 2017.

### ***Securitization of receivables***

On June 1, 2017, under its short form base-shelf prospectus dated May 19, 2017 and pricing supplement No. 1 dated May 25, 2017, GCCT completed the issuance of \$560 million of Series 2017-1 term notes that have an expected repayment date of September 20, 2022, consisting of \$523.6 million principal amount of senior notes that bear an interest rate of 2.048 percent per annum and \$36.4 million principal amount of subordinated notes that bear an interest rate of 3.298 percent per annum.

As at September 30, 2017, Glacier had \$90.3 million of asset-backed commercial paper outstanding. In support of the program, on July 7, 2017 the term of GCCT's \$300 million liquidity facility, which provides backstop protection to its Series 1997-1 asset-backed commercial paper program, was extended to July 2020.

Additional details on the Company's sources of funding, credit ratings, and a description of credit market conditions are provided in section 8.5 of the MD&A contained in the Company's 2016 Report to Shareholders.

#### **6.6.1 Contractual obligations, guarantees, and commitments**

The Company funds capital expenditures, working capital needs, dividend payments, and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under a normal course issuer bid ("NCIB") program, from a combination of sources. In addition, the Company has a number of obligations relating to finance leases, operating leases, and purchase obligations. For a description of contractual obligations as at December 31, 2016, refer to section 8.5.1.1 of the MD&A contained in the Company's 2016 Report to Shareholders. There were no significant changes to the outstanding contractual obligations identified at year end, other than those discussed in this document. The Company believes it has sufficient liquidity available to meet its contractual obligations as at September 30, 2017.

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 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 consolidated financial statements contained in the Company's 2016 Report to Shareholders. The Company's maximum exposure to credit risk with respect to such guarantees and commitments is provided in Note 5 to the consolidated financial statements contained in the Company's 2016 Report to Shareholders. There were no significant changes in guarantees and commitments identified at year end, other than those discussed in this document.

## 7.0 Equity

### 7.1 Shares outstanding

| (C\$ in millions)   | September 30, 2017 | October 1, 2016 | December 31, 2016 |
|---|--------------------|-----------------|-------------------|
| <b>Authorized</b>   |                    |                 |                   |
| 3,423,366 Common Shares   |                    |                 |                   |
| 100,000,000 Class A Non-Voting Shares   |                    |                 |                   |
| <b>Issued</b>   |                    |                 |                   |
| 3,423,366 Common Shares (October 1, 2016 - 3,423,366; December 31, 2016 - 3,423,366)                | \$ 0.2             | \$ 0.2          | \$ 0.2            |
| 64,141,483 Class A Non-Voting Shares (October 1, 2016 - 68,132,860; December 31, 2016 - 67,323,781) | 623.9              | 653.7           | 647.9             |
|   | \$ 624.1           | \$ 653.9        | \$ 648.1          |

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

On November 10, 2016, the Company announced its intention to repurchase \$550 million of its Class A Non-Voting Shares by the end of 2017, in excess of the number of shares required to be purchased for anti-dilutive purposes. On February 23, 2017, 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 from March 2, 2017 through March 1, 2018, representing approximately 9.4 percent of the Class A Non-Voting Shares issued and outstanding as at February 14, 2017.

The following table summarizes the Company’s purchases made relating to the November 10, 2016 announcement:

| (C\$ in millions)   |          |
|---|----------|
| Share buy-back intention announced on November 10, 2016                             | \$ 550.0 |
| Shares repurchased from January 1, 2017 through September 30, 2017                  | 477.2    |
| Shares remaining to be repurchased in 2017 under the November 10, 2016 announcement | \$ 72.8  |

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

In November 2017, the Company completed the repurchases under the November 10, 2016 announcement and 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 2018, subject to regulatory approval of the renewal of the Company’s NCIB.

### 7.2 Dividends

The Company has a track record of increasing its annual dividend and has historically targeted a payout ratio of 25 to 30 percent of its prior year’s normalized earnings. The Company has increased the dividend payout ratio target to approximately 30 to 40 percent of the prior year’s normalized earnings, after giving consideration to the period end cash position, future cash flow requirements, capital market conditions, and investment opportunities.

