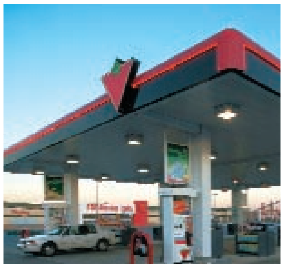
CANADIAN TIRE
Annual Report 2004

Canadian Tire is a growing network of innovative, interrelated businesses achieving extraordinary results through extraordinary people. We help Canadians make a great start in their lives every day by providing them with essential products and services. Canadian Tire customers shop in our retail stores, fill up their cars with gas and choose convenience items at our gas bars, get their vehicles washed at our car wash outlets, find specialized automotive parts at PartSource, choose clothing at Mark's Work Wearhouse, enjoy the convenience of our universally accepted Canadian Tire Options MasterCard, and benefit from the added value of Canadian Tire 'Money' rewards. The 48,000 employees of Canadian Tire, our Associate Dealers, franchisees and agents all contribute to the Company's objective to deliver top-quartile total return to shareholders among North American retailers.

We help Canadians make a great start in their lives every day

Canadian Tire Retail

Canadian Tire Retail operates 457 stores from coast to coast through our network of entrepreneurial Associate Dealers. Together, they offer customers a large selection of national and private-label brands through three 'stores' under one roof: automotive parts, accessories and service; sports and leisure products; and home products – each of which has a large share of the markets we compete in. Canadian Tire Retail's complementary online web store, canadiantire.ca, offers more than 16,000 products for sale via the Internet and serves as an important communication channel to customers. Canadian Tire also operates 47 PartSource stores, offering automotive parts to commercial installers, serious "do-it-yourselfers" and automotive enthusiasts.



Canadian Tire Petroleum

Canadian Tire Petroleum has 253 independently operated gasoline sites that pump twice the gasoline volume of the average gas bar site in Canada. Petroleum also operates 58 car washes, 241 convenience stores and kiosks and multiple propane and quick lube stations across the country. Petroleum is an important component of our total value proposition, offering Canadian Tire 'Money' rewards to our customers and discounts on Canadian Tire store merchandise.

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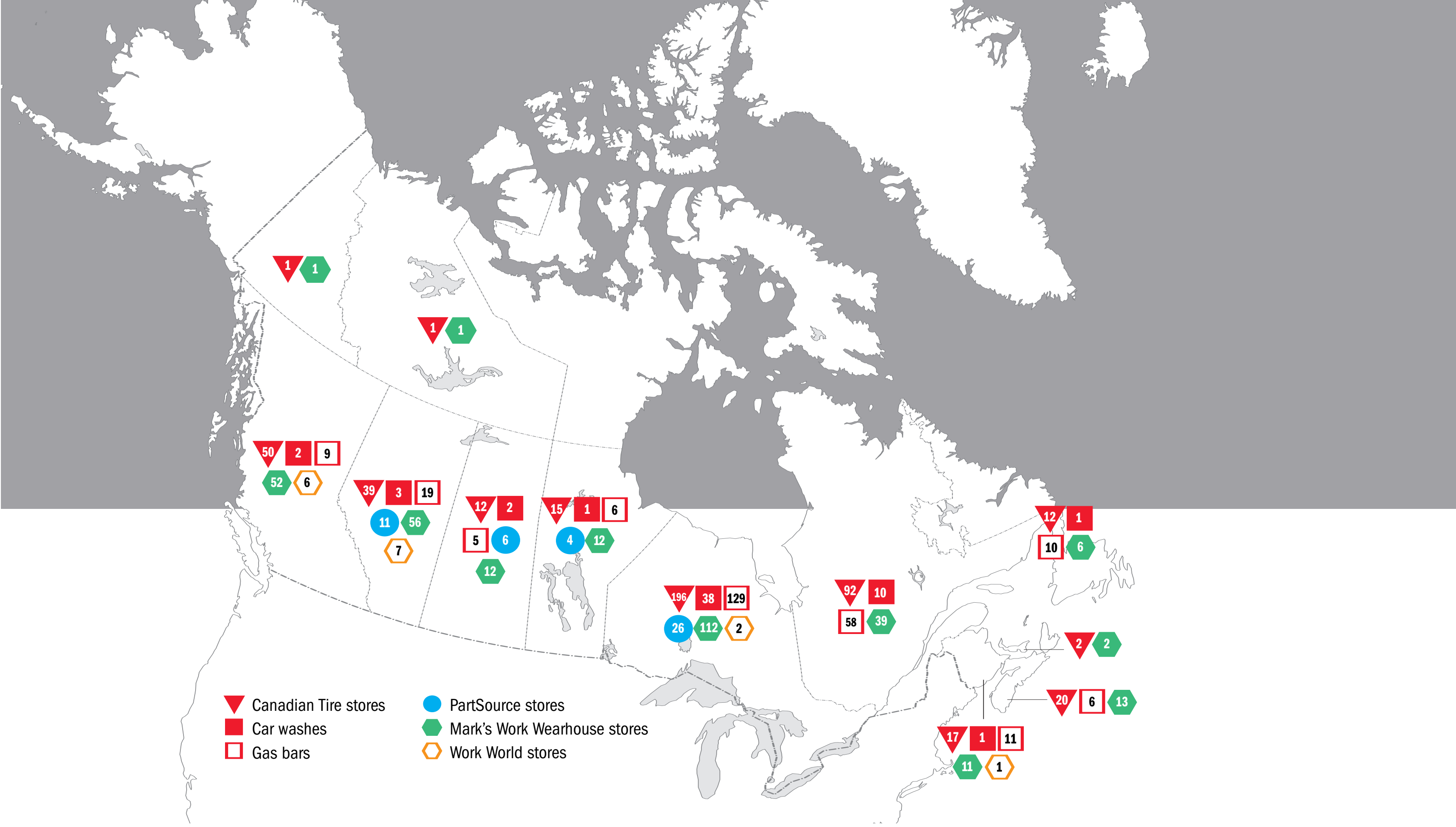


Canadian Tire Financial Services

Financial Services offers Canadian Tire–branded credit cards that give Canadian Tire customers a choice of payment options, as well as increased loyalty rewards. The division also markets a variety of insurance and warranty products, in addition to operating an emergency roadside service. Financial Services also offers the Company's loyalty program, Canadian Tire 'Money,' to Canadian Tire credit card customers.

Mark's Work Wearhouse

Mark's is one of the largest specialty retailers in Canada, offering primarily men's and women's clothing, footwear and accessories for business casual and industrial work environments, as well as for recreational use or relaxation. Canadian Tire now operates 333 corporate and franchise stores across Canada under the Mark's Work Wearhouse and Work World banners, and the L'Équipeur brand in Quebec.

Financial Highlights

($ in millions except for per share amounts)	2004	2003[1]	% Change
Consolidated			
Gross operating revenue	**$ 7,153.6**	$ 6,552.8	9.2%
Earnings before income taxes and minority interest	**460.9**	365.9	25.9%
Income taxes	**162.5**	116.0	40.1%
Net earnings	**291.5**	241.2	20.8%
Cash generated from operations	**628.3**	534.5	17.5%
Cash generated from operating activities	**411.0**	520.1	(21.0)%
Dividends	**38.5**	32.2	19.4%
Per share			
Net earnings	**$ 3.60**	$ 2.99	20.2%
Diluted earnings	**3.53**	2.95	19.7%
Cash generated from operations	**7.76**	6.63	17.0%
Cash generated from operating activities	**5.08**	6.45	(21.3)%
Dividends declared	**0.50**	0.40	25.0%
Shareholders' equity	**27.75**	24.98	11.1%
Number of shares outstanding – weighted average	**80,983,467**	80,605,607	
Ratios[2]			
Current ratio	**1.6**	1.4	
Canadian Tire Retail inventory turnover	**9.7**	9.9	
Long-term debt to total capitalization	**29.1%**	32.1%	
Interest coverage	**6.9**	5.3	
Return on equity	**13.7%**	12.7%	

Strategic Plan key metrics[2]	Performance to date[3]	Target
Canadian Tire Retail comparable store sales	2.5%[4]	3%–4% per annum
Gross operating revenue	8.3%	10% minimum compound annual growth
EBITDA[5] and minority interest	11.6%	10%–15% compound annual growth
Basic earnings per share	18.1%	12%–15% compound annual growth
Return on invested capital	8.5%[4]	10% after tax (minimum)

1 Certain figures have been restated as required due to the implementation in 2004 of the Canadian Institute of Chartered Accountants (CICA) standards EIC-144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" and Section 3110, "Asset Retirement Obligations."
2 Formulae for ratios and metrics can be found in the glossary of this Annual Report.
3 Performance from the beginning of fiscal 2001 to the end of fiscal 2004.
4 Average of 2004, 2003, 2002 and 2001 percentages.
5 Earnings before interest, income taxes, depreciation and amortization. See section 11 on non-GAAP measures in management's discussion and analysis in this Annual Report.

Canadian Tire Retail	2004
	% change versus 2003
Retail sales	**4.4%**
Comparable store sales	**1.8%**
Net shipments	**5.6%**
Gross operating revenue	**5.5%**
Earnings before income taxes and minority interest	**34.1%**

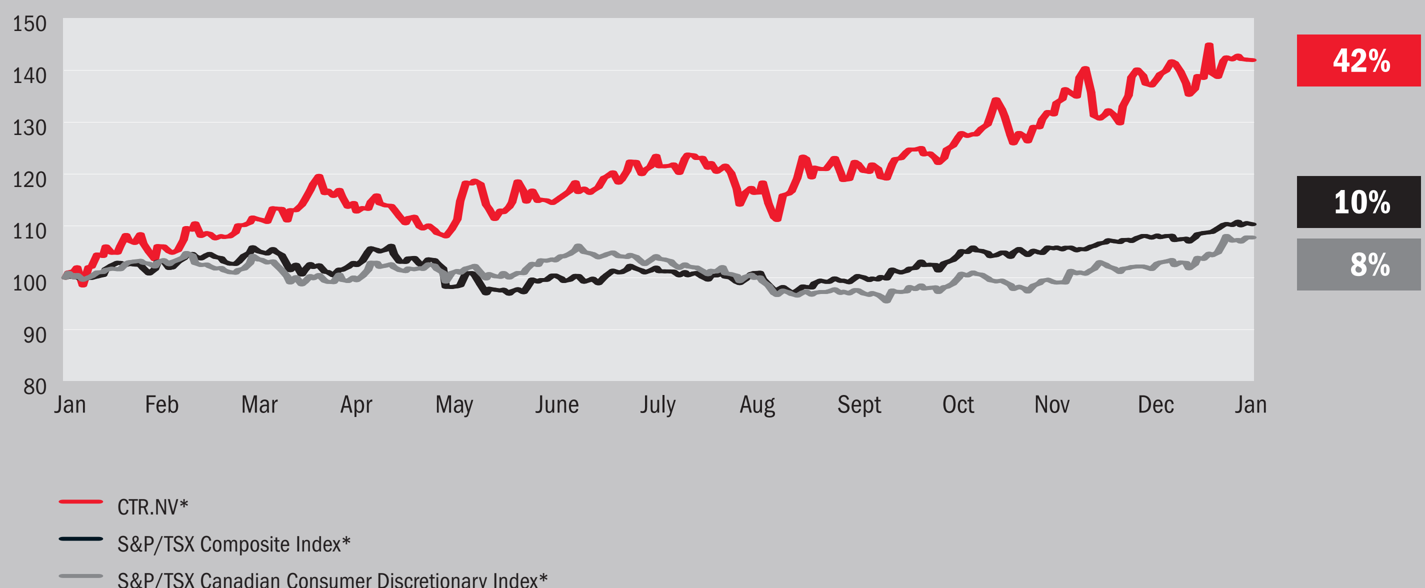
Mark's Work Wearhouse	2004
	% change versus 2003
Retail sales	**17.8%**
Comparable store sales	**13.4%**
Gross operating revenue	**19.2%**
Earnings before income taxes	**48.2%**

We are growing and continuing to deliver on the overall objective of our Strategic Plan, which is to achieve top-quartile performance among North American retailers. In 2004, Canadian Tire met this goal for the second year in a row. We fully expect that the successful implementation of our Plan will ensure that Canadian Tire maintains this ranking in 2005, the end of the Plan period.

2004

32.7% Since December 31, 2000, Canadian Tire has delivered an annualized total return to shareholders of 32.7%, ranking us in the top quartile of North American retailers.

2004 Class A Non-Voting Shares (CTR.NV) stock price appreciation versus the S&P/TSX Composite Index and Canadian Consumer Discretionary Index



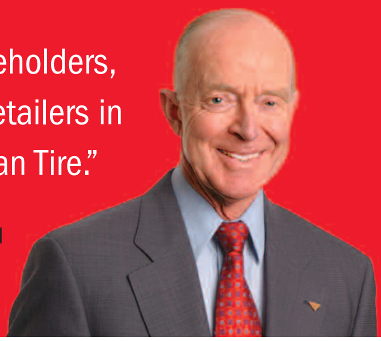
* For Canadian Tire's fiscal year January 4, 2004 to January 1, 2005

Canadian Tire Petroleum	2004
	% change versus 2003
Gasoline sales volume (in litres)	**3.0%**
Convenience sales	**21.6%**
Car wash sales	**20.5%**
Gross operating revenue	**14.8%**
Earnings before income taxes	**(84.4)%**

Canadian Tire Financial Services	2004
	% change versus 2003
Net managed portfolio of credit card receivables and personal (term) loans	**17.3%**
Gross operating revenue	**24.9%**
Earnings before income taxes	**27.9%**

"Your Board remains fully convinced that the Company's total return to shareholders, measured against the total return to shareholders of the most successful retailers in Canada and the U.S., is the best long-term indicator of success for Canadian Tire."

Gilbert S. Bennett Chairman of the Board



Message from the Chairman of the Board

In my letter to shareholders in the 2001 Annual Report, I expressed confidence – on behalf of your Board of Directors – in Canadian Tire's first-ever five-year Strategic Plan. Our confidence was well placed. Now entering its fifth year of implementation, the Strategic Plan has proven to be an effective roadmap to achieving the Company's overriding objective in aggregate over the past four years: top-quartile total return to shareholders among our peer group of North America's most successful retailers.

In my opinion, the practical significance of the Strategic Plan is best captured by one simple fact: the Plan provides both the context and the focus for the Board's deliberations in respect of virtually every issue that comes before the Board. For that reason, at each scheduled meeting, the Board receives from management a "scorecard" which graphically presents the Company's progress in achieving strategic objectives.

Over the course of the past year, your Board of Directors has worked closely with the management team to develop a new Plan to guide the Company beyond 2005. The key elements of the new Strategic Plan are outlined in this Annual Report.

It is a fundamental obligation of the Board of Directors to assure itself that management's strategic planning is sound. The competitive environment within which the Company operates – and other social, economic and political factors affecting the business – must be properly analyzed and addressed. The strategy and tactics presented to achieve the Plan must be plausible, well within the Company's risk tolerance and, in the Board's opinion, on the right track. Most importantly – the Board must focus on the overarching long-term objective and be satisfied that it continues to be the right objective for the Company and its shareholders.

Total return to shareholders (TRS) – stock price changes plus dividends – is the objective set for the present Strategic Plan and reaffirmed by the Board for the next evolution of the Plan. Your Board remains fully convinced that the Company's TRS, measured against the TRS of the most successful retailers in Canada and the U.S., is the best long-term indicator of success for Canadian Tire. We have witnessed other leading Canadian corporations adopt this same view of TRS in recent years. While subject to the vagaries of equity markets, TRS is measurable and can be tracked over time. Most importantly, the compensation of executives can be tied to the Company's relative TRS performance to ensure that the rewards executives receive are in line with those of shareholders.

