

Management's Discussion and Analysis

Canadian Tire Corporation, Limited

Third Quarter 2018

1.0 Preface

1.1 Definitions

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

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

In this document:

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

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

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

“Jumpstart” refers to Canadian Tire Jumpstart Charities.

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

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

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

“Helly Hansen” refers to the international wholesale and retail businesses that own Helly Hansen brands and related businesses.

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

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

1.2 Forward-Looking Statements

This Management’s Discussion and Analysis (“MD&A”) contains statements that are forward looking and may constitute “forward-looking information” within the meaning of applicable securities legislation. Actual results or events may differ materially from those 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 13.0 in this MD&A for a more detailed discussion of the Company’s use of forward-looking statements.

1.3 Review and Approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on November 7, 2018.

1.4 Quarterly and Annual Comparisons in the MD&A

Unless otherwise indicated, all comparisons of results for Q3 2018 (13 and 39 weeks ended September 29, 2018) are compared against results for Q3 2017 (13 and 39 weeks ended September 30, 2017).

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 International Financial Reporting Standards (“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 8.1 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 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 8.3.1 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, 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 banners, the sale of services through the Home Services business, the sale of goods to customers through business-to-business operations 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 8.3.1 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 8.3.1 for a description of ROR.

Aspirations with respect to retail sales and Retail ROIC have been included in our financial aspirations for three years ending in 2020. Refer to section 3.1 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 8.3.2 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 8.3.2 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 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 Company’s MD&A for the year ended December 30, 2017 (“2017 MD&A”), available on the Company’s website (www.corp.canadiantire.ca/en/investors), and SEDAR (www.sedar.com).

3.0 2018 Financial Aspirations and Key Initiatives

Canadian Tire Corporation and its retail banners: Canadian Tire, PartSource, PHL, Gas+, Sport Chek, Sports Experts, National Sports, Mark’s, L’Equipeur and Helly Hansen, are among Canada’s most recognized and trusted brands. CTC offers approximately 1,700 bricks and mortar locations, some of the most visited digital retail properties in Canada, and a portfolio of world-class products and owned-brands. The Company’s Retail business is supported and enhanced by its Financial Services business, its real estate capabilities and CT REIT, and by the impact CTC makes in local communities across Canada, and through Jumpstart.

CTC’s goal is to become the #1 retail brand in Canada by 2022, as measured by its customers, shareholders, and employees. The Company’s primary focus is serving customers and markets across Canada. CTC is committed to deepening relationships with its customers and acquiring new customers by strengthening its purpose of preparing Canadians for the “Jobs and Joys for Life in Canada”. CTC operates core businesses in Living, Fixing, Playing, Driving, Apparel and Services, and will continue to evolve its unique marketplace of products, brands and experiences over time. On July 3, 2018, the Company completed the acquisition of Helly Hansen. This acquisition will serve to strengthen the Company’s foothold in sportswear and workwear in Canada. Helly Hansen produces workwear, urban and sports-specific clothing for skiers and sailors. It also produces a wide range of shoes, including casual footwear, winter boots, and shoes for sailing, and other watersports.

While the role CTC plays in the lives of Canadians is its foundation, the Company is evolving customer experiences and the ‘how we do it’ to stay relevant as the retail market and consumer preferences evolve. Historically, the Company’s strategies and plans have been focused on individual retail banners. Looking ahead, CTC will operate as One Company, serving One Customer with strong individual banner brands and a shared platform of services and capabilities aligned to serve One CTC Customer. The Company believes each of its retail banners and brands will be stronger together, as part of a CTC marketplace focused on a common CTC customer. By sharing capabilities, platforms, tools, and data across

CTC, all banners and brands will be enabled to deliver unique, personalized, and compelling experiences. The launch of Triangle Rewards, an enhanced enterprise-wide loyalty and credit card program, is one example of how CTC will engage existing customers, acquire new ones, and promote cross-shopping across its banners. The loyalty program strengthens the Company's marketplace approach and, ultimately every customer relationship.

3.1 Three-Year (2018 to 2020) Financial Aspirations

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

The Company has established its financial aspirations for fiscal years 2018 to 2020. Achievement of these aspirations will contribute to the consistent increase of total shareholder return over 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 Company's 2017 MD&A.

<p>1. Consolidated Comparable Sales Growth (excluding Petroleum) of 3+ percent annually</p> <p>Material assumptions:</p> <ul style="list-style-type: none"> • Individual business units contribute positively to Consolidated Comparable Sales Growth • Sales growth driven by an innovative assortment and an optimized mix of owned and national brands • Customers engaged through compelling loyalty and credit card programs • Customer base will grow across all banners utilizing a 'One Company serving One Customer' strategy • Continued focus on promotional and pricing optimization <p>Material risks:</p> <ul style="list-style-type: none"> • Pricing pressure driven by growing competition from new and existing market players • Accelerated disruption from eCommerce competitors • Decline in economic growth, consumer confidence, and household spending • The introduction of unfavourable foreign-trade policies
<p>2. Average Annual Diluted EPS Growth of 10+ percent over the three-year period</p> <p>Material assumptions:</p> <ul style="list-style-type: none"> • Realization of the Consolidated Comparable Sales Growth aspiration • Successful rollout of operational efficiency programs and initiatives • Continued gross average accounts receivable ("GAAR") growth and positive contribution to earnings by the Financial Services segment • No major changes to the Company's financial leverage and capital allocation approach <p>Material risks:</p> <ul style="list-style-type: none"> • Risks associated with the Consolidated Comparable Sales Growth aspiration described above • Short-term effect on EPS from the Company's capital-allocation initiatives, including the potential impact of organic and inorganic growth initiatives designed to create long-term growth • Negative impacts due to unfavourable commodity prices, foreign exchange fluctuations, protectionist foreign policies and legislative changes • Adverse economic or regulatory conditions which negatively impact GAAR growth and increase volatility of the impairment allowance for credit card receivables • Lower or lesser contribution from operational efficiencies
<p>3. Retail ROIC of 10+ percent by 2020</p> <p>Material assumptions:</p> <ul style="list-style-type: none"> • Realization of Consolidated Comparable Sales Growth and Average Annual Diluted EPS Growth aspirations • Prudent management of working capital • Disciplined approach to selecting growth projects and initiatives which yield improved asset productivity • Effective management of the Company's capital allocation priorities <p>Material risks:</p> <ul style="list-style-type: none"> • 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

3.2 2018 Key Initiatives

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

The Company categorizes its 2018 initiatives under five areas of focus and believes that successfully executing each by operating as One Company with a view towards serving the needs of a common customer over a lifetime in Canada, will allow it to achieve both its financial aspirations (section 3.1), and its goal to become the #1 retail brand in Canada by 2022. The Company's strategy to succeed in its brand and product portfolio, its customer experience and financial discipline are supported by its strategies with respect to talent and platforms.

Brand and Product Portfolio

- As a brand and product-led Company, continue to introduce new, innovative, and improved product assortments and categories across the retail banners and Financial Services business, demonstrating the Company's commitment to preparing Canadians for the "Jobs and Joys for Life in Canada"
- Through the Consumer Brands division, strengthen the owned-brand portfolio organically and by selectively pursuing acquisitions to complement key categories

Customer Experience

- Continue to enhance the customers' in-store and digital experience across banners, enabling them to shop how they want, when they want
- Deliver on initiatives to continuously improve the customer experience, informed by direct customer feedback (Net Promoter Score)

Financial Discipline

- Roll out productivity initiatives designed to increase the sales and profitability of the retail store network and digital properties across all banners
- Utilize a One-Company approach to identify and execute opportunities to improve efficiency in its core functions through process automation and simplification
- Adhere to a disciplined and balanced approach to capital allocation

Talent

- Evolve the Company's talent strategy with a focus on developing key talent and expertise in critical areas and on building core leadership capabilities required to execute its long-term strategy
- Continue to enhance the Triangle Learning Academy to support the development of future leaders across the organization

Platforms

- Strengthen the Company's commitment to environmental sustainability, and community support through Jumpstart
- Grow customer engagement through the launch of an enhanced enterprise-wide loyalty and associated credit card program
- Advance business models, processes and technology platforms to support financial aspirations

On April 9, 2018, the Company announced the launch of its Triangle Rewards program – an evolution of its iconic My Canadian Tire Money loyalty program, and associated credit card offerings. The program was made available to customers in Spring 2018.

On July 3, 2018, the Company completed the acquisition of Helly Hansen, a global leader in sportswear and workwear based in Oslo, Norway. This acquisition strengthens the Company's assortment across its retail banners.

4.0 Financial Performance

4.1 Consolidated Financial Performance

4.1.1 Consolidated Financial Results

(C\$ in millions, except where noted)				YTD		YTD	
	Q3 2018	Q3 2017 ¹	Change	Q3 2018	Q3 2017 ¹	Change	
Retail sales ²	\$ 3,865.3	\$ 3,701.1	4.4%	\$ 10,857.0	\$ 10,381.4	4.6 %	
Revenue	\$ 3,631.3	\$ 3,265.7	11.2%	\$ 9,927.0	\$ 9,361.2	6.0 %	
Gross margin dollars	\$ 1,222.8	\$ 1,082.4	13.0%	\$ 3,293.3	\$ 3,134.8	5.1 %	
Gross margin as a % of revenue	33.7%	33.1%	53 bps	33.2%	33.5%	(31) bps	
Other (income)	\$ (4.7)	\$ —	NM ³	\$ (23.5)	\$ 0.5	NM ³	
Selling, general and administrative expenses	870.9	784.1	11.1%	2,528.7	2,343.6	7.9 %	
Net finance costs	43.4	31.5	37.6%	106.8	82.5	29.5 %	
Income before income taxes	\$ 313.2	\$ 266.8	17.4%	\$ 681.3	\$ 708.2	(3.8)%	
Income taxes	81.9	68.3	19.8%	176.5	184.8	(4.5)%	
Effective tax rate	26.1%	25.6%		25.9%	26.1%		
Net income	\$ 231.3	\$ 198.5	16.5%	\$ 504.8	\$ 523.4	(3.5)%	
Net income attributable to:							
Shareholders of Canadian Tire Corporation	\$ 203.8	\$ 176.6	15.3%	\$ 437.8	\$ 459.3	(4.7)%	
Non-controlling interests	27.5	21.9	26.3%	67.0	64.1	4.7 %	
	\$ 231.3	\$ 198.5	16.5%	\$ 504.8	\$ 523.4	(3.5)%	
Basic EPS	\$ 3.16	\$ 2.59	21.7%	\$ 6.70	\$ 6.63	1.0 %	
Diluted EPS	\$ 3.15	\$ 2.59	21.7%	\$ 6.68	\$ 6.62	1.0 %	
Weighted average number of Common and Class A Non-Voting Shares outstanding:							
Basic	64,519,606	68,099,921	NM ³	65,312,977	69,243,297	NM ³	
Diluted	64,683,997	68,252,446	NM ³	65,514,421	69,433,042	NM ³	

¹ Revenue, gross margin and selling, general and administrative expenses were restated as a result of IFRS 15 adjustments. Refer to Note 2 of the condensed interim consolidated financial statements for additional information.

² Key operating performance measures. Refer to section 8.3.1 in this MD&A for additional information.

³ 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 Company's 2017 Consolidated Financial Statements.