The Company declared dividends payable to holders of Class A Non-Voting Shares and Common Shares at a rate of \$0.90 per share, an increase of \$0.25 per share on its quarterly dividend (or \$1.00 per share annually), payable on March 1, 2018 to shareholders of record as of January 31, 2018. The dividend is considered an “eligible dividend” for tax purposes.

### 7.3 Equity derivative contracts

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

During the quarter, equity forwards that hedged 125,000 stock option and performance share units settled and resulted in a payment to the Company of less than \$0.1 million. Also during the quarter, the Company entered into floating-rate equity forwards to offset its exposure to 140,000 stock options and performance share units at a weighted average purchase price of \$156.40.

## **8.0 Tax matters**

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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.

There have been no material changes in the status of ongoing audits by tax authorities as disclosed in section 10.0 in the MD&A contained in the Company's 2016 Report to Shareholders.

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 39 weeks ended September 30, 2017 were \$68.3 million (2016 - \$68.5 million) and \$184.8 million (2016 - \$170.5 million), respectively. The effective tax rates for the 13 and 39 weeks ended September 30, 2017 were 25.6 percent (2016 - 25.7 percent) and 26.1 percent (2016 - 26.1 percent), respectively. The tax rate was relatively flat compared to prior year as the increase in adjustments to tax estimates and reduction in tax benefits relating to capital property dispositions were mostly offset by lower non-deductible stock option expense in the period.

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

Management previously announced the expected annual effective tax rate, excluding any impact of the change in fair value of the redeemable financial instrument, for fiscal 2017 to be 27.0 percent. Management now expects the tax rate to be below this estimate (approximately 26.5 percent) due to adjustments to tax estimates in 2017.

Management expects the annual effective tax rate, excluding any impact of the change in fair value of the redeemable financial instrument, for fiscal 2018 to be approximately 27.0 percent.

## **9.0 Accounting policies, estimates, and non-GAAP measures**

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### **9.1 Critical accounting estimates**

The Company estimates certain amounts reflected in its condensed interim 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 estimates and policies 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 an 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 assess whether Management's assumptions remain valid.

## **9.2 Changes in accounting policies**

### **Standards, amendments, and interpretations issued and adopted**

#### ***Disclosure initiative***

In January 2016, the International Accounting Standard Board ("IASB") issued Disclosure Initiative Amendments to IAS 7 – *Statement of Cash Flows* 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 were effective for annual periods beginning on or after January 1, 2017. These amendments did not impact the Company's interim financial statements and the Company will disclose the required information in its annual 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 30, 2017 and, accordingly, have not been applied in preparing the interim 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"). IFRS 9 will be applied retrospectively for the 2018 annual fiscal period, without restatement of prior period comparatives. The IFRS 9 adjustments will be recognized in opening retained earnings for 2018.

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 Company's own credit risk recognized in other comprehensive income instead of net income, unless this would create an accounting mismatch. The implementation of the new classification and measurement requirements is expected to result in short-term and long-term investments being classified as Amortized Cost (previously classified either as Available-For-Sale or Fair Value Through Profit or Loss under IAS 39) without significant impact to the Company's financial results.

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. The new hedge accounting requirements are not expected to have a significant impact to the Company.

Impairment – It is no longer necessary for a triggering event to occur before a provision for credit losses is recognized as the measurement for impairment of financial assets will be based on an expected credit loss ("ECL") model. The earlier recognition of losses, as a result of moving to an ECL model, will impact the Company's estimate of allowances on credit card loans receivable. On transition to IFRS 9, the impact of the earlier recognition of losses is expected to increase the allowance on credit card loans receivable by between \$650 million to \$750 million. The allowance for those credit card loans receivable for which credit risk has not increased significantly since initial recognition, is measured using the lifetime losses from accounts that are expected to default over the next 12 months. For all other accounts the Company will recognize an allowance at an amount equal to the lifetime ECL. There is a significant amount of judgment involved in determining the ECL estimate and it is expected to be more volatile under IFRS 9 as a result of the movement of accounts between 12-month and lifetime ECL and the incorporation of forward-looking information. Over the coming months the Company will finalize its calculation of the financial impact of this standard and complete its testing and validation of its ECL methodology application, including criteria for a significant increase in credit risk and the impact of forward-looking information. Simultaneously, internal controls, policies and information systems are being updated along with training and education of key stakeholders.