In setting the compensation of the Chief Executive Officer and other key executives, the Board is guided by the Strategic Plan objective. The Management Resources and Compensation Committee (the MRCC) of the Board of Directors ensures that a number of the Chief Executive Officer's objectives are set and measured in terms of their contribution to the achievement of the Strategic Plan objectives. (In the Company's 2004 Management Information Circular, we have expanded our disclosure of the weights and measures applied to the Chief Executive Officer's long-term compensation to reassure shareholders that the Board is squarely focused on linking management rewards to corporate performance). Further, to assist the Board in fulfilling its mandate, the MRCC evaluates human resources policies, hiring decisions and succession plans to gain assurance that they support the advancement of the Company's Strategic Plan objectives and reflect the desired organizational culture. In so doing, the Board satisfies itself that the Company is retaining the best people and compensating them in a competitive and appropriate manner.

The Board is satisfied that the new Strategic Plan will enable the Company to continue its exemplary performance over the next five-year period. Management has been diligent in the strategy-development process and in defining sub-objective metrics that are industry-critical and that can be realistically controlled. We believe that our shareholders will also judge our Plan's objectives and measures as reasonable and appropriate.

On behalf of the Board of Directors, I want to congratulate management and employees for their achievements and success in 2004. Under the leadership of Wayne Sales – whose employment contract has been recently extended until 2007 – and Canadian Tire's talented management team, the Board remains confident in the future of this great Canadian institution.

(SIGNED) Gilbert S. Bennett
Chairman of the Board

"With a Strategic Plan that leverages our strengths, the financial capacity to execute our Plan, a team of extraordinary people throughout our network of interrelated businesses and the proven leadership of our entire management team, we have every reason to be optimistic about our future – a future that you can be part of *Only at Canadian Tire.*"

Wayne C. Sales President and Chief Executive Officer

To our shareholders

For Canadian Tire, 2004 was an exciting and rewarding year. I had the privilege of continuing to work with an exceptional business team whose sustained commitment to implementing a clearly defined Strategic Plan resulted in gross operating revenue and net earnings that exceeded our performance in any prior year. Perhaps more importantly, we built upon the experience and the lessons of the past four years to develop a new Strategic Plan for the next stage in our growth. Our confidence is stronger than ever in our ability to create shareholder value.

Message from the Chief Executive Officer

In 2005, as we conclude our current five-year Strategic Plan, we also embark upon a new Plan that will guide our direction through to the end of 2009. One of the new initiatives in our Plan is a re-energized emphasis on building a unique and sustainable bond with our customers. We want to develop that bond into a lifelong relationship that rewards both customers and shareholders. Whether shopping under the retail banners of Canadian Tire, Mark's Work Wearhouse (L'Équipeur in Quebec) or PartSource, washing or filling up their cars at Petroleum, or using their Options MasterCards, millions of Canadians already know that the shopping experience they prefer is available Only at Canadian Tire. Our goal is for every Canadian consumer to know that we are unique and for every shareholder to know why.

Another year of growth

In 2004, we made further progress in achieving the target aspirations we established to guide our performance over the life of our current Strategic Plan:

> comparable store sales, on an equivalent 52-week basis, at Canadian Tire Retail rose 3.4 percent compared to 2003 against our target range of 3 percent to 4 percent, bringing our average annual rate since 2001 to 2.5 percent,

> gross operating revenue increased 9.2 percent against our target of a minimum of 10 percent, bringing our compound annual growth rate up to 8.3 percent,

> earnings before interest, income taxes, depreciation and amortization (EBITDA) and minority interest improved by 17.3 percent against our target range of 10 percent to 15 percent, bringing our compound annual growth rate up to 11.6 percent,

> basic earnings per share climbed 20.2 percent against our target range of 12 percent to 15 percent, bringing our compound average growth rate up to 18.1 percent, and

> after-tax return on invested capital was 9.6 percent against our target of a minimum of 10 percent, bringing our average annual rate up to 8.5 percent.

Our performance against our targets enables the achievement of our primary Strategic Plan objective – long-term top quartile total return to shareholders (TRS) as measured among our peer group of North America's largest retailers. We achieved this goal in 2004 – our TRS was 43.0 percent. For the four years ending January 1, 2005, we also ranked in the first quartile of our peers, as our annualized TRS was 32.7 percent.

We were encouraged by our performance to revise our dividend policy in 2004 and, for the first time in over 10 years, we raised our dividend, which further contributed to another strong year for TRS.

We believe our success proves that our Strategic Plan is delivering sustainable growth and that the primary objective of top-quartile TRS performance is, and will continue to be, the right objective for Canadian Tire.

Whether shopping under the retail banners of Canadian Tire, Mark's Work Wearhouse (L'Équipeur in Quebec) or PartSource, washing or filling up their cars at Petroleum, or using our Options MasterCard, millions of Canadians already know that the shopping experience they prefer is available Only at Canadian Tire. Our goal is for every Canadian consumer to know that we are unique and for every shareholder to know why.

2004 achievements beyond the metrics

Last year was equally notable for what we achieved beyond our target metrics, particularly in terms of identifying the specific strategies and initiatives that will drive our continued growth in the years to come.

In management's discussion and analysis, which starts on page 40 of this Annual Report, we discuss the 2004 achievements for each of our businesses. I'll address some of the highlights.

At **Canadian Tire Retail (CTR)**, our earnings growth accelerated and continued to outpace our sales improvement. CTR's most significant achievement, however, was proving that Concept 20/20, our initiative to increase sales through redesigning, re-merchandising and, in most cases, expanding the retail space in our stores, is the right strategy for the future. Our Concept 20/20 initiative has exceeded our sales expectations and will be a catalyst for growth for many years, as will our Exciting, New and Exclusive (ENE) program, which introduces Canadians to a continuing stream of innovative products.

The success of CTR is inextricably linked to the relationship with our Associate Dealers, the independent operators of Canadian Tire stores. We completed a new 10-year contract with Associate Dealers in 2004 and with that now behind us, we can focus all of our energies on the future. I want to thank the Associate Dealers for their cooperation in working with us to deliver a unique experience for our customers.

Canadian Tire Financial Services formed Canadian Tire Bank in 2003 to support the planned expansion of our credit card business. To date, the growth of Financial Services has primarily been a result of the conversion of our customers' Canadian Tire retail credit cards to our Options MasterCards. Increases in the balances our customers carry on their credit card accounts will support future growth at Financial Services, as will the development of new products such as personal loans which we tested with successful results in 2004. Through these initiatives, Financial Services is well positioned to achieve its objectives. Already focussed on keeping customers for life, Financial Services was acknowledged again in 2004 for having North America's best customer call centre.

Over the course of last year, **Mark's Work Wearhouse** continued to replace smaller stores and opened new stores to be within reach of more Canadians. Mark's also tested combination stores with CTR and expanded the range and quality of products under the "Clothes that Work" concept. As a result of these successful strategies and an increased investment in inventory, Mark's reported total and comparable store sales growth that was among the best in the North American apparel industry. The most significant milestone in 2004, however, was the shift that occurred in Mark's pattern of earnings, historically concentrated in the fourth quarter. Mark's has now evolved to a business model where profitability is possible every quarter.

Canadian Tire Petroleum remained profitable despite the volatility of wholesale gas and retail pump prices in 2004 because of a sharp focus on expenses, careful management of gas discount promotions, selective re-branding of competitor's gas bars and a growing emphasis on selling non-gas products and services. Petroleum continues to increase the earnings contribution of its non-gas segments of car wash, propane and convenience and has set the stage to test its new convenience store concept in 2005.

PartSource continued to grow in 2004, expanding significantly in the Greater Toronto Area and strengthening the commercial component of their business with the acquisition of a local commercial auto parts company. This complementary strategy of expansion and strategic "tuck-under" acquisitions is proving successful and positions PartSource for future growth.

Only at Canadian Tire

Canadian Tire has a number of unique strengths that differentiate us in the retail industry. Our strategic initiatives build on our differentiators and attract new customers, employees, business partners and investors to Canadian Tire. The adherence to our strategy, the progressive implementation of our strategic initiatives and the clear articulation of our goals and performance against those goals, set us apart from the competition.

Our success lies in the power of our brand and in the talent and commitment of our people. All that is unique about Canadian Tire descends from a strong culture that is driven by the fact that virtually our entire team are shareholders and, as such, fully understand the value of long-term growth and the rewards of achieving our overall objectives. Our values of honesty, integrity and respect stem, in part, from the fact that we all have a stake in the success of Canadian Tire. It is because of our culture that we are able to align our entire team to execute our growth strategy. It is also because of our team that we have been able to build Canadian Tire into one of the most recognizable brands in Canada.

Another major differentiator is our focus on customers. We understand the value of the special attachment Canadians have for Canadian Tire and know that we can never take the attachment for granted. To differentiate Canadian Tire in the future and grow our business, we must continue to meet changing consumer demands. We are responding to our customers in many ways today, but by evolving our culture and motivating our team to think beyond one customer transaction and one business unit, we hope to attain and secure a lifelong relationship with all our customers.

Our community service initiatives are also differentiators. Over the past five years, our philanthropic arm, the Canadian Tire Foundation for Families, has provided millions of dollars to local charities and delivered essential goods in times of natural disaster and crisis, such as last year's flood in Peterborough, Ontario. Encouraged by the outpouring of emotion from our team following the tsunami in southeast Asia, the Foundation moved quickly to seek special exemption from its Canada-only mandate to contribute to the relief effort overseas. Recently, the Foundation has taken a significant step forward by establishing Canadian Tire JumpStart™, a charitable program to provide children in need with the opportunity to participate in sports and recreation. We are confident that this program will pay community dividends for many years to come.

Each of our businesses has its own unique strengths that provide differentiation from the competition, which are discussed in more detail in the following pages of this report. Together, our business divisions and our corporate support teams form a powerful interrelated network that offers a unique value proposition for our customers and shareholders.

Our success lies in the power of our brand and in the talent and commitment of our people. All that is unique about Canadian Tire descends from a strong culture that is driven by the fact that virtually our entire team are shareholders and, as such, fully understand the value of long-term growth and the rewards of achieving our overall objectives.

We continued to be among the best performing retailers in 2004 due to the very nature of our unique portfolio of retail and financial services businesses and because many of the initiatives that comprise our Strategic Plan have been fully implemented and are proving their worth. Other initiatives – such as Concept 20/20 and Petroleum's re-branding program – have graduated the test stage and will provide a platform to accelerate our growth going forward.

The CEO is the person in any organization who is most responsible to all stakeholders – customers, shareholders, employees, Associate Dealers, franchisees, agents, communities and suppliers. In that role, it is my honour to thank every one of these groups for their support, their dedication and their contributions to our outstanding success in 2004. I want to particularly thank our Board of Directors for the time and attention they devoted to our strategic planning process throughout the past year and for the valuable insight they provided along the way.

Growing from our strengths

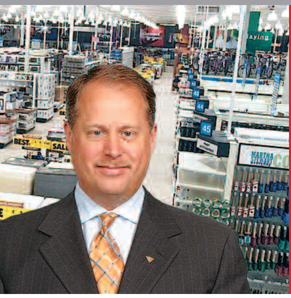
The foundation of our new five-year Strategic Plan is best described as growing from our strengths. Our new Plan – outlined on pages 29 through 35 of this Annual Report – details how each of our businesses will continue to grow from their strengths with clearly defined initiatives and goals. We will also explore new opportunities that we expect will provide the potential for further growth in the near term and beyond 2009. The continued strengthening of our balance sheet will ensure that we have the resources to invest in our future success. Our current Strategic Plan will roll into the new five-year Plan during 2005 and we will continue to report on the metrics that measure our progress for both the current and the new Plan in our Annual Report to shareholders.

There is no doubt that 2004 was a successful year in terms of financial and operating performance and in terms of securing our future prosperity. We know, however, that yesterday's success is no guarantee for the future. At Canadian Tire there is no room for complacency. Change in every business is accelerating, and to succeed, we must adapt to change and to our customers' needs better than anyone else.

With a Strategic Plan that leverages our strengths, the financial capacity to execute our Plan, a team of extraordinary people throughout our network of interrelated businesses and the proven leadership of our entire management team, we have every reason to be optimistic about our future – a future that you can be part of *Only at Canadian Tire*.

(SIGNED) Wayne C. Sales
President and Chief Executive Officer

2004 Performance Scorecard



Canadian Tire Retail

Mark Foote
President,
Canadian Tire Retail

Initiative	2004 Performance Goals
Revitalize store network	Open 20 new-format stores.
Concept 20/20 (C20/20)	Thirteen of the 20 new stores to open in 2004 will be C20/20 stores. Retrofit five existing new-format stores with C20/20.
Customer Values	Improve in-stock position on promotional products.
	Continue eLearning initiative and formally recognize all stores and their employees that receive gold certification.
CustomerLink supply chain improvements	Implement supply chain improvements at Brampton distribution centre in 2004. Complete CustomerLink program by the end of 2004.
Improve execution through Certified Marketing Program	Roll out automotive re-merchandising plan to 70 of the D- and E-size stores. Extend certified marketing to the 'Back to School' and 'Giftables' seasonal marketing programs, as well as the lighting, storage and organization departments.
Exciting, New and Exclusive (ENE) Products	Increase sales of ENE products by 25 percent.
Grow auto service	Grow automotive service market share. Raise participation in customer call-back program.
Enhance automotive infrastructure	Complete UAP Inc. implementation program in 2004.

Mark's Work Wearhouse

Paul Wilson (left)
President and COO,
Mark's Work Wearhouse

Mike Lambert (right)
President, Mark's Work Wearhouse and Executive Vice-President, Canadian Tire

Initiative	2004 Performance Goals
Grow total comparable store sales	Increase comparable store sales by 2.5 percent across the chain. Increase comparable store sales at stores converted from Work World to Mark's Work Wearhouse by 10 percent.
Superbranding: convert all Work World stores to the Mark's Work Wearhouse banner	Convert approximately 80 percent of the remaining 32 Work World stores to the Mark's banner as opportunities exist. Close Work World stores not identified for conversion as leases mature.
Build new stores and renovate select stores to the newest Mark's format	Open between 17 and 22 new stores. Renovate between 15 and 20 stores.
Search out opportunities for cost synergies with Canadian Tire Corporation	Realize between $6 million and $7 million in cost savings from synergies.

[1] See management's discussion and analysis starting on page 40 for additional information on Canadian Tire's performance in 2004.
[2] Based on a comparison of the first 52 weeks of sales in the fiscal year of 2003 versus sales of the 52-week fiscal year of 2004.