(C\$ in millions)			YTD		YTD	
	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017
Financial Services						
Non-controlling interest percentage 20.0% (2017 - 20.0%)	\$ 18.9	\$ 14.5	\$ 43.2	\$ 43.1	\$ 43.2	\$ 43.1
CT REIT						
Non-controlling interest percentage 14.5% (2017 - 14.5%)	7.0	5.7	20.4	17.5	20.4	17.5
Retail segment subsidiary						
Non-controlling interest percentage 50.0% (2017 - 50.0%)	1.6	1.7	3.4	3.5	3.4	3.5
Net income attributable to non-controlling interests	\$ 27.5	\$ 21.9	\$ 67.0	\$ 64.1	\$ 67.0	\$ 64.1

Normalizing Items

The results of operations include two normalizing items in the current year. These items include:

- One-time costs relating to the roll-out of the Triangle Rewards program and associated credit cards of \$17.3 million recorded in Q2 2018; and
- Costs incurred relating to the acquisition of Helly Hansen of \$5.3 million in Q2 2018 and \$22.4 million in Q3 2018. As the transaction was completed in Q3 2018, the results of operations of Helly Hansen for the period are reflected in the Company's Q3 2018 condensed interim consolidated financial statements.

The table below summarizes the pre-tax amount of the previously listed normalizing items that were included in results for the 13 and 39 weeks ended September 29, 2018:

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Financial Statement line item:				
Cost of producing revenue				
Inventory cost of sales	\$ 5.0	\$ —	\$ 5.0	\$ —
Selling, general and administrative expenses				
Personnel expenses	3.0	—	3.0	—
Other	14.4	—	37.0	—
	\$ 22.4	\$ —	\$ 45.0	\$ —

Where indicated, financial results normalized for the items above have been provided. References to “normalized” earnings and “normalized” diluted EPS are made throughout the financial results discussion and reflect the results of operations excluding the above noted items. Normalized results are non-GAAP measures and do not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. For further information and a reconciliation to GAAP measures, refer to section 8.3.2 in this MD&A.

Selected Normalized Metrics - Consolidated

(C\$ in millions, except per share amount)	Q3 2018	Q3 2017	Change	YTD Q3 2018	YTD Q3 2017	Change
Normalized cost of producing revenue	\$ 2,403.5	\$ 2,183.3	10.1%	\$ 6,628.7	\$ 6,226.4	6.5%
Normalized gross margin	1,227.8	1,082.4	13.4%	3,298.3	3,134.8	5.2%
Normalized gross margin rate	33.8%	33.1%	67 bps	33.2%	33.5%	(26) bps
Normalized selling, general and administrative expenses	853.5	784.1	8.9%	2,488.7	2,343.5	6.2%
Normalized income before income taxes	335.6	266.8	25.8%	726.3	708.2	2.6%
Normalized net income	252.1	198.5	27.0%	542.2	523.4	3.6%
Normalized net income attributable to shareholders of Canadian Tire	224.6	176.6	27.2%	473.2	459.3	3.0%
Normalized diluted EPS	\$ 3.47	\$ 2.59	34.1%	\$ 7.22	\$ 6.62	9.1%

Consolidated Third-Quarter 2018 versus Third-Quarter 2017

Earnings Summary

Reported diluted EPS was \$3.15 in the quarter, an increase of \$0.56 per share, or 21.7 percent. Normalized diluted EPS in the quarter was \$3.47, an increase of \$0.88 per share or 34.1 percent, year-over-year, driven by strong revenue growth and improved gross margin contribution, the inclusion of Helly Hansen’s operations in the Retail segment for the first time this quarter, and share repurchases pursuant to the Company’s share buyback program, partially offset by higher expenses and tax rate.

Retail Sales

Consolidated retail sales increased \$164.2 million, or 4.4 percent, which includes a 15.1 percent increase in Petroleum, primarily due to higher per litre gas prices. Excluding Petroleum, consolidated retail sales increased 2.6 percent, resulting from increased sales across all banners. Consolidated retail sales excludes Helly Hansen. Refer to section 4.2 for further information regarding Retail segment sales in the quarter.

Revenue

Consolidated revenue increased \$365.6 million, or 11.2 percent, which includes a \$74.7 million increase in Petroleum revenue primarily due to higher per litre gas prices. Excluding Petroleum, consolidated revenue increased 10.4 percent, primarily due to the inclusion of Helly Hansen’s revenue for the first time this quarter, continued receivables growth resulting

in higher revenue for the Financial Services segment and strong revenue growth at Mark's and Canadian Tire. Refer to sections 4.2 and 4.4 for further information regarding revenue in the Retail and Financial Services segments.

Gross Margin

Consolidated gross margin dollars increased \$140.4 million, or 13.0 percent. Normalized consolidated gross margin dollars increased \$145.4 million, or 13.4 percent, driven by the growth in gross margin dollars in the Retail segment due to strong revenue growth at Canadian Tire and Mark's, and the inclusion of Helly Hansen, complemented by higher revenue in the Financial Services segment and the positive impact of a change in Management's estimate of the present value of regular recoveries. Gross margin rate increased 53 bps compared to last year. Normalized gross margin rate increased 67 bps compared to last year. Excluding Petroleum, the normalized consolidated gross margin rate increased 125 bps. Refer to sections 4.2 and 4.4 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 \$86.8 million, or 11.1 percent. Normalized consolidated selling, general and administrative expenses increased \$69.4 million or 8.9 percent. The increase was primarily due to the result of planned investments in initiatives such as; growing the Company's owned-brands, digital retail, the Company's analytical capabilities, and the acquisition of Helly Hansen. In addition, it was driven by higher share based compensation expense due to share price fluctuations, and increased occupancy costs, partially offset by decreased depreciation expenses, resulting from the change in methodology from declining balance to straight-line in the first quarter of 2018.

Other Income

Other income increased mainly due to real estate gains and foreign exchange gains.

Net Finance Costs

Consolidated net finance costs increased \$11.9 million, or 37.6 percent, primarily due to higher interest expense on CTC and CT REIT related long-term debt issuance.

Income Taxes

The effective tax rate increased to 26.1 percent from 25.6 percent in the prior year, primarily due to the decrease in adjustments to tax estimates and non-deductible acquisition-related costs, partially offset by lower non-deductible stock option expense in the period. Refer to Tax Matters in section 7.0 of this MD&A for further details.

Consolidated Year-to-Date 2018 versus Year-to-Date 2017

Consolidated year-to-date net income attributable to owners of CTC decreased \$21.5 million or 4.7 percent, over the prior year. Normalized year-to-date net income attributable to owners of CTC increased \$13.9 million or 3.0 percent. The year-to-date retail sales and revenue growth, excluding Petroleum, of 2.8 percent and 4.5 percent respectively was driven by all Retail segment banners and the Financial Services segment. The year-to-date retail sales and revenue growth and earnings contribution from Helly Hansen operations were partially offset by investments in initiatives such as growing the Company's owned-brands and digital retail capabilities, and the impact of the adoption of an IFRS 9 allowance model.

4.1.2 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 8.3.1 in this MD&A for definitions and further information.

(C\$ in millions)				YTD		Change
	Q3 2018	Q3 2017 ¹	Change	Q3 2018	Q3 2017 ¹	
Net income attributable to Shareholders of CTC	\$ 203.8	\$ 176.6	15.3%	\$ 437.8	\$ 459.3	(4.7)%
Adjusted EBITDA ²	\$ 457.1	\$ 417.7	9.4%	\$ 1,109.6	\$ 1,135.3	(2.3)%
Selling, general and administrative expenses (excluding depreciation and amortization) as a % of revenue ³	21.3%	20.4%	86 bps	22.3%	21.4%	88 bps
Adjusted EBITDA ² as a % of revenue	12.6%	12.8%	(21) bps	11.2%	12.1%	(95) bps

¹ Selling, general and administrative expenses and adjusted EBITDA as a % of revenue were restated as a result of IFRS 15 adjustments. Refer to Note 2 of the condensed interim consolidated financial statements for additional information.

² Adjusted EBITDA is a non-GAAP measure; refer to section 8.3.2 in this MD&A for a reconciliation of Adjusted EBITDA to net income attributable to shareholders of Canadian Tire Corporation and additional information.

³ Selling, general and administrative expenses exclude depreciation and amortization of \$98.8 million in Q3 2018 (2017 - \$117.7 million) and \$316.7 million Q3 YTD (2017 - \$339.6 million).

Selected Normalized Metrics - Consolidated

(C\$ in millions)				YTD		Change
	Q3 2018	Q3 2017	Change	Q3 2018	Q3 2017	
Normalized ¹ net income attributable to Shareholders of CTC	\$ 224.6	\$ 176.6	27.2%	\$ 473.2	\$ 459.3	3.0%
Normalized ¹ adjusted EBITDA	\$ 479.5	\$ 417.7	14.8%	\$ 1,154.6	\$ 1,135.3	1.7%
Normalized ¹ selling, general and administrative expenses (excluding depreciation and amortization) as a % of revenue	20.8%	20.4%	39 bps	21.9%	21.4%	47 bps
Normalized ¹ adjusted EBITDA as a % of revenue	13.2%	12.8%	41 bps	11.6%	12.1%	(50) bps

¹ Refer to section 4.1.1 for a description of normalized items.

Selling, General and Administrative Expenses (Excluding Depreciation and Amortization) as a Percentage of Revenue

In the third quarter, selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue increased by 86 bps compared to the prior year. On a normalized basis, this measure increased 39 bps over the prior year and, excluding Petroleum, increased 62 bps over the prior year. The increase was driven by the inclusion of the results of Helly Hansen, which has a higher ratio than the other banners, and investment in initiatives such as growing the Company's owned-brands, digital retail, and analytical capabilities. In addition, higher share-based compensation due to share price fluctuations negatively impacted the ratio.

On a year-to-date basis, selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue increased by 88 bps compared to the prior year. On a normalized basis, this measure increased 47 bps compared to the prior year, primarily due to the acquisition of Helly Hansen and the growth in expenses to fund investments in initiatives, partially offset by growth in Petroleum revenue due to increased gas prices.

Adjusted EBITDA as a Percentage of Revenue

In the third quarter, adjusted EBITDA as a percentage of revenue, declined 21 bps. On a normalized basis, this measure increased 41 bps, primarily due to growth in gross margin dollars at Canadian Tire and Mark's, the positive impact of a change in Management's estimate of the present value of regular recoveries in the Financial Services segment, and the acquisition of Helly Hansen; partially offset by growth in expenses and increased revenue at Petroleum.

On a year-to-date normalized basis, this measure decreased 50 bps as the growth in revenue was more than offset by the planned increase in expenses aimed towards growing the Company's owned-brands, digital retail and analytical capabilities.

4.1.3 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. In the first quarter, the Financial Services segment contributes the majority of consolidated earnings. The following table shows the consolidated financial performance of the Company by quarter for the last two years. The quarterly trend could be impacted by non-operational items.

(C\$ in millions, except per share amounts)	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Revenue ¹	\$ 3,631.3	\$ 3,480.8	\$ 2,814.9	\$ 3,915.6	\$ 3,265.7	\$ 3,374.1	\$ 2,721.4	\$ 3,641.0
Net income	231.3	174.4	99.1	295.4	198.5	217.0	107.9	265.1
Basic EPS	3.16	2.39	1.18	4.12	2.59	2.82	1.24	3.47
Diluted EPS	3.15	2.38	1.18	4.10	2.59	2.81	1.24	3.46

¹ Revenue figures for all quarters in 2017 were restated as a result of IFRS 15 adjustments. Refer to Note 2 of the condensed interim consolidated financial statements for additional information.