Regulatory impact – The Company is closely monitoring all regulatory, capital and covenant impacts as a result of the adoption of this standard. In March 2017, the Basel Committee on Banking Supervision issued "Regulatory treatment of

accounting provisions - interim approach and transitional arrangements". This standard retains, for an interim period, the current regulatory treatment of accounting provisions under the standardized and internal ratings-based approaches and also provides potential transitional arrangements. In August 2017, the Office of the Superintendent of Financial Institutions of Canada ("OSFI") released for public consultation revisions to the Capital Adequacy Requirement guideline for implementation in the first quarter of 2018. The revisions mainly relate to the treatment of allowances as a result of the expected adoption of IFRS 9. While final OSFI guidance has not been provided, based on preliminary information, the implementation is likely to require CTB to hold additional capital.

#### **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.

In April 2016, the IASB published clarifications to IFRS 15 which addressed three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts.

The Company will adopt IFRS 15 for the 2018 annual fiscal period and expects to do so on a full retrospective basis with restatement of prior period. IFRS 15 mainly impacts the presentation of the Company's loyalty programs, in particular My Canadian Tire 'Money'® customer loyalty program. The costs of the loyalty program previously presented within selling, general and administrative expenses ("SG&A") will be recorded as a reduction of revenue and the related liabilities previously presented within provisions will be recorded as trade and other payables.

#### **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 will be applied for the 2019 annual fiscal period. The Company is assessing the potential impact of this standard.

#### **Insurance Contracts**

In May 2017, the IASB issued IFRS 17 – *Insurance Contracts* ("IFRS 17"), which replaces IFRS 4 – *Insurance Contracts* and establishes a new model for recognizing insurance policy obligations, premium revenue, and claims-related expenses. IFRS 17 will be effective for annual periods beginning on or after January 1, 2021. Early adoption is permitted. The Company is assessing the potential impact of this standard.

### **9.3 Key operating performance measures and non-GAAP financial measures**

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

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.

#### **9.3.1 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 condensed interim consolidated financial statements. An aspiration with respect to retail sales has been included as one of the Company's financial aspirations. Sales descriptions for the retail banners can be found in the footnotes to the table contained within section 5.2.2 of this MD&A.

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 condensed interim 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 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.

#### **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. 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 descriptions for Canadian Tire, Mark's, and FGL Sports can be found in section 5.2.2 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 descriptions for Canadian Tire, Mark's, and FGL Sports can be found in section 5.2.2 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 rolling 12-month period. An 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.

### 9.3.2 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 condensed interim consolidated financial statements for the periods ended September 30, 2017 and October 1, 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)  | Q3 2017  | Q3 2016  | YTD<br>Q3 2017 | YTD<br>Q3 2016 |
|--|----------|----------|----------------|----------------|
| Adjusted EBITDA  | \$ 417.7 | \$ 402.7 | \$ 1,135.3     | \$ 1,055.2     |
| Change in fair value of redeemable financial instrument              | —        | —        | —              | —              |
| EBITDA   | \$ 417.7 | \$ 402.7 | \$ 1,135.3     | \$ 1,055.2     |
| Less:  |          |          |                |                |
| Depreciation and amortization <sup>1</sup>                           | 119.4    | 111.6    | 344.6          | 333.8          |
| Net finance costs  | 31.5     | 24.8     | 82.5           | 68.5           |
| Income before income taxes   | \$ 266.8 | \$ 266.3 | \$ 708.2       | \$ 652.9       |
| Income taxes   | 68.3     | 68.5     | 184.8          | 170.5          |
| Effective tax rate   | 25.6%    | 25.7%    | 26.1%          | 26.1%          |
| Net income   | \$ 198.5 | \$ 197.8 | \$ 523.4       | \$ 482.4       |
| Net income attributable to non-controlling interests                 | 21.9     | 21.4     | 64.1           | 60.1           |
| Net income attributable to shareholders of Canadian Tire Corporation | \$ 176.6 | \$ 176.4 | \$ 459.3       | \$ 422.3       |

<sup>1</sup> Includes \$1.7 million reported in cost of producing revenue in the quarter (2016 - \$2.2 million) and \$5.0 million for Q3 YTD 2017 (2016 - \$6.1 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 condensed interim consolidated financial statements for the periods ended September 30, 2017 and October 1, 2016.