2004 Actual Performance[1]	2005 Performance Goals
Opened 18 new-format stores, five of which were incremental stores, bringing the total number of Canadian Tire stores to 457. As of the end of 2004, CTR had 14.2 million square feet of retail space.	Build 20 new-format stores.
Fifteen of the new stores opened in 2004 were C20/20 stores. Six existing new-format stores were retrofitted to the C20/20 format. As of the end of 2004, 25 stores were C20/20 stores.	Most of the new stores planned to open in 2005 will be C20/20 stores. Fifteen existing new-format stores will be retrofitted to the C20/20 format.
CTR's service level – the percentage of product shipments that were shipped to Canadian Tire stores on-time – was 89.6 percent in 2004, compared to 90.8 percent in 2003. Service levels declined slightly due to planned supply chain upgrades at CTR's distribution centres in Brampton, Ontario and Calgary, Alberta.	Continue to improve our in-stock position on promotional products.
The majority of Canadian Tire stores are now gold-certified in eLearning online training for employees.	Continue to utilize eLearning as a key tool for developing employee product knowledge.
Supply chain improvements were successfully installed at our Calgary and Brampton distribution centres in 2004, with the exception of certain modules that will be implemented in 2005.	Complete the CustomerLink program in 2005 according to schedule and budget.
All 70 stores were re-merchandised with new automotive certified products and signage. Developed new certified programs for the 'Back to School' and 'Giftables' programs, as well as the lighting and storage and organization departments.	While the Certified Marketing Program will continue in the future, it will not be considered a strategic initiative.
Sales of ENE products increased by approximately seven percent[2]. The increase was lower than our target, however, we consider it to be an achievement in light of the 50 percent increase in ENE product sales in 2003, compared to 2002.	Continue to increase sales of ENE products.
Maintained our automotive service market share at approximately seven percent. Customer call-back program was continued.	Continue to make progress toward growing automotive service market share.
The auto parts supply program with UAP Inc. was fully implemented by the end of 2004, completing this initiative.	
Increased total comparable store sales by 15.1[2] percent. At stores converted from Work World stores to Mark's Work Wearhouse stores more than one year ago, sales increased by 20.8[2] percent.	Increase total comparable store sales by 5.3 percent.
Converted eight Work World stores to the Mark's banner, closed eight Work World stores. As of the end of 2004, there were 16 remaining Work World stores, five of which will be converted to Mark's Work Wearhouse stores and the rest will be closed.	This program is near completion; therefore, it will not be considered a strategic initiative in the future.
Opened 21 stores, including six combination Canadian Tire-Mark's stores, bringing the total number of Mark's Work Wearhouse stores to 317. Relocated 16 stores and renovated three others. As of the end of 2004, Mark's had approximately 2.4 million in retail square footage, including corporate and franchise stores.	Open up to 21 stores and increase retail square footage to 2.6 million.
Realized $7.8 million in cost savings from synergies.	In the future, cost savings derived from Mark's acquisition by Canadian Tire will now be factored into Mark's normal operations; therefore, this will not be considered a strategic initiative.

2004 Performance Scorecard

Canadian Tire Financial Services

Tom Gauld
President, Canadian Tire Financial Services

Initiative	2004 Performance Goals
Increase total managed portfolio	Increase total managed portfolio to $2.8 billion.
Reduce operating expenses as a percentage of total managed portfolio (operating expense ratio)	Lower operating expense ratio to 9.7 percent.
Maintain return on average total managed portfolio	Achieve return on average total managed portfolio of 4.6 percent, excluding gains on the sales of credit card receivables.

Canadian Tire Petroleum

Mike Medline
Executive Vice-President, New Business Development

Initiative	2004 Performance Goals
Expand chain of gas bars	Open between 8 and 12 new gas bars.
Re-brand competitor sites to Canadian Tire banner	Re-brand 30 competitor sites. Continue to form additional re-branding partnerships.
Increase gasoline volume	Increase gasoline volume by approximately 10 percent.
Build incremental car washes	Open between 10 and 15 new car washes.
Increase high-margin convenience sales	Increase convenience store sales by over 20 percent. Test larger-format convenience store.

PartSource

Initiative	2004 Performance Goals
Grow comparable store sales	Increase comparable store sales by a minimum of three percent.
Expand store chain	Open eight new stores.

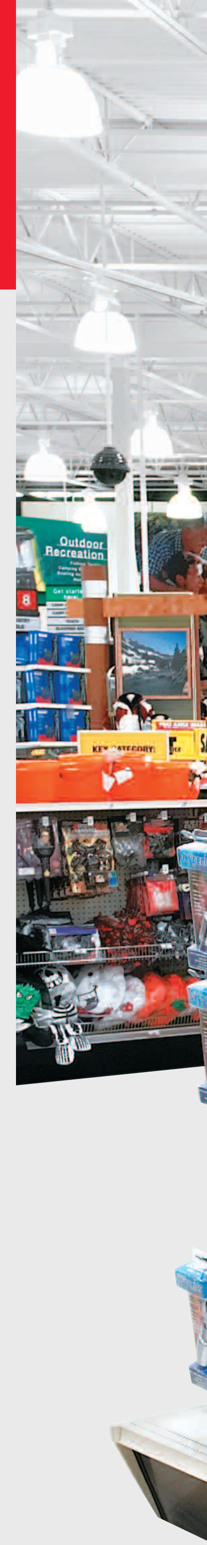
[1] See management's discussion and analysis starting on page 40 for additional information on Canadian Tire's performance in 2004.
[2] Based on a comparison of the first 52 weeks of sales in the fiscal year of 2003 versus sales of the 52-week fiscal year of 2004.
[3] Target sales growth includes the expected sales contribution from re-branded convenience stores.

2004 Actual Performance[1]	2005 Performance Goals
Increased total managed portfolio to $2.9 billion, as of the end of 2004.	Increase total managed portfolio to $3.3 billion by the end of 2005.
Reduced operating expense ratio to 9.3 percent.	Continue to reduce operating expense ratio in 2005.
Increased return on average total managed portfolio to 4.9 percent, excluding gains on the sales of credit card receivables.	Maintain return on average total managed portfolio in the target range of 4.5 percent to 5.0 percent, excluding gains on the sales of credit card receivables.

Opened eight new gas bars, including two replacement sites, bringing the total number of gas bars to 253.	Open five new gas bars.
Twenty-one competitors' sites were converted to the Canadian Tire banner. To date, 36 competitor sites have been re-branded.	Re-brand 15 to 20 additional sites. Develop new re-branding partnerships.
Increased gasoline volume by three percent. The increase in gasoline volume did not reach our target of 10 percent due to a planned reduction in marketing programs and lower industry-wide gasoline volume.	Increase total gasoline volume by approximately 10 percent.
Opened 11 new car washes, including two re-branded car washes, bringing the total number of car washes to 58.	Open a minimum of five new car washes in 2005. Increase total car wash sales by approximately 30 percent.
Convenience store sales increased by 21.6 percent.	Open five or more convenience stores, including the first two premium "Q" convenience centres in early 2005. Increase convenience store sales by approximately 15 percent.[3]

Comparable store sales increased by 0.5 percent.[2]	Increase comparable store sales by four to five percent.
Opened eight new stores, bringing the total store count to 47.	Open 10 new stores. The majority of these stores will open in the Greater Toronto Area.

> "We want Canadian Tire to be the place that Canadians "get started." Everything we do, from designing our stores and selecting merchandise, to our marketing programs to infrastructure investments, is aimed at solidifying Canadian Tire as the first choice for our customers to "get started" for the important events in their lives. We want to offer a customer experience that supports lifelong relationships with our customers throughout the many different stages in their lives."
>
> **Mark Foote,** President, Canadian Tire Retail



Retail

What sets us apart

Canadian Tire Retail is often described as a Canadian icon. Eighty years of operation is a testament to our ability to keep our store experience fresh, exciting and different. Canadian Tire Retail ranks first in terms of market share in more than half the core product categories that comprise the main segments of our business – automotive, hardware, housewares, sporting goods and lawn and garden.

One of the most common questions that we receive from investors is, "How do you differentiate yourself from other retailers?" We differentiate ourselves by delivering a distinctive shopping experience at Canadian Tire stores that is unique in the eyes of our customers. We do this by focussing first on what we refer to as "retailing basics" to earn our customers' continued loyalty, and second, by offering products and promotions that set us apart from other retailers.

The foundation of our growth plan rests on our ability to deliver excellence in the area of "retailing basics." This includes:

> **The right selection and quality** – offering an assortment of products, including national and proprietary brands, at different price points;

> **Price assurance** – making sure that our customers can trust us to offer competitive prices on everyday and promotional products;

> **Friendly, quick and helpful assistance** – offering our customers the service they deserve by ensuring that we have friendly, knowledgeable staff that are available to meet their needs; and,

> **Products in-stock** – making sure that we have products on hand when our customers are shopping for them.

Excelling at the basics is only the beginning of our growth strategy. We extend beyond the basics of retailing to get our customers excited about shopping at our stores. By delivering on the following "differentiators," we believe that we can drive sales and achieve a unique position in the market:

> **Exciting, New and Exclusive products** – deliver innovative new merchandise and brands that are available only at Canadian Tire stores and support them with compelling marketing programs. We want to be the number one place to shop for innovative products.

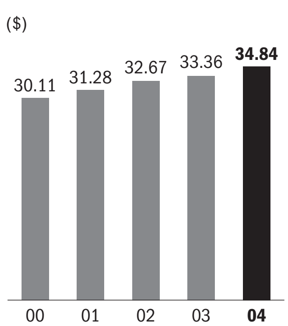
> **Impactful merchandising** – merchandise our stores with visually appealing and informative displays that are constantly changing and improve our product adjacencies to make our store even easier to shop in. Our goal is to be the best-merchandised hardgoods store in Canada.

> **Inspiring events and promotions** – offer weekly sales and seasonal promotions that drive higher sales and help to establish Canadian Tire stores as a destination place for products in our core categories.

CANADIAN TIRE RETAIL
2004 PERFORMANCE VERSUS 2003

Retail sales	4.4%
Comparable store sales	1.8%
Net shipments	5.6%
Gross operating revenue	5.5%
Earnings before income taxes and minority interest	34.1%

AVERAGE RETAIL SALE VALUE PER CUSTOMER



Canadian Tire Retail's average retail sale value per customer has risen by approximately 16 percent through new store openings, the continual introduction of innovative products and successful marketing programs.


Exclusive
Exciting
Living
Let's get started
SALE
BEST PRICE
VALUE PRICED
Shark
TEAM
Mastercraft
Hawkeye
Laser Level Kit
Niveau à laser
avec accessoires
Oeil de faucon
5 pieces
Mastercraft
Hawkeye
Laser Level Kit

Concept 20/20 (C20/20) stores were designed with our differentiators in mind. C20/20 stores are larger to allow for more products and compelling product displays, and to support our marketing programs. Our stores also change with the seasons, showing off our latest merchandise to help customers “get started.” The aisles are wider and complementary products are adjacent to each other to encourage customers to stay and shop.

With 25 C20/20 stores in the market, initial results have shown that we can deliver our target sales lift of 20 percent or more by converting a new-format store to a C20/20 store. When we replace a traditional store with a C20/20 store, the sales lifts are even higher. This exciting new format will be a strong platform for growth over the next three to five years, providing insight for developing future store formats.

Where we’re headed

Retailers are most successful when they develop and effectively communicate a clear purpose and a unique value proposition that customers can relate to and appreciate. At Canadian Tire Retail, we want to be the place where Canadians go to “get started,” whether it’s a project around the house, a car, a new season, a sporting event or to begin a new era in their lives. And that means offering great service and prices, convenience, and the latest innovative products. Our entire team, including Associate Dealers, is focussed on meeting and exceeding our customers’ expectations for value and a great in-store experience.

C20/20 stores include a central “Starting Place” in the heart of the store, designed to effectively merchandise our Exciting, New and Exclusive products including visually appealing displays that evolve with the season and showcase our latest product promotions. Starting Place is conveniently located just inside the front doors of Canadian Tire stores.

The Canadian Tire brand attracts approximately 50 to 60 percent of all Canadians into our stores monthly. The loyalty of our customers extends to our other interrelated businesses.

Our weekly flyer is delivered to more than 10 million households in Canada, making it the most-read weekly flyer program in the country. We combine our print, broadcast and event marketing to produce the most effective retail marketing program in Canada.

Canadian Tire's frequently-aired demonstration-style television commercials boost sales of our Exciting, New and Exclusive products and support our reputation for innovative products.

Our new collection of Debbie Travis products as well as our unique licensing agreement to sell a junior model of Schwinn's market-leading Sting Ray bikes, are examples of how we use innovative marketing programs to drive sales.

Improved store layout encourages browsing and impulse shopping, and creates a more appealing shopping experience for female shoppers.

"The Mark's Work Wearhouse brand is synonymous with quality work wear and casual wear in Canada, appealing to customers who appreciate the functionality of our products and want value for their money. Our success is grounded in knowing our customers and providing them with the products that they need – conveniently and affordably, in a store they like to shop at."

Paul Wilson, President and Chief Operating Officer, Mark's Work Wearhouse, and
Mike Lambert, President, Mark's Work Wearhouse and Executive Vice-President, Canadian Tire

Mark's Work Wearhouse
Clothes That Work.

What sets us apart

When Mark's was acquired by Canadian Tire in 2002, it was a leading brand name known mostly for quality work clothing, safety footwear, casual pants and outerwear. Today, Mark's is still well known for these products and is also building a reputation for high-value men's and women's casual wear.

We are very proud to be a leader in our class and we know that we can grow by continuing to develop strong and distinct products and brands. We have identified three new avenues for growth that will reinforce Mark's "Clothes that Work" branding umbrella and continue to differentiate us from the competition. Our growth plans include the extension of our established private-label brands and the expansion of our core product categories, as well as the continued introduction of innovative new products.

Exclusivity of our products and brands is important to our success. Mark's popular private-label brands, Denver Hayes, Dakota, WindRiver and Mark's, account for more than 70 percent of our annual sales. Our brands are well known for quality and great value – and we know that's what our customers want. The sales of our brands have grown and gained popularity among Canadians and have created a foundation from which we can grow into new categories.

Women's casual wear, business-to-business, health care apparel and men's dress and casual wear, are all categories that Mark's is currently expanding. Sales of women's casual wear, for example, have increased by almost 80 percent at corporate stores over the last three years, reflecting the fact that a large number of our shoppers are female.

The introduction of new innovative products available only at Mark's Work Wearhouse differentiates us as well. Our stain-resistant line of casual clothing, for example, has been successful and has opened up our imagination to new breakthrough products that our customers would appreciate. Metal-free safety shoes, gel-filled gloves, casual shirts with elasticized collars and socks for diabetics, are some of the other innovative products that we introduced with our customers' needs in mind.

Mark's above-average customer service is an important part of the brand's appeal as well. Our store staff go out of their way to anticipate and satisfy our customers' needs by dealing with them in a friendly and helpful way, reacting quickly to their requests and by understanding the need for a customer-friendly return policy. Mark's also offers unique services to customers, such as boot waterproofing.

Where we're headed

To us, creating a "Superbrand" means becoming a preferred choice over other retailers and providing the products and brands that customers want and making them easy to get. With that in mind, we set an objective to locate our stores within reach of more Canadians. While we have already made lots of progress on this front by converting our Work World stores to Mark's Work Wearhouse stores, we plan to expand our network to 400 stores by the end of 2009 to increase our market penetration. With our Superbrand status, a larger chain of stores and superior products, as well as a customer-focussed culture, we will be well positioned to offer an unmatched customer experience.

MARK'S WORK WEARHOUSE
2004 PERFORMANCE VERSUS 2003

Retail sales	17.8%
Comparable store sales	13.4%
Gross operating revenue	19.2%
Earnings before income taxes	48.2%


KIDS
WORK & PLAY

"Petroleum's industry leading gasoline throughput and use of Canadian Tire's 'Money' program add value to Canadian Tire's entire portfolio of businesses. Our innovative cross-marketing programs drive traffic to Canadian Tire stores and increase Financial Services' Options MasterCard receivables while enhancing Canadian Tire's brand. Petroleum's expanding convenience and car wash businesses increase profitability and add value to customers by providing an even higher level of convenience for today's busy lifestyles."

Mike Medline, Executive Vice-President, New Business Development

Petroleum

What sets us apart

Canadian Tire Petroleum is the industry leader in gasoline volume per site in Canada. Our gas bars pump more than double the industry average, which is directly related to the strength of the Canadian Tire brand and 'Money' loyalty program. In a market that is so heavily driven by daily prices and location, developing and clearly articulating a strong value proposition is the key to maintaining and increasing customer loyalty.