4.2 Retail Segment Performance

4.2.1 Retail Segment Financial Results

(C\$ in millions)	Q3 2018	Q3 2017 ¹	Change	YTD Q3 2018	YTD Q3 2017 ¹	Change
Retail sales ²	\$ 3,865.3	\$ 3,701.1	4.4 %	\$ 10,857.0	\$ 10,381.4	4.6 %
Revenue	\$ 3,309.9	\$ 2,971.6	11.4 %	\$ 8,996.6	\$ 8,496.9	5.9 %
Gross margin dollars	\$ 1,002.1	\$ 891.8	12.4 %	\$ 2,710.7	\$ 2,567.7	5.6 %
Gross margin as a % of revenue	30.3%	30.0%	27 bps	30.1%	30.2%	(9) bps
Other (income)	\$ (38.1)	\$ (31.8)	19.8 %	\$ (122.0)	\$ (93.7)	30.2 %
Selling, general and administrative expenses	868.6	768.4	13.0 %	2,500.2	2,292.9	9.0 %
Net finance costs (income)	4.9	(5.1)	(196.4)%	(7.1)	(19.8)	(64.2)%
Income before income taxes	\$ 166.7	\$ 160.3	4.1 %	\$ 339.6	\$ 388.3	(12.5)%

¹ Revenue, gross margin and selling, general and administrative expenses were restated as a result of IFRS 15 adjustments. Refer to Note 2 of the condensed interim consolidated financial statements for additional information.

² Retail sales is a key operating performance measure. Refer to section 8.3.1 in this MD&A for additional information.

Selected Normalized Metrics - Retail

(C\$ in millions)	Q3 2018	Q3 2017	Change	YTD Q3 2018	YTD Q3 2017	Change
Normalized ¹ gross margin dollars	\$ 1,007.1	\$ 891.8	12.9%	\$ 2,715.7	\$ 2,567.7	5.8 %
Normalized ¹ gross margin as a % of revenue	30.4%	30.0%	42 bps	30.2%	30.2%	(3) bps
Normalized ¹ selling, general and administrative expenses	\$ 851.2	\$ 768.4	10.8%	\$ 2,473.7	\$ 2,292.9	7.9 %
Normalized ¹ income before income taxes	\$ 189.1	\$ 160.3	18.0%	\$ 371.1	\$ 388.3	(4.4)%

¹ Refer to section 4.1.1 for a description of normalized items.

4.2.2 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 8.3.1 in this MD&A for definitions and further information on performance measures.

(Year-over-year percentage change, C\$ in millions, except as noted)	Q3 2018	Q3 2017 ¹	Change	YTD Q3 2018	YTD Q3 2017 ¹	Change
Retail Segment - Total						
Retail sales growth	4.4 %	5.1%		4.6 %	3.9 %	
Consolidated comparable sales growth ²	2.5 %	3.9%		2.8 %	2.2 %	
Revenue ³	\$ 3,309.9	\$ 2,971.6	11.4 %	\$ 8,996.6	\$ 8,496.9	5.9 %
Retail ROIC ⁴	8.94 %	8.86%		n/a	n/a	
Income before income taxes	\$ 166.7	\$ 160.3	4.1 %	\$ 339.6	\$ 388.3	(12.5)%
EBITDA ⁵	\$ 255.2	\$ 250.9	1.8 %	\$ 602.6	\$ 647.8	(6.9)%
Retail Segment breakdown						
Canadian Tire						
Retail sales growth ⁶	2.4 %	5.3%		3.1 %	3.3 %	
Comparable sales growth ^{2,6}	2.2 %	4.7%		2.9 %	2.4 %	
Sales per square foot ⁷ (whole \$)	\$ 424	\$ 407	4.2 %	n/a	n/a	
Revenue ^{3,8}	\$ 1,781.8	\$ 1,710.0	4.2 %	\$ 5,087.3	\$ 5,000.4	1.7 %
FGL						
Retail sales growth ⁹	1.6 %	0.01%		0.6 %	0.9 %	
Comparable sales growth ^{2,9}	2.2 %	0.01%		1.8 %	(0.2)%	
Sales per square foot ¹⁰ (whole \$)	\$ 298	\$ 295	1.0 %	n/a	n/a	
Revenue ³	\$ 528.5	\$ 527.2	0.2 %	\$ 1,390.9	\$ 1,385.7	0.4 %
Mark's						
Retail sales growth ¹¹	6.4 %	5.2%		3.8 %	5.2 %	
Comparable sales growth ^{2,11}	6.1 %	4.6%		3.5 %	4.6 %	
Sales per square foot ¹² (whole \$)	\$ 353	\$ 345	2.3 %	n/a	n/a	
Revenue ^{3,13}	\$ 265.5	\$ 251.5	5.6 %	\$ 778.2	\$ 753.4	3.3 %
Helly Hansen						
Revenue ³	181.7	n/a		181.7	n/a	
Revenue - Canada ³	25.2	n/a		25.2	n/a	
Revenue - Foreign	156.5	n/a		156.5	n/a	
Petroleum						
Gasoline volume growth in litres	(1.1)%	0.9%		(0.7)%	0.4 %	
Same-store gasoline volume growth in litres ²	(1.7)%	1.1%		(1.3)%	0.4 %	
Retail sales growth	15.1 %	10.0%		14.7 %	10.4 %	
Revenue ³	\$ 550.8	\$ 476.1	15.7 %	\$ 1,547.9	\$ 1,342.6	15.3 %
Gross margin dollars	\$ 47.2	\$ 48.4	(2.3)%	\$ 138.3	\$ 131.6	5.1 %

¹ Certain figures were restated as a result of PHL stores moving from the FGL banner to the Canadian Tire banner as well as IFRS 15 adjustments. Refer to Note 2 of the condensed interim consolidated financial statements for additional information on IFRS 15 adjustments.

² Refer to section 8.3.1 in this MD&A for additional information on comparable sales growth.

³ Revenue reported for Canadian Tire, FGL, Mark's, Petroleum, and Helly Hansen includes inter-segment revenue. Therefore, in aggregate revenue for Canadian Tire, FGL, Mark's, Petroleum, and Helly Hansen will not equal total revenue for the Retail segment.

⁴ Retail ROIC is calculated on a rolling 12-month basis based on normalized earnings. Refer to section 8.3.1 in this MD&A for additional information.

⁵ EBITDA is a non-GAAP measure. Refer to section 8.3.2 in this MD&A for a reconciliation of EBITDA to income before income taxes and additional information.

⁶ Retail sales growth includes sales from Canadian Tire stores, PartSource stores, PHL stores, and the labour portion of Canadian Tire's auto service sales.

⁷ Sales per square foot figures are calculated on a rolling 12-month basis. Retail space does not include seasonal outdoor garden centres, auto service bays, or warehouse and administrative space.

⁸ Revenue includes revenue from Canadian Tire, PartSource, PHL, and Franchise Trust.

⁹ Retail sales growth includes sales from both corporate and franchise stores.

¹⁰ Sales per square foot figures are calculated on a rolling 12-month basis, include both corporate and franchise stores and warehouse and administrative space.

¹¹ Retail sales growth includes retail sales from Mark's corporate and franchise stores but excludes ancillary revenue relating to alteration and embroidery services.

¹² 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.

¹³ 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.

4.2.3 Retail Banner Network at a Glance

Number of stores and retail square footage	September 29, 2018	September 30, 2017	December 30, 2017
Consolidated store count			
Canadian Tire stores			
Canadian Tire Retail	501	501	501
Other ¹	105	106	106
Total Canadian Tire stores	606	607	607
FGL stores			
Sport Chek	194	195	194
Sports Experts	101	69	102
Atmosphere	65	68	68
Other	48	82	47
Total FGL stores	408	414	411
Mark's stores ²			
Mark's	337	333	335
L'Équipeur	47	46	45
Other	2	6	6
Total Mark's stores	386	385	386
Canadian Tire gas bar locations	298	296	298
Total stores³	1,698	1,702	1,702
Consolidated retail square footage⁴ (in millions)			
Canadian Tire	22.4	22.0	22.3
FGL	7.4	7.4	7.4
Mark's	3.6	3.6	3.6
Total retail square footage⁴	33.4	33.0	33.3

¹ Other Canadian Tire banners include PartSource and PHL.

² Store count numbers reflect individual selling locations. Both Canadian Tire and Mark's totals include stores that are co-located.

³ Store count does not include the retail locations acquired as part of the acquisition of the Canadian rights to the Paderno brand, and Helly Hansen.

⁴ The retail square footage excludes Petroleum's convenience store rental space.

Retail Segment Third-Quarter 2018 versus Third-Quarter 2017

Earnings Summary

Income before income taxes increased \$6.4 million, or 4.1 percent. Normalized income before income taxes increased \$28.8 million or 18.0 percent, which includes Helly Hansen operations for the first time, strong top-line sales across all retail banners and an improvement in the gross margin rate. Excluding Petroleum, consolidated retail sales grew by 2.6 percent and comparable sales also grew by 2.5 percent.

Retail Sales

Consolidated sales growth of 4.4 percent, 2.6 percent excluding Petroleum, and comparable sales growth of 2.5 percent were driven by both seasonally-relevant and non-seasonal categories, and the continued success of targeted promotional and pricing strategies. Consolidated Retail sales excludes Helly Hansen.

Canadian Tire retail sales increased 2.4 percent while comparable sales increased 2.2 percent. Living, Automotive, Kitchen & Personal care and Playing were the top performing divisions, as customers reacted favourably to new assortments and enhanced promotions in the Home environment, Kitchen and personal care categories. Owned-brands continued to contribute to sales growth in the quarter.

FGL retail sales increased 1.6 percent and comparable sales by 2.2 percent due to a strong back to school selling period and favourable seasonal weather in the west. Outerwear, clothing accessories and athletic apparel were the top performing categories and owned-brands penetration increased over the prior year driven by Helly Hansen, Woods and Ripzone.

Retail sales at Mark's increased 6.4 percent and comparable sales increased 6.1 percent. The increase in retail sales was driven by men's apparel, casual and industrial footwear. Sales also benefited from additional promotions and cooler September weather in Western Canada. Strong sales in Quebec reflected customers' positive response to rebranding initiatives across the region.

Petroleum retail sales increased 15.1 percent primarily due to an increase in year-over-year per litre gas prices and higher non-gas sales partially offset by lower gas volume.

Revenue

Revenue increased \$338.3 million or 11.4 percent, compared to the prior year, excluding the impact of Petroleum which increased 15.7 percent; Retail segment revenue increased 10.6 percent, due to the inclusion of Helly Hansen revenue and strong revenue growth at Canadian Tire and Mark's.

Gross Margin

Gross margin dollars increased \$110.3 million or 12.4 percent. Normalized gross margin dollars increased \$115.3 million, or 12.9 percent, reflecting increased revenue and gross margin rate. Excluding Petroleum, the gross margin rate increased 81 bps and the normalized gross margin rate increased 99 bps. The gross margin rate reflects the positive contribution from Helly Hansen, strong growth at Canadian Tire due to favourable product cost and assortment changes, and increased penetration of owned-brands, partially offset by a lower gross margin rate at Mark's and FGL.