| (C\$ in millions)                          | Q3 2017  | Q3 2016  | YTD<br>Q3 2017 | YTD<br>Q3 2016 |
|--|----------|----------|----------------|----------------|
| EBITDA                                     | \$ 250.9 | \$ 246.0 | \$ 647.8       | \$ 598.9       |
| Less:                                      |          |          |                |                |
| Depreciation and amortization <sup>1</sup> | 95.7     | 90.7     | 279.3          | 273.6          |
| Net finance (income)                       | (5.1)    | (6.9)    | (19.8)         | (30.6)         |
| Income before income taxes                 | \$ 160.3 | \$ 162.2 | \$ 388.3       | \$ 355.9       |

<sup>1</sup> Includes \$1.7 million reported in cost of producing revenue in the quarter (2016 - \$2.2 million) and \$5.0 million for Q3 YTD 2017 (2016 - \$6.1 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 September 30, 2017<br>(C\$ in millions) | Consolidated | Retail       | CT REIT    | Financial Services |
|---|--------------|--------------|------------|--------------------|
| Consolidated net debt                         |              |              |            |                    |
| Bank indebtedness                             | \$ —         | \$ —         | \$ —       | \$ —               |
| Short-term deposits                           | 994.1        | —            | —          | 994.1              |
| Long-term deposits                            | 1,374.5      | —            | —          | 1,374.5            |
| Short-term borrowings                         | 228.1        | 124.8        | 13.0       | 90.3               |
| Current portion of long-term debt             | 456.7        | 15.8         | 17.3       | 423.6              |
| Long-term debt                                | 3,377.5      | 645.2        | 912.9      | 1,819.4            |
| Debt  | 6,430.9      | 785.8        | 943.2      | 4,701.9            |
| Liquid assets <sup>1</sup>                    | (975.6)      | (82.9)       | (11.8)     | (880.9)            |
| Net debt (cash)                               | 5,455.3      | 702.9        | 931.4      | 3,821.0            |
| Inter-company debt                            | —            | (1,808.5)    | 1,451.6    | 356.9              |
| Adjusted net debt (cash)                      | \$ 5,455.3   | \$ (1,105.6) | \$ 2,383.0 | \$ 4,177.9         |

<sup>1</sup> Liquid assets include cash and cash equivalents, short-term investments, and long-term investments.

| As at October 1, 2016<br>(C\$ in millions) | Consolidated | Retail       | CT REIT    | Financial Services |
|--|--------------|--------------|------------|--------------------|
| Consolidated net debt                      |              |              |            |                    |
| Bank indebtedness                          | \$ 38.5      | \$ 1.1       | \$ —       | \$ 37.4            |
| Short-term deposits                        | 901.8        | —            | —          | 901.8              |
| Long-term deposits                         | 1,272.5      | —            | —          | 1,272.5            |
| Short-term borrowings                      | 106.3        | —            | 17.0       | 89.3               |
| Current portion of long-term debt          | 231.2        | 17.8         | 1.3        | 212.1              |
| Long-term debt                             | 3,094.0      | 660.1        | 750.2      | 1,683.7            |
| Debt                                       | 5,644.3      | 679.0        | 768.5      | 4,196.8            |
| Liquid assets <sup>1</sup>                 | (631.9)      | (200.9)      | (6.8)      | (424.2)            |
| Net debt (cash)                            | 5,012.4      | 478.1        | 761.7      | 3,772.6            |
| Inter-company debt                         | —            | (1,615.3)    | 1,522.0    | 93.3               |
| Adjusted net debt (cash)                   | \$ 5,012.4   | \$ (1,137.2) | \$ 2,283.7 | \$ 3,865.9         |

<sup>1</sup> Liquid assets include cash and cash equivalents, short-term investments, and long-term investments.