The 'Money' loyalty program was our first, and is still our most significant value driver. Customers appreciate receiving Canadian Tire 'Money' rewards when they fill up at our gas bars and pay with cash or our Options MasterCard. We also offer value-oriented promotions; for example, we offer customers deep discounts on Canadian Tire merchandise to draw customers into our gas bars and back to our stores. We also conducted a promotional program with Sobeys, a leading Canadian grocery retailer, offering customers discounts on groceries when they buy gas at Canadian Tire. These tactics are all designed to develop long-lasting relationships with our customers, to bring them back to our gas bars and our stores time and time again, and to use their Options MasterCard.

The strength of Canadian Tire's loyalty program and high-volume throughput at our gas bars has enabled us to expand in unconventional ways. Our program to re-brand certain of our competitors' sites to the Canadian Tire brand is one example. Thirty-six of our competitors' sites have been converted to date. The sites have continued to exceed our expectations for gasoline volume after conversion – a testament to our strong brand appeal and the pervasiveness of our loyalty program.

Our success in gasoline retailing has made way for expansion into higher margin services and products like car washes, propane and convenience stores. Our new premium convenience store centres that we call "Q" represent a huge opportunity to expand and add value for our customers by adapting to their changing lifestyles. By partnering with other leading retailers, we have created a unique, premium 10,000 square foot convenience centre, featuring our new Q convenience stores under the same roof with other retail stores like Starbucks, Richtree Market Restaurants and Sobeys Express. Our new convenience centres include ready-made and freshly prepared foods, brand name coffee and other convenience-oriented products and services, such as DVD rentals.

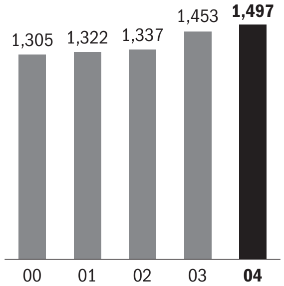
Where we're headed

We have developed a three-pronged strategy to grow our gas and non-gas businesses by leveraging our unique brand and value proposition. The first aspect of our growth plan includes the continuation of our network expansion – adding new gas bars and car washes. Second, we will continue our re-branding program and look for other partners to fully develop the program. Third, we will explore new business ventures, such as our Q convenience centres to drive higher margins and take advantage of our industry leading gasoline throughput. All of these growth opportunities reflect Petroleum's mutually supportive and contributive role in Canadian Tire's network of businesses.

CANADIAN TIRE PETROLEUM
2004 PERFORMANCE VERSUS 2003

Gasoline sales volume (in litres)	3.0%
Convenience sales	21.6%
Car wash sales	20.5%
Gross operating revenue	14.8%
Earnings before income taxes	(84.4)%

GASOLINE SALES VOLUME
(millions of litres)



Petroleum's gasoline sales volume increased by almost 15 percent between 2000 and 2004 due to new gas bar openings, our re-branding program and compelling marketing programs.

Discount coupons

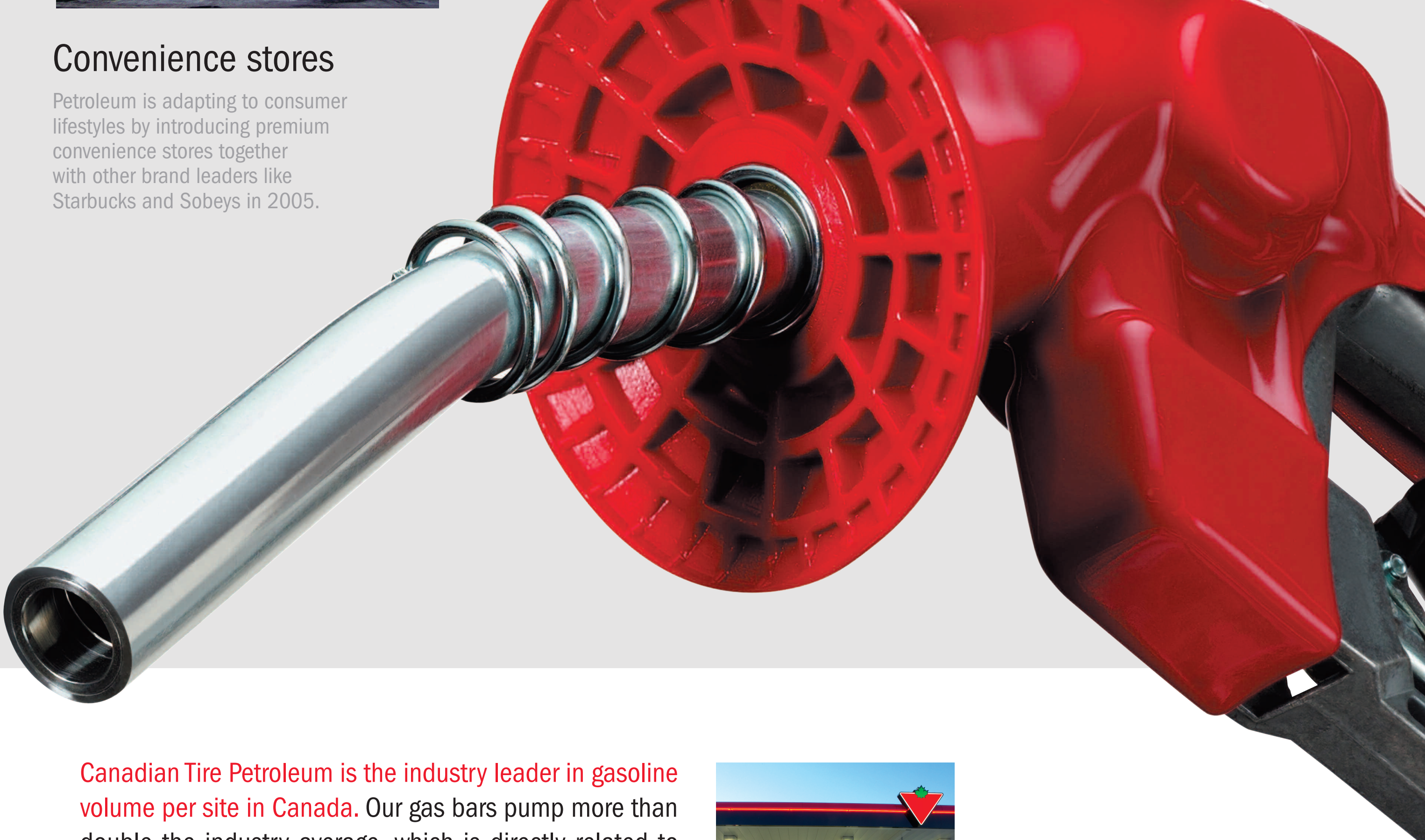
Canadian Tire gas bars offer discount coupons for Canadian Tire merchandise when customers buy gas, driving traffic back to our stores and encouraging customer loyalty.

Loyalty program

Customers receive more Canadian Tire 'Money' rewards when paying with their Options MasterCard at our gas bars.

Convenience stores

Petroleum is adapting to consumer lifestyles by introducing premium convenience stores together with other brand leaders like Starbucks and Sobeys in 2005.



Canadian Tire Petroleum is the industry leader in gasoline volume per site in Canada. Our gas bars pump more than double the industry average, which is directly related to the strength of the Canadian Tire brand and 'Money' loyalty program.

> "Our goal is to become the most recommended auto parts specialty store in Canada. We believe that we can achieve our goal by delivering what our customers want – the best parts, the best price, the best service at the most convenient locations – bar none."

Mike Medline, Executive Vice-President, New Business Development

PartSource
The Parts. The Pros. The Price.

What sets us apart

In 1999, we opened the first PartSource store to serve a specific and very targeted niche of customers – professional automotive installers and serious automotive "do-it-yourselfers" and enthusiasts. We knew that the strength of Canadian Tire's infrastructure, enormous buying power, and real estate expertise would give PartSource a leg up on other automotive parts retailers that don't have the same advantages. We now have 47 PartSource franchise stores in four provinces.

When we first conceived the idea for PartSource we asked ourselves, "As leaders in automotive parts sales in Canada, how can we attract new customers and acquire a larger share of the market?" The answer was a unique new store concept – stand-alone stores in retail-oriented locations offering a combination of the right parts, at the right price with experienced automotive professionals on staff, serving both retail and commercial customers.

Our customer satisfaction surveys reflect that our strategy to deliver the parts, the pros and the price, works. In fact, our research shows that 96 percent of customers are "likely" to return, and more than 70 percent of customers have told us that they are either "extremely likely" or "very likely" to shop at PartSource again. The bottom line is that our target customers – automotive enthusiasts and commercial installers – appreciate the PartSource concept.

Where we're headed

PartSource's growth strategy is to expand the chain – primarily by opening new stores, and secondarily, through acquisition. PartSource has already acquired and successfully integrated two other automotive parts businesses – Auto Village/Drivers and Diamond Auto Parts. Since we know that growing through acquisition is a strategy that works for PartSource, we plan to explore other such opportunities in the future.

Though we are focussed on growing our network of PartSource stores, we know that continuing to operate efficiently is also critical. So, we will continue to seek out ways to become even more profitable as we grow and expand our business. Our efforts will allow us to provide a superior customer experience into the future.

The Parts

We know that our customers want recognizable brand-name parts with solid warranties. PartSource has thousands of the best name brand auto parts – we either have them in-stock or we can get them on the same day.

The Pros

Having automotive professionals on staff to answer technical questions, and who share our customers' passion for cars, is another aspect of PartSource's offering that sets us apart. Our customers prefer to shop at a store where they can develop long-standing relationships with the staff who offer total "solutions" – not just auto parts.

The Price

We guarantee our customers the best retail or commercial price in their trade area, and we can do it profitably due to Canadian Tire's strong relationships with its vendors and extensive buying power.

Our customer satisfaction surveys reflect that our strategy to deliver the parts, the pros and the price, works. In fact, our research shows that 96 percent of customers are "likely" to return, and more than 70 percent of customers have told us that they are either "extremely likely" or "very likely" to shop at PartSource again. The bottom line is that our target customers – automotive enthusiasts and commercial installers – appreciate the PartSource concept.

"Clearly, the Canadian Tire brand is a major factor in our success. It represents a level of trust and reputation that is one of the best in the financial services sector. We're doing everything we can to provide extraordinarily high levels of customer service, to improve productivity and to develop new personal financial services."

Tom Gauld, President, Canadian Tire Financial Services

CANADIAN TIRE
FINANCIAL SERVICES

What sets us apart

Canadians have more choice than ever before when it comes to credit cards. Our success in differentiating our business from the many other players in the consumer financial services industry really began less than a decade ago, in 1997, when we introduced Canada's first retail-branded MasterCard.

We had, and continue to have, a major advantage over our competition – the huge reservoir of brand awareness, goodwill and trust that comes from the Canadian Tire name. Being part of Canadian Tire also means that we have access to a high-volume, low-cost acquisition channel – our stores. Our in-store acquisition program continues to be our primary and most effective method for attracting new customers.

Another advantage we have is our unique and immensely popular loyalty program – Canadian Tire 'Money.' Customers are attracted by the fact that they receive instantly redeemable Canadian Tire 'Money' rewards for every transaction they make with their Options MasterCard.

Trust and loyalty aren't competitive advantages we take for granted, however. We've developed something equally important – a service culture that encourages employees to adopt the mindset of a customer so they can anticipate our customers' needs and serve them proactively.

The advantages that differentiate Financial Services also serve as the foundation for our growth plans. Every one of Canadian Tire's millions of customers who does not already have an Options MasterCard is a potential customer. Every time we interact with our credit card customers it represents an opportunity to increase the number of ways we serve them by offering our complementary financial services products.

Where we're headed

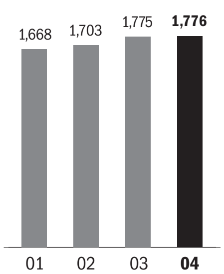
Increasing average balances, as well as the number of accounts carrying a balance, remains our primary focus for growth. When combined with our efforts for cost containment, credit risk management and overall portfolio quality, we increase our efficiency in managing each account and increase our productivity levels. New personal financial services, such as personal loans and new warranty services are also potential routes to longer-term growth.

In a consumer world where providing value above and beyond the norm is the only thing that matters, Financial Services is a critical and integral element of Canadian Tire's success.

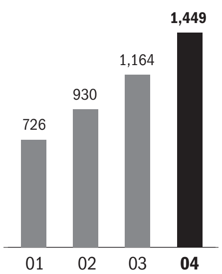
CANADIAN TIRE FINANCIAL SERVICES 2004 PERFORMANCE VERSUS 2003

Net managed portfolio of credit card receivables and personal (term) loans	17.3%
Gross operating revenue	24.9%
Earnings before income taxes	27.9%

AVERAGE NUMBER OF ACCOUNTS WITH A BALANCE[1] (thousands)



AVERAGE ACCOUNT BALANCES[1] ($)



[1] Includes credit card and personal (term) loan accounts.

In-store account acquisition

In-store acquisition continues to be our most effective, low-cost method of attracting new customers and marketing insurance and warranty products.

Loyalty program

Our customers receive Canadian Tire 'Money' rewards on every purchase they make when they pay with their universally-accepted Options MasterCard.

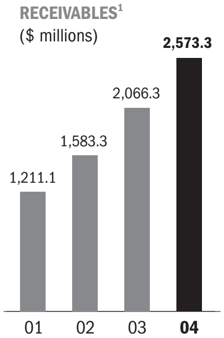
Best customer call centre in North America

Canadian Tire Financial Services' call centre was again rated the best in North America among 200 leading call centres, based on an evaluation of customer and employee satisfaction.

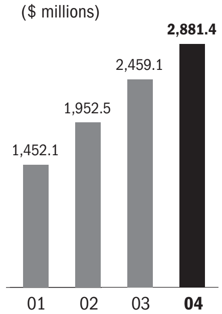
Complementary products and services

Every one of Financial Services' millions of contacts with our customers represents an opportunity to increase the number of ways that we serve them.

GROSS AVERAGE RECEIVABLES[1]
($ millions)



GROSS ENDING RECEIVABLES[1]
($ millions)



Leadership

There is no single characteristic more important to our success at Canadian Tire than leadership. We define it, we nurture it, we practice it, we value it and above all, we expect leadership from everyone in our organization, no matter what their role or responsibilities.

Canadian Tire leaders inspire confidence, they encourage an environment that supports experimentation and risk-taking; they make tough decisions and take responsibility, they build trust and keep their commitments, they communicate clearly, and they participate in the community and build support externally.

Leadership defines who we are as people and what we do for the Company and each other. It is an essential element of "The Canadian Tire Way," which is our approach to operating and managing our business with dedication, integrity, partnership and accountability.

from left

Cameron D. Stewart
Senior Vice-President, Secretary and General Counsel

Michael B. Medline
Executive Vice-President, New Business Development

Susan J. E. Rogers
Senior Vice-President, Corporate Affairs

Michael R. Lambert
President, Mark's Work Wearhouse and Executive Vice-President, Canadian Tire Corporation, Limited

Wayne C. Sales
President and Chief Executive Officer

J. Huw Thomas
Executive Vice-President, Finance and Administration and Chief Financial Officer

Andrew T. Wnek
Senior Vice-President, Information Technology and Chief Information Officer

Mark Foote
President, Canadian Tire Retail

Thomas K. Gauld
President, Canadian Tire Financial Services

Kenneth Silver
Senior Vice-President, Real Estate and Construction

Stanley W. Pasternak
Senior Vice-President and Treasurer

Patrick R. Sinnott
Senior Vice-President, Supply Chain, Canadian Tire Retail

GROWING FROM OUR STRENGTHS

2005 – 2009

STRATEGIC PLAN

The realization of our Strategic Plan depends upon the successful execution of our imaginative and dedicated team; as well as the active participation and support of our Board of Directors. The development of our Strategic Plan however, began with our customers. We know them; we listen to them and we understand their needs; and we use that knowledge to determine how we will grow our business in the future. Our new Plan is designed to encourage customers to develop a lifelong relationship with us, and ensure that Canadian Tire continues its long history of retailing excellence.