Other Income

Other income increased by \$6.3 million or 19.8 percent, primarily due to increased distributions earned from CT REIT units held by Retail segment, real estate gains, and foreign exchange gains at Helly Hansen.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$100.2 million, or 13.0 percent. Normalized selling, general and administrative expenses increased by \$82.8 million or 10.8 percent primarily due to:

- the inclusion of Helly Hansen's operating expenses;
- higher share based compensation expense driven by share price fluctuations;
- IT costs to support the execution of planned investments in the Company's key initiatives and areas such as brand and product development, digital retail and analytics capabilities;
- higher occupancy costs due to a change in the cost sharing arrangement with the Dealers, inflationary increases, lease renewals and higher property taxes compared to the prior year; and
- higher marketing and advertising expenses for the promotion of owned-brands;

partially offset by a:

- reduction in depreciation expense as a result of the change in methodology from declining balance to straight-line in first quarter of 2018.

Net Finance Cost

Net finance cost increased \$10.0 million primarily due to interest expense on recently issued medium-term notes and the inclusion of Helly Hansen's finance costs.

Retail Segment Year-to-Date 2018 versus Year-to-Date 2017

Retail sales on a year-to-date basis increased 4.6 percent. Petroleum retail sales increased 14.7 percent, resulting from higher year-over-year gas prices. Excluding Petroleum, Retail sales grew 2.8 percent driven by both seasonal and non-seasonal categories at Canadian Tire and Mark's. In addition, retail sales growth across all Retail banners reflected a strong product offering and successful promotional events. Revenue increased by 5.9 percent compared to prior year. Excluding the impact of Petroleum, which increased 15.3 percent, Retail segment revenue increased 4.1 percent primarily attributable to favourable product cost and assortment changes. Income before income taxes decreased \$48.7 million, or 12.5 percent. Normalized income before income taxes decreased \$17.2 million, or 4.4 percent. The positive impacts of top-line sales growth was more than offset by increased selling, general and administrative expenses driven by planned investments in supply chain, increased personnel costs and infrastructure projects.

4.2.4 Retail Segment Business Risks

The Retail segment is exposed to a number of risks in the normal course of business which has 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 Company's 2017 MD&A for a discussion of these business-specific risks. Also refer to section 12.2 contained in the Company's 2017 MD&A for a discussion of other industry-wide and Company-wide risks affecting the business.

4.3 CT REIT Segment Performance

4.3.1 CT REIT Segment Financial Results

(C\$ in millions)	Q3 2018	Q3 2017	Change	YTD Q3 2018	YTD Q3 2017	Change
Property revenue	\$ 117.7	\$ 109.3	7.7%	\$ 353.2	\$ 332.0	6.4 %
Property expense	26.2	22.7	15.4%	81.8	74.6	9.7 %
General and administrative expense	2.9	2.1	28.3%	8.8	8.2	5.0 %
Net finance costs	26.3	24.4	8.2%	78.3	72.0	8.8 %
Fair value (gain) adjustment	(16.8)	(10.5)	60.3%	(42.1)	(43.0)	(2.0)%
Income before income taxes	\$ 79.1	\$ 70.6	12.2%	\$ 226.4	\$ 220.2	2.8 %

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 8.3.1 in this MD&A for definitions and further information on performance measures.

(C\$ in millions)	Q3 2018	Q3 2017	Change	YTD Q3 2018	YTD Q3 2017	Change
Net operating income ¹	\$ 86.8	\$ 80.9	7.3%	\$ 257.5	\$ 240.3	7.1%
Funds from operations ¹	62.2	59.7	4.2%	184.0	177.2	3.8%
Adjusted funds from operations ¹	\$ 51.9	\$ 48.9	6.1%	\$ 153.3	\$ 144.7	5.9%

¹ Non-GAAP measures, refer to section 8.3.2 in this MD&A for additional information.

CT REIT Segment Third-Quarter 2018 versus Third-Quarter 2017

Earnings Summary

Income before income taxes increased by \$8.5 million, or 12.2 percent, primarily due to an increase in earnings attributable to the income generated from properties acquired and intensification activities completed during 2018 and 2017, an increase in the fair value gain on investment properties, partially offset by an increase in interest expense.

Property Revenue

Property revenue consists of base rent as well as operating cost and property tax recoveries. Property revenue increased \$8.4 million, or 7.7 percent, primarily due to higher base rent relating to properties acquired and intensification activities completed during 2018 and 2017.

Of the \$117.7 million in property revenue received, \$106.4 million was from CTC. The property revenue received from CTC was 5.7 percent higher than the prior year of \$100.7 million.

Property Expense

Property expense for the quarter was \$26.2 million, an increase of \$3.5 million or 15.4 percent over the prior year, primarily due to property acquisitions in 2018 and 2017. The majority of the property expense costs are recoverable from tenants, with CT REIT absorbing these expenses where 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 primarily relate to personnel costs, public entity and ongoing operational costs, and outsourcing 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 increased by 28.3 percent compared to the prior year due to increased personnel expenses due to the variable component of compensation awards and increased head count.

Net Finance Costs

Net finance costs consist primarily of distributions on the Class C LP units held by CTC, and interest on debentures. Net finance costs increased by \$1.9 million, primarily due to higher interest expense from the issuance of Series E debentures in June 2017 and Series F debentures in February 2018. The increase was partially offset by the redemption of Series 10-15 Class C LP Units in May 2017, lower utilization of the Bank Credit Facility and increased interest capitalization on development projects in 2018.

Net Operating Income

NOI was \$86.8 million, an increase of \$5.9 million, or 7.3 percent, primarily due to property acquisitions and properties under development completed in 2018 and 2017. NOI is a non-GAAP measure. Refer to section 8.3.2 for additional information.

Funds from Operations and Adjusted Funds from Operations

FFO and AFFO for the quarter were \$62.2 million and \$51.9 million, respectively. FFO and AFFO were higher compared to the prior year by \$2.5 million and \$3.0 million, respectively, primarily due to property acquisitions and properties under development completed in 2018 and 2017, partially offset by higher interest expense. FFO and AFFO are non-GAAP measures. Refer to section 8.3.2 for additional information.

CT REIT Segment Year-to-Date 2018 versus Year-to-Date 2017

Property revenue was \$353.2 million of which \$319.1 million was from CTC. Property revenue received from CTC was 4.0 percent higher than the prior year of \$306.7 million. Property expense for the quarter was \$81.8 million, an increase of \$7.2 million or 9.7 percent over the prior year, primarily due to property acquisitions in 2018 and 2017. The majority of the property expense costs are recoverable from tenants, with CT REIT absorbing these expenses where vacancies exist.

NOI was \$257.5 million, an increase of \$17.2 million, or 7.1 percent, primarily due to property acquisitions and properties under development completed in 2018 and 2017. NOI is a non-GAAP measure. Refer to section 8.3.2 for additional information. FFO and AFFO for the quarter were \$184 million and \$153.3 million, respectively. FFO and AFFO were higher compared to the prior year by \$6.8 million and \$8.6 million, respectively, primarily due to property acquisitions and properties under development completed in 2018 and 2017, partially offset by higher interest expense. FFO and AFFO are non-GAAP measures. Refer to section 8.3.2 for additional information.

4.3.2 CT REIT Segment Business Risks

CT REIT is exposed to a number of risks in the normal course of business which has 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 Company's 2017 MD&A for a discussion of these business-specific risks and to section 12.2 of the Company's 2017 MD&A 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, 2017 for further discussion of risks that affect CT REIT's operations.

4.4 Financial Services Segment Performance

4.4.1 Financial Services Segment Financial Results

(C\$ in millions)	Q3 2018	Q3 2017	Change	YTD		Change
				Q3 2018	Q3 2017	
Revenue	\$ 325.6	\$ 294.6	10.5%	\$ 937.1	\$ 863.9	8.5%
Gross margin dollars	209.8	176.4	19.0%	546.5	524.9	4.1%
Gross margin (% of revenue)	64.4%	59.9%	459 bps	58.3%	60.8%	(244) bps
Other (income)	(0.1)	(0.1)	NM ¹	(0.9)	(0.1)	NM ¹
Selling, general and administrative expenses	78.3	76.5	2.5%	247.8	226.4	9.5%
Net finance (income)	(0.3)	(0.2)	96.3%	(0.8)	(0.4)	110.7%
Income before income taxes	\$ 131.9	\$ 100.2	31.6%	\$ 300.4	\$ 299.0	0.5%

¹ Not meaningful.

Selected Normalized Metrics - Financial Services

(C\$ in millions)	Q3 2018	Q3 2017	Change	YTD		Change
				Q3 2018	Q3 2017	
Normalized ¹ selling, general and administrative expenses	\$ 78.3	\$ 76.5	2.4%	\$ 234.3	\$ 226.4	3.5%
Normalized ¹ income before income taxes	\$ 131.9	\$ 100.2	31.6%	\$ 313.9	\$ 299.0	5.0%

¹ Refer to section 4.1.1 for a description of normalized items.

4.4.2 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 8.3.1 in this MD&A for definitions and further information on performance measures.

(C\$ in millions)	Q3 2018	Q3 2017	Change	YTD		Change
				Q3 2018	Q3 2017	
Credit card sales growth ¹	11.4%	7.6%		9.9%	7.8%	
Gross average accounts receivable (GAAR)	\$ 5,909.5	\$ 5,313.8	11.2%	\$ 5,736.0	\$ 5,199.0	10.3%
Revenue ² (as a % of GAAR)	21.70%	21.98%	(28 bps)	n/a	n/a	
Average number of accounts with a balance ³ (thousands)	2,074	1,918	8.1%	2,008	1,876	7.1%
Average account balance ³ (whole \$)	\$ 2,848	\$ 2,769.0	2.9%	\$ 2,855	\$ 2,769.0	3.1%
Net credit card write-off rate ^{2, 3, 6}	5.39%	5.50%		n/a	n/a	
Past due credit card receivables ^{3, 4} ("PD2+")	2.73%	2.53%		n/a	n/a	
Allowance rate ⁵	12.43%	1.97%		n/a	n/a	
Operating expenses ² (as a % of GAAR)	5.82%	5.87%		n/a	n/a	
Return on receivables ²	6.88%	7.45%		n/a	n/a	

¹ Credit card sales growth excludes balance transfers.

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

³ Credit card portfolio only.

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

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

⁶ The net credit card write-off rate was favourably impacted by 34 bps due to a change in Management's estimate of the present value of regular recoveries.

Financial Services Segment Third-Quarter 2018 versus Third-Quarter 2017

Earnings Summary

Income before income taxes of \$131.9 million increased \$31.7 million, or 31.6 percent. The increase in income before taxes was primarily due to strong revenue growth, and the positive impact of a change in Management's estimate of the present value of regular recoveries resulting in a year-to-date adjustment of \$21.4 million, and a \$15 million reduction in the incremental allowance for loans receivables due to improved customer default rates compared to the original expected

credit loss (“ECL”) model assumptions. This was partially offset by the unfavourable impact of a lower allowance rate under pre-IFRS 9 accounting rules in the prior year.