## CT REIT Non-GAAP financial measures

### Net operating income

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

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

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

| (C\$ in millions)                           | Q3 2017  | Q3 2016  | YTD<br>Q3 2017 | YTD<br>Q3 2016 |
|---|----------|----------|----------------|----------------|
| Property revenue                            | \$ 109.3 | \$ 102.9 | \$ 332.0       | \$ 302.9       |
| Less:                                       |          |          |                |                |
| Property expense                            | 22.7     | 24.2     | 74.6           | 71.9           |
| Straight-line rent adjustment               | 5.7      | 5.9      | 17.1           | 17.7           |
| Add:  |          |          |                |                |
| Straight-line land lease expense adjustment | —        | —        | —              | 0.1            |
| Net operating income                        | \$ 80.9  | \$ 72.8  | \$ 240.3       | \$ 213.4       |

### Funds from operations and adjusted funds from operations

CT REIT calculates its FFO and AFFO in accordance with the *Real Property Association of Canada White Paper on FFO and AFFO for IFRS* issued in February 2017. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definition of FFO and AFFO 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 items to net income that do not arise from operating activities, such as fair value adjustments. FFO, however, still includes non-cash revenues relating to accounting for straight-line rent and makes no deduction for the recurring capital expenditures necessary to sustain the existing earnings stream.

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

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

| (C\$ in millions)                           | Q3 2017 | Q3 2016 | YTD<br>2017 | YTD<br>2016 |
|---|---------|---------|-------------|-------------|
| Income before income taxes                  | \$ 70.6 | \$ 72.1 | \$ 220.2    | \$ 193.6    |
| Fair value (gain) adjustment                | (10.5)  | (15.6)  | (43.0)      | (35.7)      |
| Deferred taxes                              | (0.2)   | (0.1)   | 0.2         | (0.3)       |
| Fair value of equity awards                 | (0.2)   | 0.1     | (0.2)       | 0.5         |
| Funds from operations                       | 59.7    | 56.5    | 177.2       | 158.1       |
| Properties straight-line rent adjustment    | (5.6)   | (5.9)   | (17.1)      | (17.7)      |
| Straight-line land lease expense adjustment | —       | —       | —           | 0.1         |
| Capital expenditure reserve                 | (5.2)   | (4.7)   | (15.4)      | (13.7)      |
| Adjusted funds from operations              | \$ 48.9 | \$ 45.9 | \$ 144.7    | \$ 126.8    |

## **10.0 Enterprise risk management**

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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 the development of risk identification, quantification, monitoring, and reporting capabilities, as well as the integration of these capabilities into management processes.

The ERM Program is described in detail in sections 12.0 of the MD&A contained in the Company’s 2016 Report to Shareholders.

The Company continues to evolve 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 on the continuing development of the underlying processes and tools supporting the program.

## **11.0 Controls and procedures**

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Details relating to disclosure controls and procedures and internal control over financial reporting are disclosed in section 13.0 of the MD&A contained in the Company’s 2016 Report to Shareholders.

### **Changes in internal control over financial reporting**

During the quarter ended September 30, 2017, there were no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **12.0 Social and environmental responsibility**

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### **12.1 Overview**

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

### **12.2 Social responsibility: 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 its website at: <http://jumpstart.canadiantire.ca>.

### **12.3 Social responsibility: Community building**

Helping Canadians enjoy life in Canada has always been at the centre of the Company’s activities. CTC’s family of companies is proud to support local initiatives through community and organizational support, including amateur sport, injury prevention programs, and disaster relief.

### **12.4 Social responsibility: Responsible sourcing practices**

Canadian Tire Corporation is one of Canada’s most trusted companies and, to maintain and build that trust, we operate responsible sourcing programs that require our employees, suppliers, and other participants in our supply chain to act in accordance with our Codes of Conduct. Details on CTC’s Responsible Sourcing policies and activities are available on the Company’s website at: <http://corp.canadiantire.ca/EN/CorporateCitizenship/ResponsibleSourcing/Pages/default.aspx>.

## 12.5 Environmental responsibility

The Company's sustainability strategy supports its corporate strategic imperatives. The strategy aims to achieve productivity gains and economic benefits from enhanced environmental and social outcomes by integrating sustainability into business operations. Through its sustainability strategy, the Company aims to serve its customers, communities, employees, and shareholders, both now and in the future.

The Company's sustainability strategy has four imperatives:

- optimize productivity: drive product and operations value-chain improvements;
- develop innovation: create and re-invent better processes, products, and services;
- enhance the brand: protect and enhance banner brands and corporate reputation; and
- drive Company engagement: engage employees through integration of sustainability practices into everyday business operations.