In 2005, as we conclude our current five-year Strategic Plan, we also embark upon a new Plan that will guide our direction through to the end of 2009. While we remain committed to meeting the objectives of our current Plan, it was clear to us that we needed to create a detailed map for our next phase of growth well in advance of our current Plan's completion to ensure a seamless transition from one plan to the next. So, we will begin the implementation of our new Strategic Plan – which is a continuation along the same growth trajectory as our current Plan – in one "overlap" year, 2005.

Our Strategic Plan is designed to enable us to "grow from our strengths" and develop new ones. Growing from our strengths simply means emphasizing and improving on those things we do best to grow in the future. When we combine and leverage our unique capabilities – developing and delivering a superior customer experience and adapting changing consumers' needs and lifestyles – we have a very strong foundation for the next phase of our growth.

The following summary of our 2005–2009 Strategic Plan contains forward-looking statements, including our aspirations for sales and earnings growth in each of our businesses.

Top-quartile total return to shareholders (TRS) is the overall objective of Canadian Tire's Strategic Plan for the period of 2005 to 2009. In order to achieve this objective, we have established five financial aspirations that are outlined in this Annual Report to guide us in developing our growth plans and test our ability to deliver above-average performance year after year. Our financial aspirations were developed through a review of our capabilities, our recent financial and operating performance and by taking into consideration the performance of our peers.

While we believe that establishing and striving to achieve our financial aspirations is important in order to meet our objective of top-quartile TRS, we cannot provide assurance of future financial results or performance. Further, there are many factors that are beyond our control that could impede our ability to achieve our results and that may impact our stock's market value. For more information on the risks associated with our businesses, refer to management's discussion and analysis in this Annual Report.

Strategic Plan Financial Aspirations 2005 to 2009

The objective of our Strategic Plan is to deliver top-quartile total return to shareholders (TRS), which consists of share price appreciation plus dividends. We believe there is no better single measure of the long-term creation of shareholder value. Top-quartile TRS stands as a benchmark for our success among North America's best retailers.

We believe we can meet our TRS objective by achieving our five financial aspirations through successful execution of our strategic imperatives. The importance that we have placed on striving to achieve our aspirational goals will influence the decisions that we make at the corporate and business unit level, and ensure that our entire organization is focussed on creating long-term shareholder value.

- → Comparable store sales 3%–4%[1,2]
- → Gross operating revenue 7%–9%[3,4]
- → EBITDA[5]–Earnings before interest, income taxes, depreciation and amortization – and minority interest 10%–15%[4]
- → Basic earnings per share 12%–15%[4]
- → After-tax return on invested capital 10%[2]

[1] Represents sales growth at CTR only.

[2] Calculated as an annual simple average.

[3] We reduced this target from a minimum of 10 percent in our 2001–2005 Strategic Plan to seven percent to nine percent in our 2005–2009 Strategic Plan. We made this change to more closely align our financial aspirations with our performance over the past four years and with the typical performance of top-quartile North American retailers listed on the major consumer indices on the Toronto Stock Exchange, NASDAQ and New York Stock Exchange.

[4] Expressed in terms of a compound annual growth rate.

[5] See note in section 11 on non-GAAP measures in management's discussion and analysis in this Annual Report.

1 STRATEGIC IMPERATIVE

Growing sales and revenues is our top priority

Key Initiatives:

Each of our businesses' key initiatives is designed to enhance our competitive position and support lifelong relationships with our customers. By effectively executing all of our key initiatives, we can enhance Canadian Tire's brand and deliver higher earnings in the future.

Canadian Tire Retail (CTR)

New-format stores. Our program to replace traditional Canadian Tire stores with larger, more modern new-format stores remains one of CTR's most important growth initiatives over the next five years. With more than 60 percent of traditional stores already converted to the new format, the program has proven its worth in terms of appeal to customers, as well as ease of expansion and retrofit, and sales increases. CTR plans to build another 100 stores between 2005 and 2009, or about 20 per year, the majority of which will replace traditional stores and will include our new Concept 20/20 store design.

Concept 20/20 (C20/20) store design. The C20/20 program is CTR's latest store re-design that includes changes to the interior and exterior design and layout, as well as an enhanced merchandise assortment. The C20/20 design is intended to increase store sales by 20 percent or more, achieved through expansion, reduction of warehouse space or merchandise adjustments within the store, or a combination of the three.

One of CTR's biggest accomplishments in 2004 was the validation of C20/20 as a significant driver of total retail and comparable store sales. On average, the first 25 C20/20 test stores have surpassed expectations of a 20 percent lift in sales.

In the future, the majority of new-format stores that are built will include C20/20 features. In addition, up to 175 of our existing new-format stores will be retrofitted to the C20/20 design over the next five years. More than 90 percent of CTR's existing new-format stores can be expanded to C20/20 stores.

Together, the new-format store program and C20/20 will be significant drivers of CTR's average annual comparable store sales growth target of three to four percent. Other growth initiatives, such as the further development of CTR's line of Exciting, New and Exclusive products and aggressive marketing programs, are also expected to contribute to higher sales in the future.

Mark's Work Wearhouse (Mark's)

Superbranding. The objective of the Superbranding program is to make Mark's Work Wearhouse a national brand that people recognize and value. Superbranding includes locating Mark's stores within reach of more Canadians and delivering brands and products that support the brand's reputation for practicality, good quality and value under the "Clothes that Work" banner.

Category growth. Since we acquired Mark's in 2002, sales growth at Mark's Work Wearhouse stores outpaced the apparel market in Canada. The growth of Mark's men's and women's private-label products, the launch of several innovative products and the continued growth of our industrial wear business have all contributed to strong sales growth. New lines of successful innovative products, such as stain-resistant casual clothing and fire-retardant work wear, offer great growth potential for Mark's.

Men's and women's dress wear, and work wear for the health care and hospitality businesses are also categories that are planned for expansion in Mark's Work Wearhouse stores. In addition, Imagewear, Mark's growing business-to-business collection of work apparel, is a category that we plan to expand.

We have targeted an average annual growth rate of four to five percent for Mark's comparable store sales and an eight percent annual growth rate for total retail sales over the Plan period.

Network expansion. Our Plan includes the expansion of the Mark's Work Wearhouse network of stores from 333 at the end of 2004 to about 400 stores by the end of 2009. We also plan to expand, renovate and retrofit the majority of Mark's Work Wearhouse stores to ensure that we are consistently delivering our highest standard of store presentation to support our Superbranding objective.

Canadian Tire Petroleum (Petroleum)

Network expansion. Plans for the expansion of Petroleum's network include adding 25 to 35 new gas bars between 2005 and 2009 to increase Canadian Tire's brand presence in gasoline retailing across Canada. In response to industry-wide gasoline price and cost volatility in 2004, we reduced the number of new petroleum sites to be built in the short-term. In future years, plans to expand the petroleum network will be re-evaluated, taking into consideration industry influences at the time.

Our growth plans also include retrofitting certain of Petroleum's existing gas bars and convenience stores to the newest format and executing strategies to increase non-gas sales at our car washes and convenience stores.

Re-branding of competitors' sites. Through the re-branding program, Petroleum develops partnerships with other gasoline retailers to convert certain of their petroleum sites to the Canadian Tire brand. The 36 gasoline sites that have been re-branded so far have continued to exceed expectations for increases in gasoline volume and sales. Based on the strong results of the re-branding initiative, we plan to expand this program through existing and new partnerships.

Non-gas sales growth. Increasing the non-gas portion of Petroleum's revenues and earnings continues to be an important initiative to increase overall margins and reduce the impact of fluctuations in wholesale gasoline prices. Through effective execution of initiatives to increase car wash and convenience store sales, we anticipate that non-gas operations could grow to about 30 percent of our petroleum business by 2009.

Convenience stores. Developing Petroleum's convenience store offering leverages the high customer traffic at Canadian Tire gas bars and provides one-stop shopping for time-starved consumers. Our Plan includes a combination of adding new convenience stores, expanding and renovating existing stores, and exploring our new "Q" premium convenience store concept. Q stores are much larger in size than traditional convenience stores and are co-located under the same roof with other retailers who are brand leaders in convenience products and services. Q store sites offer quick in-and-out shopping for a variety of convenience-driven products such as fresh and ready-made foods and brand name coffee. The first two test Q stores will open in early 2005. The full potential of this initiative will be determined after evaluating the results of the test phase.

Car washes. Car washes increase Petroleum's overall margins and add value to customers by offering additional convenience. The Plan includes the addition of approximately 25 to 35 car washes to the existing network of 58 car washes.

Canadian Tire 'Money' loyalty program and cross-promotions. Petroleum continuously seeks new and innovative ways to reinforce a low-price perception among customers. Offering Canadian Tire 'Money' rewards to customers when they fill up with gas at Canadian Tire is one of the ways that Petroleum develops and maintains customer loyalty. Ongoing cross-promotions with Canadian Tire stores – where customers receive discounts on store merchandise when they purchase gas at Canadian Tire – are also an effective way to offer customers good value, while providing an incentive to shop at Canadian Tire stores. Petroleum's recent cross-promotion with Sobeys, a leading Canadian grocery retailer, is another example of a low-cost tactic to generate higher customer traffic.

PartSource

Network expansion. PartSource has proven to be a successful new venture for Canadian Tire, appealing to serious automotive enthusiasts and commercial installers. Since the beginning of 2001, PartSource has grown from 28 stores to 47 stores at the end of 2004 through new store openings and the successful acquisition of Auto Village/Drivers. We also continued to build PartSource's growing commercial customer base by acquiring Diamond Auto Parts, a provider of auto parts to professional installers in Toronto, Ontario. The Plan includes a combination of building new PartSource stores and the potential for additional small-scale acquisitions, to nearly triple the size of the chain to approximately 130 stores by the end of 2009.

Canadian Tire Financial Services (Financial Services)

Credit card receivables. Over the past four years, Financial Services' credit card receivables have grown by more than 150 percent and average balances on our credit cards by approximately 100 percent, primarily through our program to convert customers from the Canadian Tire retail credit card to the Options MasterCard. Now that the conversion program is complete, future plans are focussed on growing Financial Services' credit card receivables by 12 percent to 15 percent annually, by increasing the number of accounts that have balances by three to four percent, and by increasing average balances by 8 percent to 12 percent. In order to achieve these targets, we will use our proven tactics of in-store acquisition and balance transfer promotions, while tailoring our products to our customers' individual needs. We also plan to introduce new types of credit cards.

Insurance premiums and warranty products. Insurance and warranty products are marketed to Financial Services' credit card customers. Revenues derived from insurance and warranty products have grown significantly in the last four years and we expect that they will continue to grow as we add new credit card customers and enhance the features and variety of our related products and services. We plan to increase Financial Services' revenues on insurance and warranty products by approximately six percent on a compound annual basis over the new Plan period.

Personal financial services. In order to meet the needs of our Options MasterCard customers, Financial Services plans to introduce a range of new personal financial services. Over the last year, we began testing the market potential for lines of credit and personal loans, which have been successful to date. Savings accounts and mortgages are examples of other products that we may launch in the future to meet the needs of our customers. In order to balance the rewards of growing the personal financial services portfolio against the associated risk, we may decide to partner with other financial institutions.

STRATEGIC IMPERATIVE 2

Improve earnings performance

Key Initiatives:

Reducing costs and maximizing productivity are important aspects of our Strategic Plan and will continue to be closely managed by our business leaders. We have identified several new initiatives, outlined below, that are expected to enhance our earnings performance and return on invested capital by making each of our businesses even more cost-efficient.

Canadian Tire Retail

Global sourcing. Increasing the number of products that we procure from overseas suppliers will allow us to maintain CTR's product margins and increase sales by offering greater product differentiation, which is an important aspect of our merchandising and promotional strategies. As part of our Code of Business Conduct, we require that all of our suppliers, both domestic and overseas, operate in a manner that is consistent with the ethical values of Canadian Tire.

Inventory practices review. We plan to review and enhance CTR's inventory systems and business processes to reduce operating costs, increase inventory turns and to improve the in-stock position at Canadian Tire stores. By consistently supplying Canadian Tire stores with products on-time, we can help minimize product shortages in the stores, which we believe will lead to higher customer satisfaction levels.

Mark's Work Wearhouse

Maximize productivity. There are several initiatives underway to increase margins and reduce operating costs as a percentage of Mark's sales between 2005 and 2009. Increasing the number of products that we source globally is one initiative to maintain Mark's competitive pricing strategy and expand Mark's core product categories. We are also planning to increase the capacity and performance of Mark's supply chain to support future growth by drawing on CTR's expertise in supply chain operations.

Canadian Tire Petroleum

Extensive business model review. A thorough review of Petroleum's existing business model is already underway, aimed at generating productivity improvements and identifying opportunities to increase earnings. Through the review process, we are examining all of Petroleum's operating expenses and benchmarking our performance against our competitors across a number of key metrics. Once complete, the review will guide us to make any necessary changes in Petroleum's operations to deliver superior earnings performance in the future.

PartSource

Operating efficiency. By expanding the PartSource network, we can take advantage of the many cost and productivity benefits of having a larger chain of stores. In addition, we are conducting a comprehensive review of PartSource's operations to identify ways of improving the functionality and productivity of the supply chain and information technology systems and processes. The objective is to make PartSource's corporate operations and franchise stores as efficient as possible.

Canadian Tire Financial Services

Cost and productivity management. With the expected growth of Financial Services' customer base and credit card and personal loan receivables, we believe that we can reduce Financial Services' operating expense ratio, which is operating expenses as a percentage of gross average receivables. We plan to continue to reduce Financial Services' operating expense ratio over the Plan period.

3

STRATEGIC IMPERATIVE

Embed a "Customers for Life" culture across the entire organization

Key Initiatives:

A key factor in our success has been our ability to meet the needs of our customers. To ensure the continued satisfaction of our customers, we have established a key imperative to reinforce a customer-centric culture across our entire organization. We call this imperative Customers for Life.

Customers for Life extends beyond store merchandising and marketing programs; it encourages everyone who is a part of Canadian Tire – from employees, to Associate Dealers, to franchisees – to perform in a way that encourages lifelong relationships with our customers. We will develop comprehensive benchmarks for each business unit to evaluate progress toward achieving a complete Customers for Life culture.

High customer satisfaction levels add long-term value for shareholders. Nurturing a Customers for Life culture will enable Canadian Tire to stay competitive in the future and achieve its long-term goals.

4

STRATEGIC IMPERATIVE

Extend growth and performance beyond 2009

Key Initiatives:

New business development. We plan to continue exploring new businesses and pursue channels of growth that leverage our core capabilities. Our new business development team has been developing a list of domestic growth opportunities that include acquisitions, joint ventures and strategic alliances. We will continue to assess these opportunities using rigorous operating and financial parameters and mandatory acquisition criteria, including strategic fit and risk, as well as financial, business and shareholder impact.

In the future, we will consider several different ideas for the short- and long-term growth of Canadian Tire, including the development of new store formats and the introduction of innovative product categories and services. We will base our decisions on our knowledge of customers' needs and evolving market trends, while leveraging the strong relationships that we have developed with our vendors.

5

STRATEGIC IMPERATIVE

Enhance value creation through financial flexibility and maximization of real estate assets

Key Initiatives:

Financial flexibility. Ongoing initiatives to increase our revenue and reduce our operating costs and working capital are designed to improve our financial flexibility. Effective risk management is also a critical part of our Strategic Plan. As we go through the process of allocating capital across our businesses, we plan to balance the growth potential of each initiative against its associated risk to maximize returns to our shareholders and maintain our overall financial flexibility. We will also seek out capital-light ways to grow our business.