Revenue

Revenue increased \$31.0 million, or 10.5 percent, due to higher credit charges resulting from increased GAAR and higher interchange revenue due to strong credit card sales. GAAR increased 11.2 percent driven by an 8.1 percent growth in the number of average active accounts compared to the prior year. The continued strong growth 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, including the launch of the Triangle Rewards program and associated credit cards. This was partially offset by a decrease in interest revenue resulting from the adoption of IFRS 9, as interest revenue on credit impaired accounts (stage 3) is calculated net of ECL allowance. Refer to Note 2 in the condensed interim consolidated financial statements for additional information regarding the adoption of IFRS 9.

Gross Margin

Gross margin dollars increased 19.0 percent due to higher credit charges from strong GAAR growth, the favourable impact from a change in Management’s estimate of the present value of regular recoveries resulting in a year-to-date adjustment of \$21.4 million, and a \$15 million reduction in the incremental allowance for loans receivables due to improved customer default rates compared to the original ECL model assumptions (which resulted in a decrease in the allowance rate of 20 bps). This was partially offset by increased regular and insolvency write-offs. The allowance rate, which has increased from approximately 2.0 percent last year to 12.4 percent this year, is within the previously disclosed projected range of 11.5 to 13.5 percent.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$1.8 million, or 2.5 percent, primarily due to volume-related increases in credit card operations, partially offset by lower marketing costs.

Financial Services Segment Year-to-Date 2018 versus Year-to-Date 2017

Revenue increased \$73.2 million, or 8.5 percent compared to the prior year due to increased credit card charges as a result of an increase in GAAR. The growth in GAAR was driven by an increase in the number of average active accounts and higher interchange revenue due to strong credit card sales. This was partially offset by a decrease in interest revenue resulting from the adoption of IFRS 9, as interest revenue on credit impaired accounts (stage 3) is calculated net of allowance for expected credit losses. Refer to Note 2 in the condensed interim consolidated financial statements for additional information regarding the adoption of IFRS 9.

Income before income taxes of \$300.4 million increased \$1.4 million, or 0.5 percent, primarily due to strong revenue growth of 8.5 percent due to higher credit charges, interchange revenue, and favourable impact from a change in Management’s estimate of the present value of regular recoveries, as previously discussed. This was partially offset by an increase in incremental credit card allowance, increase in write-offs, costs associated with roll-out of Triangle Rewards program, and an increase in selling, general and administrative expenses. Normalizing for the one-time costs relating to the Triangle Rewards program, income before taxes of \$313.9 million increased \$14.9 million or 5.0 percent over the prior year’s earnings. The earnings increase is mainly attributable to the reasons as stated above.

4.4.3 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, funding risk, interest rate risk, and regulatory risk. Refer to sections 7.4.3 of the Company’s 2017 MD&A for a discussion of these business-specific risks. Also refer to section 12.2 in the Company’s 2017 MD&A for a discussion of additional industry-wide and Company-wide risks.

5.0 Balance Sheet Analysis, Liquidity, and Capital Resources

5.1 Selected Balance Sheet Highlights

Selected line items from the Company's assets, liabilities, as at September 29, 2018, September 30, 2017, and December 30, 2017 are noted below:

(C\$ in millions)	September 29, 2018	September 30, 2017 ¹	December 30, 2017 ¹
Assets			
Cash and cash equivalents	\$ 446.4	\$ 653.4	\$ 437.0
Short-term investments	151.3	146.1	132.5
Trade and other receivables	976.4	810.4	681.1
Loans receivable	5,277.7	5,295.7	5,613.2
Merchandise inventories	2,395.8	2,280.9	1,769.8
Income taxes recoverable	105.7	50.0	48.3
Prepaid expenses and deposits	154.3	134.0	113.1
Long-term receivables and other assets	707.2	759.4	717.8
Goodwill and intangible assets	2,265.6	1,281.5	1,292.9
Property and equipment	4,208.4	4,059.2	4,193.3
Deferred income taxes	217.2	133.0	117.2
Total assets	17,473.2	16,081.7	15,627.0
Liabilities			
Bank indebtedness	\$ 23.0	\$ —	\$ —
Trade and other payables	2,421.6	2,296.0	2,230.8
Short-term borrowings	829.1	228.1	144.6
Loans payable	647.9	713.4	667.1
Income taxes payable	78.7	31.4	72.1
Current portion of long-term debt	787.2	456.7	282.3
Long-term debt	4,038.2	3,377.5	3,122.1
Deferred income taxes	188.5	96.3	102.3
Other long-term liabilities	832.8	832.1	848.2
Total liabilities	12,378.8	10,585.5	10,060.9

¹ Certain prior period figures have been restated due to the adoption of new accounting standards (refer to Note 2 of the condensed interim consolidated financial statements).

The explanations for movement in the Company's assets and liabilities include references to Helly Hansen. Refer to section 11.0 of this MD&A and Note 19 of the condensed interim consolidated financial statements for the fair value of the assets and liabilities acquired.

Consolidated Year-over-year as at September 29, 2018 versus September 30, 2017

The year-over-year increase in total assets of \$1,391.5 million was primarily due to:

- an increase in goodwill and intangibles amounting to \$984.1 million resulting primarily from the acquisition of Helly Hansen;
- an increase in trade and other receivables of \$166.0 million primarily due to the inclusion of Helly Hansen, partially offset by the timing of collections at Canadian Tire and FGL;
- additions to property and equipment of \$149.2 million resulting from capital expenditures including investment in the retail network, acquisitions by CT REIT from third parties, land development activities and the inclusion of Helly Hansen property and equipment balances;
- an increase in merchandise inventories of \$114.9 million primarily attributable to the inclusion of Helly Hansen and increased inventory at Canadian Tire and Mark's to support sales in the fall and winter seasons, partially offset by a decrease in inventory at FGL;
- an increase in investment property of \$92.6 million primarily attributable to CT REIT's property intensification and acquisitions from third parties;
- an increase in deferred income taxes of \$84.2 million primarily driven by the adoption of IFRS 9, and inclusion of Helly Hansen; and
- an increase in income tax recoverable of \$55.7 million. The higher recoverable balance arises from lower taxable income, the timing of tax installments paid with respect to 2018 compared with 2017, and the impact of IFRS 9;

partially offset by:

- a decrease in cash and cash equivalents of \$207.0 million, or \$230.0 million net of bank indebtedness (refer to Summary cash flows in section 5.2 of this MD&A); and
- a decrease in long-term receivables and other assets of \$52.2 million driven by receivables under the Franchise Trust Dealers Program.

The year-over-year increase in total liabilities of \$1,793.3 million was primarily due to:

- a net increase in debt (current portion and long-term) of \$991.2 million primarily attributable to the issuance of \$200.0 million senior unsecured debentures by CT REIT, issuance of \$650.0 million of medium-term notes by the corporation and Glacier Credit Card Trust's ("GCCT") senior and subordinated notes of \$584.0 million. This was partially offset by the maturity of \$423.0 million senior and subordinated GCCT notes and repayment of mortgages in CT REIT;
- an increase in short-term borrowings of \$601.0 million primarily driven by the issuance of \$200.0 million of asset-backed commercial paper, increase in borrowings by \$275.0 million at CTC, inclusion of Helly Hansen's short-term borrowings and the utilization of the Company's credit facilities; and
- an increase in trade and other payables of \$125.6 million mainly driven by the buildup of inventory in preparation of the fourth quarter, incremental purchases in key categories such as kids fun, the inclusion of Helly Hansen, and an increase in the liability for Canadian Tire Money;

partially offset by:

- a decrease in loans payable by \$65.5 million driven by loans under the Franchise Trust Dealer Loan Program; and
- a net decrease in deposits (current portion and long-term) of \$29.4 million due to a lower volume of high interest savings accounts offset by an increase in GIC deposits in the Financial Services segment.

Consolidated as at September 29, 2018 versus December 30, 2017

Total assets increased \$1,846.2 million compared to December 30, 2017 primarily due to:

- an increase in goodwill and intangibles amounting to \$972.7 million resulting primarily from the acquisition of Helly Hansen;
- an increase in merchandise inventory of \$626.0 million driven by seasonality and the inclusion of Helly Hansen;
- an increase in trade and other receivables by \$295.3 million attributable to the inclusion of Helly Hansen, increase in shipments to franchisees, partially offset by the timing of payments relating to the Company's cost sharing arrangement with Dealers and favourable valuation of the Company's foreign exchange portfolio;
- an increase in deferred income taxes of \$100.0 million driven by the inclusion of Helly Hansen's deferred income taxes and timing differences due to the adoption of IFRS 9; and
- an increase in investment property of \$41.7 million primarily attributable to CT REIT's property intensification and acquisitions from third parties;

partially offset by:

- a decrease in loans receivable of \$335.5 million attributable to an increase in the credit card allowance as a result of the adoption of IFRS 9, partially offset by GAAR growth; and
- a decrease of cash and cash equivalents, net of bank indebtedness (for details refer to the Summary of cash flows in section 5.2 of this MD&A).

Total liabilities increased \$2,317.9 million compared to December 30, 2017 primarily due to:

- a net increase in debt (current portion and long-term) of \$1,421.0 million primarily attributable to the issuance of \$200.0 million debentures by CT REIT in February 2018, the issuance of \$650.0 million of medium-term notes in July 2018 and GCCT's senior and subordinated notes of \$584.0 million in September 2018;
- an increase in short-term borrowings primarily driven by the issuance of commercial paper, the inclusion of Helly Hansen's short-term borrowings and the utilization of the Company's credit facilities;
- an increase in trade and other payables of \$190.8 million due to the inclusion of Helly Hansen partially offset by the timing in payments made to vendors; and
- an increase in deferred income taxes of \$86.2 million primarily driven by the inclusion of Helly Hansen;

partially offset by:

- a decrease in income taxes payable attributable to the timing of payment of tax liabilities during the quarter; and
- a net decrease in deposits (current portion and long-term) due to a lower volume of high interest savings accounts and in GIC deposits 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 2018.

5.2 Summary Cash Flows

The Company's cash and cash equivalents position, net of bank indebtedness, was \$423.4 million at September 29, 2018.