Benefits from the Company's sustainability initiatives and its annual environmental footprint reporting are included in section 14.0 of the MD&A contained in the Company's 2016 Report to Shareholders. For further details refer to the Company's Business Sustainability Reports at:

<http://corp.canadiantire.ca/EN/CorporateCitizenship/EnvironmentalSustainability/Pages/OurProgressReports.aspx>.

## 13.0 Three-Year (2018 to 2020) financial aspirations

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

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

The financial aspirations and a discussion of the underlying material assumptions and risks that might impact the achievement of the aspirations are outlined in the following table. In addition, achievement of the aspirations may be impacted by the risks identified in section 12.0 of the MD&A contained in the Company's 2016 Report to Shareholders.

| <b>1. Consolidated Same Store Sales Growth (excluding Petroleum) of 3+ percent annually</b>  |
|--|
| <b>Material assumptions</b> <ul style="list-style-type: none"><li>• Individual business units contribute positively to Consolidated Same Store Sales Growth</li><li>• Sales growth driven by an innovative assortment and an optimized mix of owned and national brands</li><li>• Customers engaged through compelling loyalty and credit card programs</li><li>• Customer base will grow across all banners utilizing a One Company for One Customer strategy</li><li>• Continued focus on promotional and pricing optimization</li></ul>   |
| <b>Material risks</b> <ul style="list-style-type: none"><li>• Pricing pressure driven by growing competition from new and existing market players</li><li>• Accelerated disruption from eCommerce competitors</li><li>• Decline in economic growth, consumer confidence, and household spending</li><li>• The introduction of unfavourable foreign trade policies</li></ul>  |
| <b>2. Average Annual Diluted EPS Growth of 10+ percent over the three-year period</b>  |
| <b>Material assumptions</b> <ul style="list-style-type: none"><li>• Realization of the Consolidated Same Store Sales Growth aspiration</li><li>• Successful rollout of operational efficiency programs and initiatives</li><li>• Continued GAAR growth and positive contribution to earnings by the Financial Services segment</li><li>• No major changes to the Company's financial leverage and capital allocation approach</li></ul>  |
| <b>Material risks</b> <ul style="list-style-type: none"><li>• Risks associated with the Consolidated Same Store Sales Growth aspiration described above</li><li>• 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</li><li>• Negative impacts due to unfavourable commodity prices, foreign exchange fluctuations, protectionist foreign policies and legislative changes</li><li>• Adverse economic or regulatory conditions which negatively impact GAAR growth and increase volatility of the impairment allowance for credit card receivables</li><li>• Lower or lesser contribution from operational efficiencies</li></ul> |

### 3. Retail ROIC of 10+ percent by 2020

#### Material assumptions

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

#### Material risks

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

## 14.0 Forward-looking statements and other investor communication

### Caution regarding forward-looking statements

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

- the Company's financial aspirations for fiscal years 2015 to 2017 in section 3.0;
- 2017 strategic imperatives in section 4.0;
- capital expenditures in subsection 6.4;
- contractual obligations, guarantees, and commitments in subsection 6.6.1;
- the Company's intention with respect to the purchase of its Class A Non-Voting Shares in section 7.1;
- tax matters in section 8.0;
- the expected impact to the Company as a result of changes to accounting standards, including IFRS 9, in subsection 9.2; and
- the Company's financial aspirations for fiscal years 2018 to 2020 in section 13.0.

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) the possible effects on our business from international conflicts, political conditions, and developments including changes relating to or affecting economic or trade matters; (g) risks and uncertainties relating to information management, technology, cyber threats, property management and development, environmental liabilities, supply chain management, product safety, changes in law, regulation, competition, seasonality, weather patterns, commodity prices and business disruption, the Company's relationships with suppliers, manufacturers, partners and other third parties, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by the Company and the cost of store network expansion and retrofits; (h) the Company's capital structure, funding strategy, cost management programs, and share price and (i) 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 5.2.4 (Retail segment business risks), 5.3.2 (CT REIT segment business risks), 5.4.3 (Financial Services segment business risks), 10.0 (Enterprise risk management), 13.0 (Three-Year (2018-2020) financial aspirations) 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](http://www.sedar.com) and at [www.corp.canadiantire.ca](http://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](http://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](mailto:investor.relations@cantire.com).

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