We are in a strong financial position to pursue our growth agenda. We have ready access to debt and equity markets, ample cash flows and the potential for monetization of certain of our assets, such as our real estate portfolio. With all of these funding options, we feel confident that we can fully support the funding requirements of our new Strategic Plan.

Leveraging real estate assets. As part of our normal operations, we sell off our redundant real estate. In fact, in the past five years alone, we generated a $48 million pre-tax profit from the sales of these properties. In the future, we plan to take a different approach to managing our real estate to derive the highest possible return from each property.

We have separated our properties into three categories: active store properties, redundant properties to be sold and high-value real estate that could be further developed. Over the next five years, we will examine the potential for developing our high-value properties with one or more joint venture partners. We will consider several different options including developing certain of the properties to be later sold for a higher price, or developing and retaining some of our properties that could deliver a steady income stream to us in the future.

Forward-looking statements

This Annual Report includes statements that are forward-looking. Our actual results may be substantially different because of the risks and uncertainties associated with our business and the general economic environment.

In addition to the principal risks discussed in section 8 of management's discussion and analysis (MD&A), there are other factors that could affect our results. These include, but are not limited to:

- changes in interest rates and currency exchange rates
- unseasonal weather patterns that affect sales of seasonal merchandise
- changes in commodity prices that affect the profitability of our Petroleum division
- conditions that affect our ability to acquire and develop real estate properties
- our ability to attract and retain quality employees, Associate Dealers, PartSource and Mark's Work Wearhouse franchisees and Petroleum agents
- changes in the willingness of customers to shop at our stores or in their ability to repay their Canadian Tire credit card balances or personal loans.

We cannot provide any assurance that forecasted financial or operational performance in the MD&A will actually be achieved, or if it is, that it will result in an increase in our share price.

Foundation *for* Families

Martha Billes, Chairman, Canadian Tire Foundation for Families

The Canadian Tire Foundation for Families

Enriching the lives of people in need who live in the communities where we work and live is very important to us.

Working with our network of more than 1,100 retail stores and gas bars, and our over 48,000 employees across Canada, the Canadian Tire Foundation for Families provides financial support to charitable organizations that help families through three programs. Canadian Tire JumpStart™ gives kids in need the opportunity to participate in organized sports and recreation activities, while the other two programs – Community Programs and Regional Disaster Recovery – provide a helping hand to families facing difficult circumstances.

Since its launch in 1999, the Foundation for Families has donated more than $17 million to help families in need. Funds are generated through social marketing programs, annual fundraising events and through the incredible generosity of Canadian Tire Associate Dealers, employees, vendors and customers.

Canadian Tire JumpStart™

Developed in 2004, Canadian Tire JumpStart™ is committed to providing children without financial means, with the opportunity to participate in organized physical activities, so they can develop a healthy lifestyle and other essential life skills.

Canadian Tire JumpStart™ is delivered by a nationwide network of local Chapters made up of local community leaders including Canadian Tire Associate Dealers, Petroleum Agents and representatives from established organizations such as the Boys and Girls Clubs of Canada, Canadian Parks and Recreation and YMCA Canada. Together, these community leaders identify children in need and allocate the funding they need to get started in a sport or recreational activity. The program is expected to distribute up to $4 million to benefit 20,000 children in 2005.

Community Programs

The Community Program fund provides financial support to help people in crisis by providing life's basic needs – food, shelter, clothing and essential goods – and also helps families rebuild their lives after a natural disaster. Last year, assistance from the Foundation for Families resulted in 195,305 warm meals and 26,590 nights of shelter.

The Regional Disaster Recovery Program

The Regional Disaster Recovery program helps communities put the pieces back together after a major disaster. In addition to helping the community of Peterborough with their flood relief efforts, Canadian Tire donated more than $1.8 million on behalf of our customers, employees and network of businesses to help with the tsunami relief efforts.

"Canadian Tire is committed to continue achieving growth and earning investors' trust through sound strategic implementation, a strong operating performance, a solid financial structure, conservative capital management and by providing sufficient disclosure to give investors a fully informed opportunity to invest."

Huw Thomas, Executive Vice-President, Finance and Administration and Chief Financial Officer

Dear shareholder:

Financial performance is a true differentiator as it provides a direct measure of any company's success. Financial performance measures the achievement of strategic plan objectives, the degree of customer approval for a company's products, services and experience and, perhaps most important, the creation of shareholder value.

In 2004, we recorded our best financial performance yet, another year in which we achieved our overall objective – top-quartile ranking among major North American retailers in terms of total return to shareholders. Our 2004 performance validates our current Strategic Plan and how successful we have been at implementing it since we launched it in 2001.

In today's investment climate, companies that consistently deliver earnings growth attract investors. It is equally important for investors to feel secure about their investment and they will seek companies that adhere to conservative financial policies, follow an effective risk management program and provide full and fair disclosure. All of these can be categorized under the headings of financial flexibility, risk management and corporate governance, all areas where Canadian Tire continues to excel.

> Financial flexibility, which involves improving our debt to equity ratio, capital position, working capital utilization and liquidity and optimizing capital allocation, allows us to make the investments we need to achieve sustainable long-term growth.

> Our enterprise risk management program allows us to apply a consistent analysis of risks across the organization and develop effective mitigation strategies. An enterprise that is effectively managing its risks is doing much more than protecting its businesses, it is creating opportunities for growth and maximizing its chances of success on these opportunities.

> Finally, as for corporate governance, our disclosure is a perennial winner in the Canadian Institute of Chartered Accountants' awards for excellence in annual reporting. We are committed to the principles of good disclosure, we hold ourselves publicly accountable, and we consistently set high standards for ourselves.

Canadian Tire is committed to continue achieving growth and earning investors' trust through sound strategic implementation, a strong operating performance, a solid financial structure, conservative capital management and by providing sufficient disclosure to give investors a fully informed opportunity to invest.

(SIGNED) Huw Thomas
Executive Vice-President, Finance and Administration and Chief Financial Officer

Form 52-109FT1 – Certification of Annual Filings during Transition Period

I, Wayne C. Sales, Canadian Tire Corporation, Limited, President and Chief Executive Officer certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Companies' Annual and Interim Filings) of Canadian Tire Corporation, Limited, (the issuer) for the period ending January 1, 2005.
2. Based on my knowledge, the annual filings do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of circumstances under which it was made, with respect to the period covered by the annual filings; and
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings.

Date: March 10, 2005

(SIGNED) Wayne C. Sales
President and Chief Executive Officer

Form 52-109FT1 – Certification of Annual Filings during Transition Period

I, J. Huw Thomas, Canadian Tire Corporation, Limited, Executive Vice-President, Finance and Administration and Chief Financial Officer certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Companies' Annual and Interim Filings) of Canadian Tire Corporation, Limited, (the issuer) for the period ending January 1, 2005.
2. Based on my knowledge, the annual filings do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of circumstances under which it was made, with respect to the period covered by the annual filings; and
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings.

Date: March 10, 2005

(SIGNED) J. Huw Thomas
Executive Vice-President, Finance and Administration and Chief Financial Officer

Management's Discussion and Analysis

March 10, 2005

Table of Contents

Introduction

Management's discussion and analysis (MD&A) provides management's perspective on our Company, our performance and our strategy for the future.

We, us, our, Company and Canadian Tire

In this document, "we," "us," "our," "Company" and "Canadian Tire" all refer to Canadian Tire Corporation, Limited and its business units and subsidiaries.

Review and approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A on March 10, 2005. This MD&A includes Canadian Tire's operating and financial results for 2004 and 2003, and should be read with our Consolidated Financial Statements, which start on page 82.

Other important Company documents

The following Canadian Tire public documents include additional information that will be of interest to investors:

- Annual Information Form
- Management Information Circular
- Quarterly reports

These documents are available on SEDAR's web site at www.sedar.com and in the Investor Relations section of the Company's web site at http://investor.relations.canadiantire.ca.

Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons to the fourth quarter of 2004 are against the fourth quarter of 2003, and all comparisons to the full year of 2004 are against the full year of 2003.

The fiscal year of 2003 included 53 weeks, whereas 2004 was a normal 52-week fiscal year. The extra week of fiscal 2003 fell in the fourth quarter. Where appropriate, we compare 52 weeks in 2004 with the first 52 weeks in 2003 to provide a more meaningful interpretation of our year-over-year results. For quarterly comparisons, we compare 13 weeks in the fourth quarter of 2004 with the first 13 weeks of the 14-week period of the fourth quarter of 2003. All comparisons that have been adjusted for the extra week in 2003 have been noted accordingly.

2003 restated figures

Some figures in our 2003 Annual Report were restated as required by the following accounting policies that were issued by the Canadian Institute of Chartered Accountants (CICA) and implemented by us in 2004:

- EIC-144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor"
- Section 3110, "Asset Retirement Obligations"

See section 9 of this MD&A for more details.

Accounting estimates and assumptions

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In the judgement of management, none of the estimates detailed in Note 1 of the Company's Consolidated Financial Statements for the period ended January 1, 2005 require the Company to make assumptions about matters that are highly uncertain. The methodology used in establishing each estimate is based either on models that have been in use by the Company on a consistent basis for a significant period or because the nature of the calculations used to establish the estimates is sufficiently detailed. On this basis, none of the estimates is considered a critical accounting estimate.

Forward-looking statements

This MD&A includes statements that are forward looking. Our actual results may be substantially different because of the risks and uncertainties associated with our business and the general economic environment.

In addition to the principal risks discussed in section 8 of this MD&A, there are other factors that could affect our results. These include, but are not limited to:

- changes in interest rates and currency exchange rates
- unseasonal weather patterns that affect sales of seasonal merchandise
- changes in commodity prices that affect the profitability of our Petroleum division
- conditions that affect our ability to acquire and develop real estate properties
- our ability to attract and retain quality employees, Associate Dealers, PartSource and Mark's Work Wearhouse franchisees and Petroleum agents
- changes in the willingness of customers to shop at our stores
- changes in our customers' ability to repay their Canadian Tire credit card or personal (term) loan balances

We cannot provide any assurance that forecasted financial or operational performance in the MD&A will actually be achieved, or if it is, that it will result in an increase in our share price.

1. Our Company

Canadian Tire has been in business since 1922. What started as a small but bold entrepreneurial concept has become a growing, innovative network of interrelated businesses.

Canadian Tire is made up of four main businesses.

Canadian Tire Retail (CTR) is Canada's leading hard goods retailer with a network of 457 Canadian Tire stores that are operated by independent business owners – Associate Dealers. Associate Dealers buy merchandise from us and sell it to consumers in their stores.

Canadian Tire Retail also includes our online web store and PartSource. PartSource is a chain of 47 specialty automotive hard parts stores that cater to serious "do-it-yourselfers" and increasingly, professional installers of automotive parts. PartSource stores are run by franchisees.

Mark's Work Wearhouse (Mark's) is one of Canada's largest specialty footwear and apparel retailers specializing in industrial work wear and men's and women's casual apparel. Mark's has 276 corporate stores and 57 franchise stores operating as Mark's Work Wearhouse and Work World, and as L'Équipeur in the province of Quebec.

Canadian Tire Petroleum (Petroleum) is Canada's largest independent retailer of gasoline with a network of 253 gas bars, 241 convenience stores and kiosks, 58 car washes and a number of propane stations, all of which are operated by agents.

Canadian Tire Financial Services (Financial Services) markets the Options MasterCard, the Canadian Tire Commercial Link MasterCard, personal (term) loans, insurance and warranty products, and an emergency roadside assistance service called Canadian Tire Auto Club. Canadian Tire Bank, a subsidiary of Financial Services, is a federally regulated bank that manages and finances Financial Services' MasterCard and retail credit card portfolios, as well as the personal loan portfolio.

2. Our core capabilities

2.1 Canadian Tire Retail

2.1.1 Brand equity

Canadian Tire's name and logo have been fixtures in Canadian retailing for over 80 years. The "red triangle" logo enjoys almost universal recognition among Canadian consumers. Canadian Tire has built a reputation for innovative products and services, attracting approximately 50 to 60 percent of all Canadians into Canadian Tire stores every month.

CTR has built upon its strong, long-standing private-label brands such as MotoMaster and MasterCraft, by adding new brands such as Yardworks which is also becoming a recognized and respected brand. Private-label products comprise approximately 30 percent of CTR's annual sales.

2.1.2 Loyalty program

Canadian Tire's highly recognized 46-year-old loyalty program rewards customers with various forms of Canadian Tire 'Money' coupons. The primary goal of the program is to encourage customer loyalty and, as a result, cause Canadians to shop at our stores, fill up at our gas bars and use our credit cards more frequently. Canadian Tire customers receive Canadian Tire 'Money' rewards when they pay with cash, debit card or cheque, or with one of Canadian Tire's credit cards.

2.1.3 Real estate

Canadian Tire has a core capability in real estate development. CTR has opened 327 new-format Canadian Tire stores since 1994, and has sold many of the redundant properties related to the traditional stores that were replaced during that period. CTR employs a rigorous approval process to ensure that it places the right size store in the right market on a consistent and cost-effective basis.

2.1.4 Special relationships

CTR has developed very special relationships with its Associate Dealers and vendors and has long-standing relationships with its customers.

Associate Dealers Our Associate Dealer model is unique to Canadian Tire and important to our success. Associate Dealers are committed to continually improving Canadian Tire store operations and ensuring CTR's growth initiatives are implemented successfully.

Associate Dealers have intimate knowledge of customer needs in local markets, and use this knowledge to help determine the right product assortment and to forecast inventory requirements more accurately. Associate Dealers also provide objective feedback on CTR's growth strategies.

The structure of the Associate Dealers' relationship with us, combined with their entrepreneurial nature, motivates Associate Dealers to provide a positive shopping experience to customers every day, which has a direct impact on how consumers view Canadian Tire.

During 2004, we reached an agreement with representatives of our Associate Dealers on the form of contract that will be signed by the individual Associate Dealers. The financial terms of the new contract became effective at the beginning of the third quarter of 2004. The terms of the 10-year contract provide for a review of major financial terms at the end of five years. The new contract provides important strategic, financial and operational changes intended to benefit CTR's earnings and enable the Associate Dealers to grow their businesses.

The new contract brings enhanced clarity and specificity to the rights and obligations of the Associate Dealers and Canadian Tire. In particular, the new contract clarifies the rights of an Associate Dealer when we close or relocate a store and the extent to which we can compete with an Associate Dealer through the introduction of new Canadian Tire stores, PartSource stores or other businesses that have a significant overlap with the Associate Dealer's business. The obligations of Associate Dealers in connection with the operation of their stores and processes by which Associate Dealers are evaluated have been made clearer and more precise. The new contract also specifies how we resolve disputes with our Associate Dealers and gives an Associate Dealer the right to remain an Associate Dealer until retirement, subject to compliance with the contract and our policies.

Vendors CTR has established especially strong relationships with those vendors who supply us with a large volume of products. Our strong relationships with our vendors allow us to continue to:

> offer competitive prices
> deliver products on time to Canadian Tire stores
> offer Exciting, New and Exclusive products
> execute compelling promotional programs

2.1.5 Supply chain

CTR has two primary distribution centres located in Brampton, Ontario and has two regional distribution centres: one in Calgary, Alberta and another in Montreal, Quebec. CTR also has three auto parts depots that ship to both Canadian Tire and PartSource stores.

2.2 Mark's Work Wearhouse

2.2.1 Brand equity

Mark's has established powerful brand equity. Recent research conducted by Mark's in three major markets and four smaller markets determined that 95 percent of Canadians between 30 and 55 years of age who live in Ontario and Western Canada know the Mark's Work Wearhouse name. Approximately 60 percent of the Canadians that participated in the survey had visited a Mark's Work Wearhouse store during the 12 months prior to the research.