The Company's Condensed Interim Consolidated Statements of Cash Flows for the quarters ended September 29, 2018 and September 30, 2017 are noted in the following table:

(C\$ in millions)				YTD		YTD	
	Q3 2018	Q3 2017	Change	Q3 2018	Q3 2017	Change	
Cash generated from operating activities before the undernoted item	\$ 40.0	\$ 64.4	\$ (24.4)	\$ 245.2	\$ 295.6	\$ (50.4)	
Change in loans receivable	(120.0)	(45.2)	(74.8)	(244.8)	(159.9)	(84.9)	
Cash (used for) generated from operating activities	(80.0)	19.2	(99.2)	0.4	135.7	(135.3)	
Cash generated from (used for) investing activities before the undernoted items	3.7	(8.3)	12.0	4.4	(32.5)	36.9	
Change in short-term and long-term investments	1.9	231.7	(229.8)	(29.7)	5.9	(35.6)	
Additions to property and equipment, investment property and intangibles	(121.1)	(144.6)	23.5	(371.6)	(338.9)	(32.7)	
Business Combinations, net of cash acquired (Note 19)	(762.9)	(19.3)	(743.6)	(762.9)	(19.3)	(743.6)	
Proceeds on disposition of property and equipment and investment property	0.3	1.6	(1.3)	17.9	2.1	15.8	
Cash (used for) generated from investing activities	(878.1)	61.1	(939.2)	(1,141.9)	(382.7)	(759.2)	
Cash (used for) financing activities before the undernoted items	(71.8)	(93.0)	21.2	(215.0)	(170.4)	(44.6)	
Change in long-term debt and short-term borrowings	1,263.0	134.2	1,128.8	1,791.7	540.3	1,251.4	
Repurchase of share capital	(116.4)	(153.7)	37.3	(398.4)	(478.0)	79.6	
Change in deposits	(21.8)	(3.7)	(18.1)	(50.4)	184.7	(235.1)	
Cash generated from (used for) financing activities	1,053.0	(116.2)	1,169.2	1,127.9	76.6	1,051.3	
Cash generated (used) in the period	\$ 94.9	\$ (35.9)	\$ 130.8	\$ (13.6)	\$ (170.4)	\$ 156.8	

Consolidated Third-Quarter 2018 versus Third-Quarter 2017

The Company's cash generated in the quarter was \$94.9 million compared to cash used of \$35.9 million in the third quarter of the prior year. The \$130.8 million variance was primarily due to:

- an increase in the source of cash from long-term debt and short-term borrowings of \$1,128.8 million due to the issuance of \$650.0 million of medium-term notes and GCCT senior and subordinated notes of \$584.0 million, which was offset by the repayment of \$216.5 million of loans to the former owners of Helly Hansen and a decrease in the net issuance of short-term borrowings amounting to \$101.1 million; and
- a decreased spend in connection with the Company's share repurchase program;

partially offset by:

- the acquisition of Helly Hansen (refer to section 11.0 of this MD&A and Note 19 of the condensed interim consolidated financial statements);
- the inflow of cash in the prior year from the decline in short-term investments; and
- an increase in loans receivable driven by higher active accounts and a higher balance per account in the Financial Services segment.

Consolidated Year-to-Date 2018 versus Year-to-Date 2017

On a year-to-date basis, the Company's cash used in the period decreased to \$13.6 million from \$170.4 million in the prior year. The \$156.8 million improvement was primarily due to:

- a \$1,251.4 million increase in cash generated from financing activities mainly comprising the issuance of long-term debt of \$200 million by CT REIT, \$650.0 million by the Company and \$584.0 million by GCCT compared to the issuance of long-term debt in the prior period of \$560.0 million by GCCT and \$175.0 million by CT REIT and repayment of GCCT notes amounting to \$211.6 million. Additionally the net increase of short-term borrowings during the period of \$348.1 million by the Financial Services segment, the repayment of \$216.5 million of loans to the former owners of Helly Hansen, and draws on the Company's bank lines were partially offset by net higher transaction costs related to the issuance of debt during the period; and
- a decreased spend in connection with the Company's share repurchase program;

partially offset by:

- an increase in spend by \$743.6 million related to business combinations during the period (refer to section 11.0 of this MD&A and Note 19 of the condensed interim consolidated financial statements);
- a decrease of \$235.1 million relating to deposits in the Financial Services segment;
- a decrease in short-term and long-term investments of \$35.6 million based on the liquidity requirements of the Company;
- an increase in additions of \$32.7 million to property and equipment, investment property, and intangibles due to an increase in spending on real estate initiatives, acquisition of properties by CT REIT from third parties and acquisition of Sherwood trademarks compared to prior year; and
- an increase in proceeds on disposition of property and equipment and investment property attributable to the sale of surplus property.

5.3 Capital Management

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

5.3.1 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.

5.3.2 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 Company's 2017 Consolidated Financial Statements, which includes GCCT 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 29, 2018 to reported GAAP measures is provided in section 8.3.2 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 credit 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 29, 2018 and September 30, 2017. 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 29, 2018 and September 30, 2017. 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 was in compliance with all financial covenants under its bank line of credit and note purchase facilities.

5.4 Investing

5.4.1 Capital Expenditures

The Company's capital expenditures for periods ended September 29, 2018 and September 30, 2017 were as follows:

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Real estate	\$ 73.0	\$ 46.0	\$ 134.7	\$ 100.3
Information technology	45.3	38.9	102.5	111.3
Other operating	20.8	14.3	48.3	26.4
Operating capital expenditures	139.1	99.2	285.5	238.0
CT REIT acquisitions and developments excluding vend-ins from CTC ¹	17.1	41.6	93.6	55.3
Distribution capacity	1.0	4.7	1.2	33.2
Total capital expenditures²	\$ 157.2	\$ 145.5	\$ 380.3	\$ 326.5

¹ CT REIT capital expenditures include the construction of stores under Mark's and FGL banners of \$0.6 million in Q3 2018 (2017 - \$0.2 million) and \$3.6 million YTD Q3 2018 (2017 - \$1.0 million).

² Capital expenditures are presented on an accrual basis and include software additions, but exclude acquisitions relating to business combinations, intellectual properties and tenant allowances received.

Total capital expenditures increased by \$11.7 million in the quarter and \$53.8 million year-to-date primarily due to increases in intensifications and development activities in real estate and CT REIT acquisitions. This was partially offset by lower spend in the quarter and year to date on distribution, as the project became operational in the third quarter of 2017.

Capital Commitments

The Company had commitments of approximately \$205.4 million as at September 29, 2018 (2017 – \$61.2 million) for the acquisition of tangible and intangible assets.

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

Operating Capital Expenditures

As previously announced, the Company expects its three-year average annual operating capital expenditures to be within the range of \$450 million to \$500 million from 2018 to 2020. This excludes spending for operational efficiency initiatives that may be identified.

For fiscal 2018, the Company expects annual operating capital expenditures to be at or below the previously disclosed range of \$450 million to \$500 million due to lower real estate and information technology expenditures.

The company expects its 2019 annual operating capital expenditure to be within the range of \$475 million to \$550 million. The Company expects 2019 operating capital spend to increase over 2018, due to a shift in timing of real estate projects as well as planned incremental investment in Canadian Tire and Mark's store networks. This forecast excludes spending for operational efficiency initiatives that may be identified.

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

5.5 Liquidity and Financing

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

Commercial Paper

In the first quarter of 2018, GCCT increased the amount of commercial paper outstanding by \$200.0 million. As at September 29, 2018, \$292.8 million of commercial paper notes were outstanding and the term of GCCT's \$300.0 million liquidity facility, which provides backstop protection to its Series 1997-1 asset-backed commercial paper program, was extended to August 2021.

Committed Bank Lines of Credit

During the current quarter, the term of CTC's committed bank line of credit totaling \$1.975 billion was extended to August 2023.

As at September 29, 2018, CTC had \$399.3 million of borrowings outstanding under its committed bank line of credit. Helly Hansen had a total of \$104.0 million of Canadian Dollar equivalent borrowings outstanding across its committed bank lines of credit (531 million Norwegian Krone ["NOK"]) and its factoring facility (142 million NOK), CT REIT had \$33.0 million of borrowings and \$2.3 million of letters of credit outstanding under its committed bank line of credit, and CTB had no borrowings outstanding under either of its committed bank line of credit or note purchase facilities.

Subsequent to September 29, 2018, CTB extended the term of its committed bank line of credit totaling \$250.0 million to October 2021 and extended the terms of its committed note purchase facilities, for purchase of up to \$2.0 billion of senior and subordinated notes issued by GCCT, to October 2021.

Medium-Term Notes and Debentures

During the first quarter of 2018, CT REIT issued \$200.0 million aggregate principal amount of senior unsecured debentures. The debentures have a coupon rate of 3.865 percent and mature December 7, 2027.

On July 3, 2018, the Company completed the issuance of \$650.0 million aggregate principal amount of unsecured medium-term notes, consisting of \$250.0 million aggregate principal amount of 2.646 percent Series E Unsecured Medium-Term Notes due July 6, 2020 and \$400.0 million aggregate principal amount of 3.167 percent Series F Unsecured Medium-Term Notes due July 6, 2023.

On September 13, 2018, GCCT completed the issuance of \$584.0 million of Series 2018-1 term notes that have an expected repayment date of September 20, 2023, consisting of \$546.0 million principal amount of senior notes that bear an interest rate of 3.138 percent per annum, and \$38.0 million principal amount of subordinated notes that bear an interest rate of 4.138 percent per annum.

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 Company's 2017 MD&A.

5.5.1 Contractual Obligations, Guarantees, and Commitments

The Company funds capital expenditures, working capital needs, dividend payments, and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under 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 30, 2017, refer to section 8.5.1.1 of the Company's 2017 MD&A. 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 29, 2018.

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 Company's 2017 Consolidated Financial Statements. The Company's maximum exposure to credit risk with respect to such guarantees and commitments is provided in Note 5 to the Company's 2017 Consolidated Financial Statements. There were no significant changes in guarantees and commitments identified at year end, other than those discussed in this document.

6.0 Equity

6.1 Shares Outstanding

(C\$ in millions)	September 29, 2018	September 30, 2017	December 30, 2017
Authorized			
3,423,366 Common Shares			
100,000,000 Class A Non-Voting Shares			
Issued			
3,423,366 Common Shares (September 30, 2017 – 3,423,366; December 30, 2017 – 3,423,366)	\$ 0.2	\$ 0.2	\$ 0.2
60,725,958 Class A Non-Voting Shares (September 30, 2017 – 64,141,483; December 30, 2017 – 63,066,561)	601.0	623.9	615.5
	\$ 601.2	\$ 624.1	\$ 615.7

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 9, 2017, the Company announced its intention to repurchase \$550 million of its Class A Non-Voting Shares by the end of 2018, in excess of the amount of shares required to be purchased for anti-dilutive purposes. On February 20, 2018, the TSX accepted the Company’s notice of intention to make an NCIB to purchase up to 5.9 million Class A Non-Voting Shares during the period from March 2, 2018 through March 1, 2019, representing approximately 9.4 percent of the Class A Non-Voting Shares issued and outstanding as at February 14, 2018.

The following table summarizes the Company’s purchases relating to the November 9, 2017 announcement:

(C\$ in millions)		
Share buy-back intention announced on November 9, 2017	\$	550.0
Shares repurchased in 2017 under the November 9, 2017 announcement		100.0
Shares repurchased from December 31, 2017 through September 29, 2018		393.2
Shares remaining to be repurchased in 2018 under the November 9, 2017 announcement	\$	56.8

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

In October 2018, the Company completed the repurchases under the November 9, 2017 announcement. The Company intends to repurchase a further \$300 million to \$400 million of its Class A Non-Voting Shares, in excess of the amount required for anti-dilutive purposes, by the end of fiscal 2019, subject to regulatory approval of the renewal of the Company’s NCIB.

6.2 Dividends

The Company has a consistent record of increasing its annual dividend and on November 9, 2017 announced an increase to the dividend payout ratio target to approximately 30 to 40 percent of the prior year normalized earnings, after giving consideration to the period end cash position, future cash flow requirements, capital market conditions, and investment opportunities.

The Company has approved an increase in its annual dividend from \$3.60 to \$4.15 per share and declared dividends payable to holders of Class A Non-Voting Shares and Common Shares at a rate of \$1.0375 per share, an increase of \$0.1375 or 15.3% per share on its quarterly dividend, payable on March 1, 2019 to shareholders of record as of January 31, 2019. The dividend is considered an “eligible dividend” for tax purposes.

6.3 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 315,000 stock option and performance share units settled and resulted in a payment to the counterparties of approximately \$2.6 million. Also during the quarter, the Company entered into 140,000 floating-rate equity forwards at a weighted average purchase price of \$158.8069 to offset its exposure to stock options and performance share units.

7.0 Tax Matters

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

There have been no material changes in the status of ongoing audits by tax authorities as disclosed in section 10.0 in the Company's 2017 MD&A.

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. For a discussion of the Company's tax contingency, refer to Note 18. Contingencies of the Company's interim consolidated financial statements for the third quarter of 2018.

Income taxes for the 13 and 39 weeks ended September 29, 2018 were \$81.9 million (2017 – \$68.3 million) and \$176.5 million (2017 – \$184.8 million), respectively. The effective tax rate for the 13 weeks ended September 29, 2018 was 26.1 percent (2017 – 25.6 percent) primarily due to the decrease in adjustments to tax estimates and non-deductible acquisition-related costs, partially offset by lower non-deductible stock option expense in the period.

The effective tax rate for the 39 weeks ended September 29, 2018 was 25.9 percent (2017 – 26.1 percent), primarily due to lower non-deductible stock option expense in the period.

The following represents forward-looking information and users are cautioned that actual results may vary.
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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 2018 to be 27.0 percent. Management continues to expect the tax rate to be approximately 27 percent, subject to adjustments to non-deductible stock option expense in the fourth quarter.

Management expects the annual effective tax rate, excluding any impact of the change in fair value of the redeemable financial instrument, for fiscal 2019 to be approximately 26.5 percent.

8.0 Accounting Policies, Estimates, and Non-GAAP Measures

8.1 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, 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 Company's 2017 Consolidated Financial Statements do not require Management to make assumptions about matters that are highly uncertain and, accordingly, none of those estimates are considered a "critical accounting estimate" as defined in Form 51-102F1 - *Management Discussion and Analysis*, published by the 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". Accounting standards relating to the allowance for loan impairments have changed effective for the Company's 2018 fiscal year. The Company's estimate of allowances on credit card loans receivable is based on an expected credit loss approach that employs an analysis of historical data and experience of delinquency and default, to estimate the amount of loans that may default as a result of past or future events, with certain adjustments for other relevant circumstances influencing the recoverability of these loans receivable. Impairment of loans is assessed based on whether there has been a significant increase in credit risk since origination and incorporation of forward-looking information in the measurement of expected credit losses. Default rates, loss rates, and the expected timing of future recoveries are periodically benchmarked against actual outcomes to ensure that they remain appropriate.

8.1.1 Change in Accounting Estimates

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

Effective in the first quarter 2018, the Company changed its depreciation method to straight-line for all its depreciable assets that were previously depreciated using the declining balance method. The Company believes that the straight-line method of depreciation better reflects the pattern of consumption of the economic benefits of the assets. In accordance with IFRS, this is considered a change in accounting estimate and has been accounted for prospectively. This change resulted in a one-time charge (due to accelerated depreciation) in Q1 2018 of \$16.9 million. In addition, under the straight-line methodology the Company expects that the ratio measuring its annual depreciation expense as a percentage of consolidated revenue will decrease by approximately 40 to 50 bps. The ratio may also vary due to, among other items, the timing and type of assets coming in and out of service and fluctuations to capital expenditures and revenue.

8.2 Changes in Accounting Policies

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 29, 2018 and, accordingly, have not been applied in preparing the condensed interim consolidated financial statements.

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

Leases

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 - *Leases* ("IFRS 16"), which will replace 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 retained. IFRS 16 is expected to have a material impact on the Company's Consolidated Balance Sheets, with the addition of lease liabilities and right-of-use assets. There will be a shift in the timing of expense recognition in the Consolidated Statements of Income. IFRS 16 will change the presentation of cash flows relating to leases in the Company's Consolidated Statements of Cash Flows, but does not cause a difference in the amount of cash transferred between the parties of a lease.

IFRS 16 will be applied for the 2019 annual fiscal period. The Company is currently analyzing the full impact of the adoption of IFRS 16.

The Company has upgraded its accounting system and is implementing processes and internal controls to enable the application of IFRS 16 for 2019.

Insurance Contracts

In May 2017, the IASB issued IFRS 17 - *Insurance Contracts* ("IFRS 17"), that replaces IFRS 4 - *Insurance Contracts* and establishes a new model for recognizing insurance policy obligations, premium revenue, and claims-related expenses. IFRS 17 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.

8.3 Key Operating Performance Measures and Non-GAAP Financial Measures

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

8.3.1 Key Operating Performance Measures

Retail Sales

Retail sales refers to the POS value of all goods and services sold to retail customers at stores operated by Dealers, Mark's and FGL franchisees, and Petroleum retailers, at corporately-owned stores across all retail banners, services provided as part of the Home Services offering, and of goods sold through the Company's online sales channels, and in aggregate does not form a part of the Company's condensed interim consolidated financial statements. Retail sales has been included as one of the Company's financial aspirations. Sales descriptions for the retail banners can be found in the footnotes to the table contained within section 4.2.2 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, 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 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.

Comparable Sales

Effective Q2 2018, the term same-store sales has been replaced with comparable sales with no change in the metric's definition or calculation.

Comparable sales is a metric used by Management and is also commonly used in the retail industry to identify sales growth generated by a Company's existing store network and removes the effect of opening and closing stores in the period. 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, comparable 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 comparable sales which include comparable sales at Canadian Tire (including PartSource), FGL, and Mark's but excludes comparable sales at Petroleum. Additional information on comparable sales and retail sales growth descriptions for Canadian Tire, Mark's, and FGL can be found in section 4.2.2 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 can be found in section 4.2.2 of this MD&A.

Retail Return on Invested Capital

The Company believes that Retail ROIC is useful in assessing the return on capital invested in its retail assets. Retail ROIC is calculated as the rolling 12-month retail earnings divided by average invested retail capital. Retail earnings are defined as Retail segment after-tax earnings excluding interest expense, inter-segment earnings, minimum lease payments, non-controlling interests, and any normalizing items. 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.

8.3.2 Non-GAAP Financial Measures

Adjusted Normalized EBITDA and Adjusted EBITDA

The following table reconciles the consolidated normalized income before income taxes, net finance costs, depreciation and amortization, and any change in fair value of redeemable financial instrument, or Adjusted normalized 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 29, 2018 and September 30, 2017. 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 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Normalized adjusted EBITDA	\$ 479.5	\$ 417.7	\$ 1,154.6	\$ 1,135.3
Less normalizing items:				
The roll-out of the Triangle Rewards program and associated credit cards	—	—	17.3	—
Helly Hansen:				
Acquisition related costs	17.4	—	22.7	—
Fair value adjustment for inventories acquired ¹	5.0	—	5.0	—
Adjusted EBITDA	\$ 457.1	\$ 417.7	\$ 1,109.6	\$ 1,135.3
Change in fair value of redeemable financial instrument	—	—	—	—
EBITDA	\$ 457.1	\$ 417.7	\$ 1,109.6	\$ 1,135.3
Less:				
Depreciation and amortization ²	100.5	119.4	321.5	344.6
Net finance costs	43.4	31.5	106.8	82.5
Income before income taxes	\$ 313.2	\$ 266.8	\$ 681.3	\$ 708.2
Income taxes	81.9	68.3	176.5	184.8
Effective tax rate	26.1%	25.6%	25.9%	26.1%
Net income	\$ 231.3	\$ 198.5	\$ 504.8	\$ 523.4
Net income attributable to non-controlling interests	27.5	21.9	67.0	64.1
Net income attributable to shareholders of Canadian Tire Corporation	\$ 203.8	\$ 176.6	\$ 437.8	\$ 459.3

¹ Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.

² Includes \$1.7 million reported in cost of producing revenue in the quarter (2017 - \$1.7 million) and \$4.8 million in 2018 (2017 - \$5.0 million).

The following table reconciles Helly Hansen's EBITDA to net income which is a GAAP measure reported in Note 19 in the condensed interim consolidated financial statements for the period ended September 29, 2018.

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
EBITDA	\$ 28.8	\$ —	\$ 28.8	\$ —
Less:				
Depreciation and amortization	1.8	—	1.8	—
Net finance costs	2.5	—	2.5	—
Income before income taxes	24.5	—	24.5	—
Income taxes	5.6	—	5.6	—
Effective tax rate	23.0%	—	23.0%	—
Net income	\$ 18.9	\$ —	\$ 18.9	\$ —

Retail Segment EBITDA

The following table reconciles Retail segment normalized income before income taxes, net finance costs, and depreciation and amortization, or normalized 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 29, 2018 and September 30, 2017.

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Normalized EBITDA	\$ 277.6	\$ 250.9	\$ 634.1	\$ 647.8
Less normalizing item:				
The roll-out of the Triangle Rewards program and associated credit cards	—	—	3.8	—
Helly Hansen:				
Acquisition related costs	17.4	—	22.7	—
Fair value adjustment for inventories acquired ¹	5.0	—	5.0	—
EBITDA	\$ 255.2	\$ 250.9	\$ 602.6	\$ 647.8
Less:				
Depreciation and amortization ²	83.6	95.7	270.1	279.3
Net finance costs	4.9	(5.1)	(7.1)	(19.8)
Income before income taxes	\$ 166.7	\$ 160.3	\$ 339.6	\$ 388.3

¹ Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.

² Includes \$1.7 million reported in cost of producing revenue in the quarter (2017 - \$1.7 million) and \$4.8 million in 2018 (2017 - \$5.0 million).

Normalized Gross Margin

The following table reconciles normalized gross margin to gross margin which is a supplementary GAAP measure reported in the notes to the condensed interim consolidated financial statements for the periods ended September 29, 2018 and September 30, 2017.

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Normalized gross margin	\$ 1,227.8	\$ 1,082.4	\$ 3,298.3	\$ 3,134.8
Add normalizing item:				
Helly Hansen - Inventory fair value adjustment ¹	5.0	—	5.0	—
Gross margin	\$ 1,222.8	\$ 1,082.4	\$ 3,293.3	\$ 3,134.8

¹ Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.

Normalized Selling, General and Administrative Expenses

The following table reconciles normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the condensed interim consolidated financial statements for the periods ended September 29, 2018 and September 30, 2017.

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Normalized selling, general and administrative expenses	\$ 853.5	\$ 784.1	\$ 2,488.7	\$ 2,343.5
Add normalizing item:				
The roll-out of the Triangle Rewards program and associated credit cards	—	—	17.3	—
Helly Hansen - Acquisition related costs	17.4	—	22.7	—
Selling, general and administrative expenses	\$ 870.9	\$ 784.1	\$ 2,528.7	\$ 2,343.5

¹ Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.

Retail Normalized Gross Margin

The following table reconciles Retail normalized gross margin to Retail gross margin which is a supplementary GAAP measure reported in the notes to the condensed interim consolidated financial statements for the periods ended September 29, 2018 and September 30, 2017.

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Retail normalized gross margin	\$ 1,007.1	\$ 891.8	\$ 2,715.7	\$ 2,567.7
Add normalizing item:				
Helly Hansen - Inventory fair value adjustment ¹	5.0	—	5.0	—
Retail Gross margin	\$ 1,002.1	\$ 891.8	\$ 2,710.7	\$ 2,567.7

¹ Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.