Mark's has established strong private-label brands, such as WindRiver, Denver Hayes and Dakota, that have a reputation with our customers for quality and good value. At Mark's Work Wearhouse, private-label products represent more than 70 percent of annual retail sales.

Many Canadians are loyal Mark's customers. Customers appreciate Mark's combination of quality products, great prices and excellent customer service, and they reward Mark's with repeated visits to the stores.

2.2.2 Innovative products

Mark's continues to introduce new apparel and footwear products to meet its customers' needs. In the last few years, Mark's introduced several innovative products such as metal-free safety boots and casual stain-resistant clothing. The introduction of these new products at Mark's creates new customer demand and increases sales.

2.3 Canadian Tire Petroleum

2.3.1 Brand equity

Petroleum's success is driven by its affiliation with the Canadian Tire brand. Petroleum's high-value reputation among customers is directly related to the successful Canadian Tire 'Money' loyalty program and cross-promotions with Canadian Tire stores. Petroleum's customer value proposition is one of the key factors that differentiates Petroleum from other gasoline retailers.

2.3.2 Loyalty program

Canadian Tire 'Money' originated as a cross-promotion with Canadian Tire stores and today is still Petroleum's key loyalty program. Petroleum also offers several loyalty-building promotions, such as "multiplier" coupons that increase the amount of Canadian Tire 'Money' rewards customers receive when they buy gas at Petroleum's gas bars. Through effective use of marketing and promotional programs, Petroleum has become an industry leader in Canada in terms of the volume of gasoline pumped per site.

2.3.3 Customer service

Petroleum has consistently been recognized for its above-average customer service as verified by frequent third party "mystery shops." Petroleum also offers a special service to drivers who are physically challenged and need help refuelling their vehicles at our self-serve gas bars.

2.4 Canadian Tire Financial Services

2.4.1 Brand equity

The Canadian Tire brand contributes significantly to Financial Services' success. Financial Services' customer-focussed culture, in turn, enhances the Canadian Tire brand. Canadian Tire 'Money' on the Card is one of the main incentives for customers to keep and use their Canadian Tire credit cards.

2.4.2 Loyalty program

The Canadian Tire 'Money' on the Card program is an important part of Financial Services' value proposition. Customers earn more Canadian Tire 'Money' when they use their Canadian Tire credit cards at Canadian Tire stores than when they pay with cash. They also earn 'Money' on the Card whenever they shop with their Options MasterCard anywhere MasterCard is accepted.

2.4.3 Call centre

Financial Services' call centre has once again been recognized by Service Quality Measurement Group Inc. as the best call centre in North America for its delivery of world class customer service. In credit industry studies, credit card holders cited customer service as one of the primary reasons for deciding which credit card they use.

2.4.4 Credit management

Over the past 40 years, Financial Services has developed a strong capability in credit management. This capability is an essential part of Financial Services' growth plan, helping to maintain the division's target level of return. Financial Services uses sophisticated credit-scoring models to tailor financial services products to each customer's needs, while mitigating risk to the Company.

3. Business trends

3.1 Canadian Tire Retail

Canada's retail industry has experienced significant change over the past 10 years. Competition in the retail market and individual sectors has intensified with domestic retailers expanding and international retailers entering Canada. The industry has also experienced consolidation as department stores and other retailers have closed or have been acquired.

In order to grow, retailers must have a clear and unique value proposition and be able to respond to the changing demographics and lifestyles of Canadian consumers, who demand an optimum combination of choice, convenience, quality, value and service.

After several years of flat performance, industry experts are forecasting that the Canadian automotive parts market will grow at an annual rate of approximately three percent over the next two to three years. The forecasted growth is due to strong sales of new cars in the late 1990s which are now entering the prime repair years. We anticipate increasing demand for specialty parts among automotive "do-it-yourselfers" and professional installers of automotive parts.

3.2 Mark's Work Wearhouse

Two long-term trends that have impacted Canada's $19 to $20 billion apparel market are:

> the move from traditional business attire to business casual clothing in the workplace

> the increasing number of Canadians who are leading more active lifestyles

Traditional apparel retailers are facing a challenging market. Consumers are spending a smaller percentage of disposable income on clothing. The apparel market in Canada has also experienced price deflation due to intensifying competition from retailers that are increasing the number of products that they procure from overseas suppliers. Nevertheless, growth opportunities still exist for Canadian retailers who are positioned to anticipate and meet the changing preferences and lifestyle needs of customers.

3.3 Canadian Tire Petroleum

Canada's petroleum market is mature and relatively stable, but margins can be unpredictable because of the volatility of wholesale and retail gasoline prices. Within this market, gasoline retailers are evolving in response to changing lifestyles – Canadians are spending more time in their cars and need to fill up with gas at least once per week on average and, therefore, value greater convenience. Growth prospects within the market are being shaped by the development of other services that generate higher margins, such as car washes, and convenience stores that leverage gas bar real estate and customer visits. Retail chains that offer value, convenience and trust have a competitive advantage in this market.

3.4 Canadian Tire Financial Services

The Canadian bank card market now represents over $50 billion in outstanding loans and has grown at over 11 percent annually over the past three years, which offers an attractive growth opportunity despite intense competition. While Canada's major banks are the market leaders, U.S.-based credit card issuers are gaining market share and are redefining customer expectations. With the increasing number of credit cards available, consumers are looking for relationships with organizations that offer strong value, exceptional service and programs that reward them for their loyalty.

4. Our strategy

4.1 Strategic objective

We measure our long-term success by our total return to shareholders. Our objective is to achieve total return to shareholders that is in the top quartile of North American retailers listed in the major consumer product indices of three stock exchanges:

> the Toronto Stock Exchange (TSX)

> the NASDAQ stock market (NASDAQ)

> the New York Stock Exchange (NYSE)

Canadian Tire's total return to shareholders (TRS)[1]

Fiscal year	TRS	Ranking
2001	40.3%	Second quartile
2002	30.4%	Top quartile
2003	26.5%	Second quartile
2004	**43.0%**	**Top quartile**
Annualized: 2001–2004	**32.7%**	**Top quartile**

[1] Total return to shareholders is the appreciation in Canadian Tire's Class A Non-Voting Shares, plus dividends.

Top-quartile total return to shareholders is the overall objective of Canadian Tire's Strategic Plans for the periods of 2001 to 2005 and 2005 to 2009. In order to achieve this objective, we have established five financial aspirations that are outlined in this Annual Report to guide us in developing our growth plans and to test our ability to deliver above-average performance year after year. Our financial aspirations were developed through a review of our capabilities, our recent financial and operating performance and by taking into consideration the performance of our peers.

While we believe that establishing and striving to achieve our financial aspirations is important in order to meet our objective of top-quartile TRS, we cannot provide any assurance of future financial results or performance. Further, there are many factors that are beyond our control that could impede our ability to achieve our results and that may impact our stock's market value. For more information on the risks associated with our businesses, refer to section 8 of this MD&A.

4.2 Financial aspirations

We chose five financial metrics and set aspirations for each metric that, if achieved, would help us deliver our TRS objective. We chose our financial metrics because they were the metrics that had the closest correlation to the best TRS achieved by our peer group of North American retailers. We set our aspirations for each of these metrics based on the performance achieved by the best retailers among our peer group. The importance we have placed on striving to attain our aspirations influences our decisions and ensures that our entire organization is aligned around our objective of creating long-term shareholder value.

Financial aspirations	Strategic Plan 2001 to 2005	2001–2004 performance[1]	2004 year-over-year performance	2004 year-over-year performance, excluding non-operating items[2]
Comparable store sales[3]	3 to 4%	2.5%[4]	3.4%[5]	3.4%[5]
Gross operating revenue	at least 10%[6]	8.3%[6]	9.2%	9.2%
EBITDA[7] and minority interest	10 to 15%[6]	11.6%[6,8]	17.3%[8]	15.2%[8]
Basic earnings per share	12 to 15%[6]	18.1%[6,8]	20.2%[8]	16.9%[8]
After-tax return on invested capital	at least 10%	8.5%[4,8]	9.6%[8]	9.0%[8]

1 Performance from the beginning of fiscal 2001 to the end of fiscal 2004.
2 Non-operating items include gains and losses on the sales of credit card receivables and the dispositions of property and equipment.
3 Represents sales at CTR only.
4 Simple average of 2004, 2003, 2002 and 2001 percentages.
5 Excludes the 53rd week of sales in fiscal 2003.
6 Plan goals and performance for these metrics are expressed in terms of a compound annual growth rate (CAGR).
7 Earnings before interest, income tax, depreciation and amortization. See section 11 on non-GAAP measures at the end of this MD&A.
8 The EBITDA, basic earnings per share and return on invested capital values in this table have all been restated in conformance with the new accounting policies for vendor rebates and Asset Retirement Obligations, which are discussed in section 9 of this MD&A.

4.3 Strategic Plans

We are entering the final year of our 2001 to 2005 Strategic Plan, which outlines strategic imperatives for our Company and shapes the initiatives of our businesses. The Plan has served as a roadmap for guiding our Company's growth over the past four years, and has laid a solid foundation for growth over the longer term.

In this MD&A, we report to you on the advancement of each initiative that we established under the 2001–2005 Plan, and our progress toward achieving our financial aspirations.

Our 2001–2005 Plan has four imperatives:

1 – strengthen and accelerate growth and performance in Canadian Tire Retail

2 – pursue unexploited growth in Petroleum, Financial Services and PartSource

3 – develop and explore new business opportunities

4 – enhance financial flexibility

In 2005, as we conclude our current five-year Strategic Plan, we also embark upon a new Plan that will guide our efforts through to the end of 2009. While we remain committed to meeting the objectives of our current Plan, it was clear to us that we needed to create a detailed map for our next phase of growth well in advance of our current Plan's completion to ensure a seamless transition from one plan to the next. We will begin the implementation of our new Strategic Plan in this, the final year of our current Plan.

Our new Strategic Plan for 2005 to 2009 is based on a comprehensive review of our business performance and factors influencing our future ability to compete. The new Plan builds on our progress over the last four years, refining our focus on the initiatives that will help us to meet our financial aspirations. Our new Plan has five strategic imperatives:

1 – grow sales and revenues

2 – improve earnings performance

3 – embed a Customers for Life culture across our entire organization

4 – extend growth and performance beyond 2009

5 – enhance value creation through financial flexibility and maximization of the value of our real estate assets

Our performance in 2005 will be measured against both of our Strategic Plans. Please turn to page 29 of this Annual Report for information about our 2005 to 2009 Strategic Plan.

4.4 Strategic initiatives

This section is a performance report card for 2004, covering the initiatives included in our 2001 to 2005 Strategic Plan.

4.4.1 Canadian Tire Retail (CTR)

New-format stores

CTR began replacing traditional Canadian Tire stores with new-format stores in 1994 and since then has opened 327 new-format stores across the country. New-format stores drive sales, enhance our brand image and are key to our growth.

Larger retail floor space, a more convenient layout and additional room to display merchandise create a more enjoyable shopping experience for customers, which is why more customers visit new-format stores than traditional stores and, on average, spend a higher amount per visit. Also, new-format stores have consistent layouts to improve the efficiency of rolling out new merchandising programs and to offer a more consistent customer experience across the chain.

In the fourth quarter:

> replaced four traditional stores with new-format stores
> opened two additional new-format stores

Over the full year of 2004:

> replaced 13 traditional stores with new-format stores
> opened five additional new-format stores

There are now 457 stores in the CTR network, including six Canadian Tire-Mark's Work Wearhouse combination stores and 25 Concept 20/20 stores.

Plans for 2005
CTR plans to build another 20 stores in 2005, mainly to replace older, traditional stores.

Concept 20/20

Concept 20/20 (C20/20) is a new store merchandising format that CTR introduced in 2003. It features:

> an updated store layout
> new and expanded merchandise categories
> a customer care centre
> new store signage
> a revitalized exterior façade

Expanding retail space by reducing the warehouse space within the store and adjusting merchandise assortments are key elements of the concept, which is designed to boost sales in stores by 20 percent in the first year after the store has been converted to a C20/20 store.

In 2004, CTR continued to test the C20/20 store merchandising format.

In the fourth quarter:

> six of the new stores opened were C20/20 stores
> one existing new-format store was retrofitted to a C20/20 store

Over the full year of 2004:

> fifteen new stores opened in 2004 were C20/20 stores
> six existing new-format stores were retrofitted to C20/20 stores

On average, sales at new C20/20 stores and new-format stores that have been retrofitted to the C20/20 format have exceeded our original expectation of a 20 percent increase in sales.

Plans for 2005
Most of the 20 new stores CTR plans to build in 2005 will be in the C20/20 format. CTR also plans to retrofit 15 existing new-format stores to the C20/20 format.

Exciting, New and Exclusive (ENE) products

Customers recognize Canadian Tire stores as a source of innovative new products. MasterCraft laser tools, self-winding garden hoses and solar panels are some examples of CTR's successful ENE products.

Many of CTR's ENE products are automatically shipped to stores through our speed-to-market program, without waiting for Associate Dealer orders. Through CTR's ENE speed-to-market program, we work with our vendors and a small advisory group of Associate Dealers to identify innovative ENE products to sell in our stores. By shipping these ENE products automatically, products arrive in our stores early in each product's lifecycle to capture maximum sales and margins.

In 2004, sales of ENE products increased by approximately seven percent, comparing sales in the 52 weeks of fiscal 2004 to the first 52 weeks of fiscal 2003. The increase in sales was lower than our target of 25 percent for 2004. We consider, however, the increase to be an achievement in light of the 50 percent increase in ENE product sales in 2003, compared to 2002.

Aggressive advertising, including our popular demonstration-style television commercials, and compelling in-store displays, continued to support the growth of ENE product sales.

Plans for 2005

CTR anticipates that sales of ENE products will be a key driver of comparable store sales at CTR in 2005.

CustomerLink

CustomerLink is a $277 million multi-year project to upgrade facilities, processes and technology to increase throughput, support retail sales growth and improve supply chain productivity. The CustomerLink initiative is on schedule and on budget, including a planned allowance for project contingencies.

The four key components of the program include:

> a substantial improvement in the technology necessary to replenish, store and flow product through regional distribution centres

> the construction and commissioning of a new distribution centre in Calgary, Alberta

> the reconfiguration of the A.J. Billes and Brampton distribution centres, in Brampton, Ontario, to increase the throughput and enable multi-channel operations

> the implementation of technology to enable multi-channel operations through selected facilities

The channels of distribution include:

Storage and retrieval: We consign product shipments from our suppliers to a distribution centre, receive the products and store them until we receive an order from one of our Canadian Tire stores. We then pick the products ordered and ship them to the store.

Flow-through: We consign product shipments from our suppliers to our distribution centres, but do not put them in storage, as we fill store orders within one week of the product's arrival. Most products in this channel are ordered frequently and in high volume.

Cross-dock: We pass product orders from our stores electronically to our suppliers, who pick and package the orders by store and ship them to our distribution facilities. We sort the packages and ship them on the next outbound truck to each store. Most products in this channel have small dimensions.

Direct ship: We pass product orders from our stores electronically to our suppliers, who pick and package the orders by store and ship them directly to the stores. Most products in this channel are ordered in large quantities.

While CTR had been utilizing the direct ship and storage and retrieval channels, CustomerLink has fully enabled CTR to use the cross-dock and flow-through channels.

The program is being implemented in four segments:

> implementation of regional distribution and storage capabilities in the third party distribution facility in Montreal. This segment was completed in 2001.

> construction of a distribution centre in Calgary and the implementation of regional distribution and storage capabilities in the Calgary facility. This segment was completed in 2001.