Retail Normalized Selling, General and Administrative Expenses

The following table reconciles Retail normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the condensed interim consolidated financial statements for the periods ended September 29, 2018 and September 30, 2017.

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Normalized selling, general and administrative expenses	\$ 851.2	\$ 768.4	\$ 2,473.7	\$ 2,292.9
Add normalizing item:				
The roll-out of the Triangle Rewards program and associated credit cards	—	—	3.8	—
Helly Hansen - Acquisition related costs	17.4	—	22.7	—
Selling, general and administrative expenses	\$ 868.6	\$ 768.4	\$ 2,500.2	\$ 2,292.9

Financial Services Normalized Selling, General and Administrative Expenses

The following table reconciles Financial Services normalized selling, general and administrative expenses to selling, general and administrative expenses which is a supplementary GAAP measure reported in the notes to the condensed interim consolidated financial statements for the periods ended September 29, 2018 and September 30, 2017.

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Normalized selling, general and administrative expenses	\$ 78.3	\$ 76.5	\$ 234.3	\$ 226.4
Add normalizing item:				
The roll-out of the Triangle Rewards program and associated credit cards	—	—	13.5	—
Selling, general and administrative expenses	\$ 78.3	\$ 76.5	\$ 247.8	\$ 226.4

Normalized Net Income and Earnings per Share

The Company's results of operations for the 13 and 39 weeks ended September 29, 2018 include a non-operating item. Management believes that normalizing GAAP net income attributable to shareholders of the Company and basic EPS for non-operating items provides a useful method for assessing the Company's underlying operating performance and assists in making decisions regarding the ongoing operations of its business.

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

(C\$ in millions, except per share amounts)	Q3 2018		Q3 2017		YTD Q3 2018		YTD Q3 2017	
	EPS		EPS		EPS		EPS	
Net income / basic EPS	\$ 203.8	\$ 3.16	\$ 176.6	\$ 2.59	\$ 437.8	\$ 6.70	\$ 459.3	\$ 6.63
Add the after-tax impact of the following, attributable to shareholders of the Company:								
The roll-out of the Triangle Rewards program and associated credit cards	—	—	—	—	10.7	0.16	—	—
Helly Hansen - Acquisition related costs and fair value adjustment ¹	20.8	0.32	—	—	24.7	0.38	—	—
Adjusted net income / adjusted basic EPS	\$ 224.6	\$ 3.48	\$ 176.6	\$ 2.59	\$ 473.2	\$ 7.24	\$ 459.3	\$ 6.63
Adjusted net income / adjusted diluted EPS	\$ 224.6	\$ 3.47	\$ 176.6	\$ 2.59	\$ 473.2	\$ 7.22	\$ 459.3	\$ 6.62

¹ Relates to the fair value adjustment to Helly Hansen's inventory recorded as part of the acquisition on July 3, 2018.

Adjusted Net Debt

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

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 29, 2018 (C\$ in millions)	Consolidated	Retail	CT REIT	Financial Services
Consolidated net debt				
Bank indebtedness	\$ 23.0	\$ 21.5	\$ —	\$ 1.5
Short-term deposits	978.5	—	—	978.5
Long-term deposits	1,360.7	—	—	1,360.7
Short-term borrowings	829.1	503.3	33.0	292.8
Current portion of long-term debt	787.2	15.7	6.6	764.9
Long-term debt	4,038.2	1,293.8	1,105.3	1,639.1
Debt	8,016.7	1,834.3	1,144.9	5,037.5
Liquid assets ¹	(772.9)	(60.6)	(7.8)	(704.5)
Net debt (cash)	7,243.8	1,773.7	1,137.1	4,333.0
Inter-company debt		(1,534.9)	1,451.6	83.3
Adjusted net debt (cash)	\$ 7,243.8	\$ 238.8	\$ 2,588.7	\$ 4,416.3

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

As at September 30, 2017

(C\$ in millions)	Consolidated	Retail	CT REIT	Financial Services
Consolidated net debt				
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 ¹	(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

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

CT REIT Non-GAAP Financial Measures

Net Operating Income

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

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

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

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Property revenue	\$ 117.7	\$ 109.3	\$ 353.2	\$ 332.0
Less:				
Property expense	26.2	22.7	81.8	74.6
Straight-line rent adjustment	4.7	5.7	13.9	17.1
Net operating income	\$ 86.8	\$ 80.9	\$ 257.5	\$ 240.3

Funds from Operations and Adjusted Funds from Operations

CT REIT calculates its FFO and AFFO in accordance with the *Real Property Association of Canada's White Paper on FFO and AFFO for IFRS* issued in February 2017. FFO and AFFO should not be considered as alternatives to net income or cash flow provided by operating activities determined in accordance with IFRS.

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

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

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

(C\$ in millions)	Q3 2018	Q3 2017	YTD Q3 2018	YTD Q3 2017
Income before income taxes	\$ 79.1	\$ 70.6	\$ 226.4	\$ 220.2
Fair value (gain) adjustment	(16.8)	(10.5)	(42.1)	(43.0)
Deferred taxes	(0.1)	(0.2)	0.3	0.2
Fair value of equity awards	—	(0.2)	(0.6)	(0.2)
Funds from operations	62.2	59.7	184.0	177.2
Properties straight-line rent adjustment	(4.7)	(5.6)	(13.9)	(17.1)
Capital expenditure reserve	(5.6)	(5.2)	(16.8)	(15.4)
Adjusted funds from operations	\$ 51.9	\$ 48.9	\$ 153.3	\$ 144.7

9.0 Enterprise Risk Management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its Enterprise Risk Management ("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 Company's 2017 MD&A.

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.

10.0 Internal Controls and Procedures

Details relating to disclosure controls and procedures, and internal control over financial reporting, are disclosed in section 13.0 of the Company's 2017 MD&A.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 29, 2018, 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, except as noted below.

In accordance with the provisions of National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, Management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude such controls, policies and procedures of Helly Hansen.

CTC acquired the company which owns and operates the Helly Hansen brands and related businesses on July 3, 2018. Helly Hansen's results since its acquisition by the Company until the end of the third quarter are included in our Condensed Interim Consolidated Statements of Income. Since the acquisition date, Helly Hansen generated revenue of \$181.7 million and net income of \$18.9 million; these measures as a percentage of the Company's consolidated results represent approximately 5 percent and 8 percent respectively. For the Condensed Interim Consolidated Balance Sheets, Helly Hansen constitutes 4 percent of total current assets, 8 percent of total assets, 5 percent of total current liabilities and 3 percent of total liabilities as at September 29, 2018. Further details related to the acquisition of Helly Hansen are disclosed in Section 11.0 of this MD&A and in Note 19 of the Company's interim consolidated financial statements for the third quarter of 2018.

The scope limitation is primarily based on the time required to assess Helly Hansen's disclosure controls and procedures and internal control over financial reporting in a manner consistent with the Company's other operations.

11.0 Acquisition of Helly Hansen

On July 3, 2018, the Company acquired Teodin Holdco AS, which owns and operates the Helly Hansen brands and related businesses. Helly Hansen is a global leader in sportswear and workwear based in Oslo, Norway.

Founded in 1877, Helly Hansen is known for its professional-grade gear and for being a leader in designing innovative and high quality technical performance products developed for the harshest outdoor conditions. Within its core categories of sailing, skiing, mountain, urban, rainwear, and workwear, Helly Hansen designs and delivers products used by professionals and outdoor enthusiasts around the world. The acquisition strengthens CTC's core businesses across multiple banners, increases its brand offerings in Canada and its ability to grow its brands internationally.

The purchase price of the equity of Teodin Holdco AS was \$766.3 million which is net of loans from the previous owners and other related items.

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

(C\$ in millions)	
Cash and cash equivalents	\$ 3.4
Trade and other receivables	87.1
Merchandise inventories	169.0
Prepaid expenses and deposits	1.3
Intangible assets	566.0
Property and equipment	20.7
Trade and other payables	(120.5)
Short-term borrowings	(91.3)
Loan from previous owners	(216.5)
Provisions	(0.2)
Deferred income taxes (net)	(86.9)
Other long-term liabilities	(0.7)
Total net identifiable assets	\$ 331.4

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

(C\$ in millions)	
Total consideration transferred	\$ 766.3
Less: Total net identifiable assets	(331.4)
Goodwill	\$ 434.9

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

The Company incurred acquisition-related costs of \$22.7 million to date (\$5.3 million in Q2 and \$17.4 million in Q3) which is recorded in selling, general and administrative expenses. The Company also recorded \$5.0 million in Q3 as a fair value adjustment for inventory acquired, which is recorded in the cost of producing revenue.

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

12.0 Social and Environmental Responsibility

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 Company's 2017 MD&A. For further details refer to the Company's Business Sustainability Performance Reports on the Sustainability site at: <https://corp.canadiantire.ca/English/sustainability/performance-reports/default.aspx>.

13.0 Forward-Looking Statements and Other Investor Communication

Caution Regarding Forward-looking Statements

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

- the Company's financial aspirations for fiscal years 2018 to 2020 in section 3.1;
- 2018 key initiatives in section 3.2;
- capital expenditures in subsection 5.4.1;
- contractual obligations, guarantees, and commitments in subsection 5.5.1;
- the Company's intention with respect to the purchase of its Class A Non-Voting Shares in section 6.1;
- tax matters in section 7.0;
- change in accounting estimates in subsection 8.1.1; and
- changes in accounting policies in section 8.2.

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

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

By their very nature, forward-looking statements require Management to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that the Company's assumptions, estimates, analyses, beliefs and opinions may not be correct and that the Company's expectations and plans will not be achieved. Examples of material assumptions and Management's beliefs, which may prove to be incorrect, include, but are not limited to, the effectiveness of certain performance measures, current and future competitive conditions and the Company's position in the competitive environment, the Company's core capabilities, and expectations around the availability of sufficient liquidity to meet the Company's contractual obligations. 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 franchisees, as well as the Company's financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at its stores or acquire the Company's owned-brands or its financial products and services; (d) the Company's margins and sales and those of its competitors; (e) the changing consumer preferences and expectations related to eCommerce, online retailing and the introduction of new technologies; (f) the possible effects on our business from international conflicts, political conditions, and developments including changes relating to or affecting economic or trade matters; (g) risks and uncertainties relating to information management, technology, cyber threats, property management and development, environmental liabilities, supply chain management, product safety, changes in law, regulation, competition, seasonality, weather patterns, climate change, commodity prices and business disruption, the Company's relationships with suppliers, manufacturers, partners and other third parties, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by the Company and the cost of store network expansion and retrofits; (h) the Company's capital structure, funding strategy, cost management 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 4.2.4 (Retail segment business risks), 4.3.2 (CT REIT segment business risks), 4.4.3 (Financial Services segment business risks), 9.0 (Enterprise risk management), 3.1 (Three-Year (2018-2020) financial aspirations) and all subsections thereunder of this MD&A. Please also refer to section 2.11 (Risk Factors) of the Company's Annual Information Form for fiscal 2017, as well as the Company's other public filings, available on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com and at <https://investors.canadiantire.ca>.

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

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

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Commitment to Disclosure and Investor Communication

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

- the annual MD&A and annual consolidated financial statements and notes;
- 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 annual MD&A and annual consolidated financial statements and notes, Annual Information Form, Management Information Circular and quarterly reports are also available at www.sedar.com.

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

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