> implementation of multi-channel technology and the application of multi-channel technology and processes in the Calgary facility. This segment was 95 percent complete at the end of 2004 and is on track for completion by the end of the third quarter of 2005.

> reconfiguration of the A.J. Billes and Brampton distribution centres to enable multi-channel capability. This segment is on track to be completed by the end of 2005.

Once CustomerLink has been fully implemented, we expect that supply chain costs as a percentage of retail sales will be 100 basis points lower than would have been the case had the CustomerLink investment not been made.

As of January 1, 2005, CTR had invested $261 million in CustomerLink, and expects to spend an additional $16 million to complete the initiative.

The new Calgary facility and the reconfiguration of the A.J. Billes and Brampton distribution centres, combined with regional and multi-channel distribution capabilities, will increase CTR's supply chain capacity from 123 million cubic feet in 2001 to 166 million cubic feet or 35 percent. In 2004, CTR shipped 148 million cubic feet of product to 457 Canadian Tire stores.

Beyond CustomerLink – Further expansion at Calgary distribution centre We are expanding the Calgary distribution centre to accommodate higher sales at our stores in Western Canada and a significant increase in the number of products that CTR imports from Asia. The 440,000 square foot expansion, which should be completed by 2006, will increase the distribution centre's capacity to support growth through 2009.

Auto service

Capturing a greater share of the automotive service market is a business focus for CTR. Auto service inspections and regular follow-up phone calls to measure customer satisfaction and respond to customer concerns have been implemented in the majority of Canadian Tire stores across Canada.

CTR has maintained its automotive service market share of approximately seven percent while increasing sales in 2004. Automotive service sales increased by 3.8 percent in the fourth quarter and increased by 2.3 percent for the full year of 2004.

Plans for 2005
CTR plans to continue efforts to increase its automotive service market share. CTR's long-term goal is to capture 10 percent of the automotive service market, which is equivalent to CTR's share of service bays in Canada.

Automotive infrastructure

This initiative was intended to:

> improve CTR's order fulfillment processes
> lower the cost of distributing automotive parts to Canadian Tire stores
> provide better access to automotive parts

At the end of 2004, the automotive infrastructure initiative was complete. Between 2001 and 2004, the following changes were implemented:

> CTR signed five-year agreements with UAP Inc. (UAP) to supply certain low-volume automotive hard parts to Canadian Tire stores and to share UAP's supply chain technology. The low-volume parts represent about 15 percent of CTR's automotive hard parts sales.
> closed 16 small parts depots located across Canada and completed a new automotive parts distribution centre in Toronto, Ontario and one in Montreal, Quebec
> improved store-level inventory planning processes for automotive hard parts

The automotive infrastructure initiative has been effective in improving CTR's order processes on automotive parts and in-stock position, and lowering automotive parts distribution costs in the magnitude expected.

PartSource network expansion

The PartSource network has grown from 28 stores in early 2001 to 47 stores at the end of 2004. PartSource added eight stores in 2004, two of which opened in the fourth quarter.

Plans for 2005
PartSource plans to continue to increase its store network by opening 10 new stores in 2005, the majority of which will be located in the Greater Toronto Area.

4.4.2 Mark's Work Wearhouse

Superbranding

The objective of the Superbranding program is to support Mark's Work Wearhouse as a recognized and valued national brand. Superbranding includes locating Mark's stores within reach of more Canadians, and providing products that support Mark's reputation for practicality, good quality and value under the "Clothes that Work" banner.

As part of the Superbranding program, Mark's has been converting Work World stores to Mark's Work Wearhouse stores (Work World conversion program). The purpose of the store conversions is to increase the penetration of Mark's Work Wearhouse stores in Canada and increase overall sales. Sales and margins of Mark's Work Wearhouse stores are generally higher than at Work World stores.

Ninety-four Work World stores had been converted by the end of 2004, with only 16 stores remaining. The remaining Work World stores will be converted to Mark's Work Wearhouse stores or closed over the next five years.

Plans for 2005
Mark's plans to continue to execute effective marketing and merchandising programs that are designed to support and enhance Mark's strong brand.

Network expansion and store expansions and renovations

Mark's continued to add new Mark's Work Wearhouse stores to its network. Mark's is also in the process of renovating and relocating certain stores in order to revitalize Mark's store network and increase square footage.

At the end of 2004, Mark's total store count was 333, totalling 2.4 million in retail square feet.

In the fourth quarter:

- opened 10 new stores, including four Canadian Tire-Mark's Work Wearhouse combination stores
- relocated four stores
- closed two stores

Over the full year of 2004:

- opened 21 new stores, including six Canadian Tire-Mark's Work Wearhouse combination stores
- relocated 16 stores
- renovated three stores
- closed 10 stores, eight of which were closed as part of the Work World conversion program

Plans for 2005
Mark's plans to open up to 21 new stores and increase its retail square footage to 2.6 million. Mark's also plans to renovate or relocate more than 25 stores.

Franchise buyback

Mark's has determined that corporate-owned stores are more desirable than franchise stores because they are more profitable, based on Mark's business model, and enable Mark's to deliver a more consistent store experience across all stores.

In the past few years, Mark's has been actively buying back franchise stores and either converting them to corporate stores or in certain situations, closing them. The majority of these stores have been Work World stores.

In 2004, Mark's bought back two franchise stores, one of which was purchased in the fourth quarter. At the end of 2004, Mark's had 57 remaining franchise stores.

The franchise buyback initiative has been successful in improving profitability and the consistency of the customer experience across Mark's entire network of stores.

Plans for 2005
Mark's has planned three franchise buybacks. In the future, Mark's will continue to buy back franchise stores when appropriate opportunities arise.

Category growth

Mark's has continued to expand its women's casual wear, business-to-business and health care apparel categories. Corporate store sales increased in 2004 in all three of these high-potential categories, exceeding Mark's target of 15 percent growth.

In the fourth quarter:

> women's casual wear sales increased by 42.9 percent

> business-to-business sales increased by 17.7 percent

> health care apparel sales increased by 26.6 percent

Over the full year of 2004:

> women's casual wear sales increased by 30.3 percent

> business-to-business sales increased by 17.8 percent

> health care apparel sales increased by 34.3 percent

Plans for 2005

Mark's plans to increase sales in women's casual wear, business-to-business and health care apparel by 15 percent in 2005.

Cost synergies

Since Mark's was acquired by Canadian Tire in February 2002, Mark's and Canadian Tire have worked together to identify synergies in supply chain, merchandise procurement, advertising, real estate and treasury in order to reduce costs. In 2004, Mark's realized $7.8 million in cost savings from synergies, surpassing the target of $7 million for the year.

Plans for 2005

Mark's anticipates ongoing cost savings from synergies of approximately $7 million in 2005.

4.4.3 Canadian Tire Petroleum

Network expansion

Petroleum continued to expand its network by re-branding gas bars and opening new gas bars in 2004. Petroleum had originally planned to open between eight and 12 new gas bars.

In the fourth quarter:

> added one incremental gas bar

> replaced two gas bars

> re-branded five competitor gas bars

Over the full year of 2004:

> added six incremental gas bars

> replaced two gas bars

> re-branded 21 competitor gas bars

At the end of 2004, Petroleum had 253 gas bars, including 36 re-branded gas bars, compared to 232, including 15 re-branded gas bars, at the end of 2003.

Plans for 2005

Petroleum plans to expand the network in 2005 by opening five new gas bars and by continuing the successful re-branding program.

Petroleum decided to slow its investment in new gas bars in 2005 due to industry-wide margin volatility. Petroleum will evaluate its growth plans on an ongoing basis to determine the appropriate level of capital investment.

Petroleum has planned to increase gasoline litre sales by approximately 10 percent in 2005.

Re-branding

Petroleum's program to re-brand competitors' petroleum sites to the Canadian Tire brand continued to deliver strong sales performance. In addition to the benefits of higher sales and earnings, re-branding is an effective way for Canadian Tire to increase market presence in gasoline retailing with less capital investment than is required to build new sites.

Re-branding business model The re-branding program provides benefits to Canadian Tire and the re-branding partner. In most cases, Petroleum incurs the relatively low cost of converting the gas bar and convenience store to the Canadian Tire brand, while our re-branding partner participates in the profits of the converted site.

To date, 36 competitor petroleum sites have been re-branded to Canadian Tire sites. Twenty-one sites were re-branded in 2004, which was lower than the target of 30, but considerably higher than the 12 that were converted in 2003.

Plans for 2005
Petroleum plans to re-brand another 15 to 20 sites in 2005 and develop new re-branding partnerships.

While the re-branding program continues to be very successful, Petroleum and its re-branding partners must agree on the pace of conversions, so it is difficult to predict how many sites will be re-branded over the long term.

Non-gas business growth

Convenience stores and car washes leverage the high customer traffic at Petroleum's gas bars and provide one-stop shopping for busy customers. Increasing convenience store and car wash sales also enhance gross margin and reduce the impact of gasoline margin volatility on Petroleum's earnings. By the end of 2004, there were 241 convenience stores and kiosks and 58 car washes in the Petroleum network.

Convenience stores Three main initiatives are underway to grow sales at convenience stores:

> adding new convenience stores
> expanding and renovating existing stores
> building "Q" convenience stores

Petroleum has been adding convenience stores to its network along with new gas bars and through the re-branding of competitors' petroleum sites. In 2004, Petroleum added 24 convenience stores, four of which were added in the fourth quarter.

Expanding and renovating existing convenience stores has been ongoing for several years. Convenience stores at our gas bars are now larger and offer a broader assortment of convenience items, like coffee, sandwiches and soft drinks.

Petroleum designed its new "Q" premium convenience centres to be co-located with other leading retailers in the same building, to add value and convenience for customers. Our first two test stores opened in early 2005 and are co-located with Starbucks coffee shops, Richtree Market Restaurants and Sobeys Express. The combined retail space is more than 10,000 square feet. Results of the test phase will determine the full potential of this initiative.

Convenience store sales rose 21.6 percent in 2004, exceeding our 20 percent target. The table below shows details of Petroleum's convenience store sales increases in 2003 and 2004.

(percent increase over prior period)	**Q4 2004**	Q4 2003	**2004**	2003
Total convenience store sales	**14.2%**	22.3%	**21.6%**	18.5%

Plans for 2005
Petroleum plans to add five or more convenience stores in 2005, including the first two "Q" premium convenience stores. Convenience store sales are targeted to grow by approximately 15 percent in 2005, including the expected sales contribution from re-branded convenience stores.

Car wash sales Car washes offer added convenience to customers and create another incentive to gas up at Canadian Tire, while increasing Petroleum's overall margins. By the end of 2004, Petroleum had 58 car washes.

Petroleum added four car washes in the fourth quarter and 11 car washes for the full year of 2004, which included two car washes at re-branded sites. Petroleum had originally set a target of opening 10 to 15 car washes in 2004.

Car wash sales increased 20.5 percent in 2004. The table below shows Petroleum's car wash sales increases in 2003 and 2004.

(percent increase over prior period)	**Q4 2004**	Q4 2003	**2004**	2003
Total car wash sales	**1.1%**	60.5%	**20.5%**	60.6%

Plans for 2005
Petroleum plans to add a minimum of five car washes in 2005. Car wash sales are targeted to grow by approximately 30 percent in 2005.

4.4.4 Canadian Tire Financial Services

Growing credit card receivables

Increases in the balances our customers carry on their credit card accounts and in the number of customers carrying a balance drive growth at Financial Services.

Financial Services uses low-cost, in-store acquisition programs to add new accounts, and then uses a variety of marketing tactics to encourage card holders to use their cards, which often results in higher account balances, including:

> offering low interest rates to customers to transfer credit card balances from other financial institutions

> offering increased credit limits to qualified customers

Increasing credit card receivables, the number of accounts with balances and average account balances are key performance indicators for Financial Services. Please turn to section 5.2.4 for more information.

Plans for 2005
Financial Services plans to increase gross managed credit card receivables to $3.1 billion by the end of 2005.

Insurance and warranty products

Revenues from insurance and warranty products have grown significantly over the last four years. Financial Services plans to continue to increase revenues from related products by attracting new customers and adding additional complementary products.

Financial Services expects revenues from insurance and warranty products to increase as the credit card portfolio grows.

Plans for 2005
Financial Services plans to increase revenues on insurance and warranty products by seven percent in 2005.

Introduction of personal (term) loans

Financial Services introduced personal (term) loans in 2004, through an initial test offering to qualified Options MasterCard customers. At the end of 2004, Financial Services had $66 million in gross personal (term) loan receivables. Based on these encouraging results, Financial Services plans to expand the program in 2005.

Plans for 2005
Financial Services plans to increase gross receivables of the personal (term) loan portfolio to over $200 million by the end of 2005.

4.4.5 New business development

Acquisitions, joint ventures, strategic alliances

While we believe that we can achieve our financial aspirations by effectively executing our strategic initiatives, we will continue to identify and evaluate domestic opportunities to enhance our growth and profitability beyond 2009. Our new business development team is focussed on identifying potential retail and retail-related business opportunities that can leverage our core capabilities and that fit within our existing network of businesses.

The new business opportunities include acquisitions, joint ventures and strategic alliances. Canadian Tire will assess new business opportunities using rigorous operating and financial parameters and mandatory acquisition criteria, including strategic fit and risk, as well as financial, business and shareholder impact to create a focussed list of opportunities that offer the greatest potential.

5. How we performed in 2004

5.1 Consolidated results

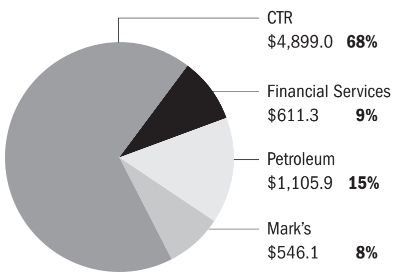
Consolidated financial performance

($ in millions except per share amounts)	**Q4 2004**	Q4 2003	Change	**2004**	2003	Change
Retail sales[1]	**$ 2,517.1**	$ 2,371.4	6.1%	**$ 8,389.6**	$ 7,865.7	6.7%
Gross operating revenue	**2,095.9**	1,907.3	9.9%	**7,153.6**	6,552.8	9.2%
EBITDA[2] and minority interest	**221.5**	193.8	14.4%	**709.9**	605.0	17.3%
Earnings before income taxes and minority interest	**157.9**	128.5	22.9%	**460.9**	365.9	25.9%
Effective tax rate	**35.3%**	31.4%		**35.3%**	31.7%	
Net earnings	**100.4**	86.0	16.6%	**291.5**	241.2	20.8%
Basic earnings per share	**$ 1.24**	$ 1.06	16.0%	**$ 3.60**	$ 2.99	20.2%

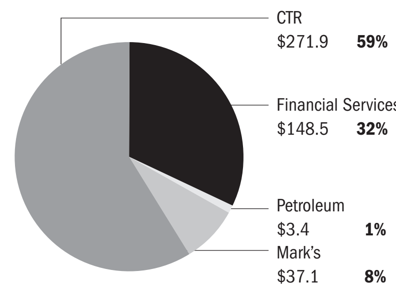
1 Represents retail sales at CTR, as well as Mark's corporate and franchise stores and Petroleum's gasoline sites.
2 See section 11 on non-GAAP measures.

Our entire network of businesses contributed to earnings in the fourth quarter and for the full year of 2004. Please refer to section 5.2 for a full discussion of the results for each of our businesses.

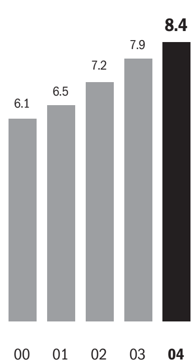
Gross operating revenue by business segment
($ millions)



Earnings before income taxes and minority interest by business segment
($ millions)



Consolidated annual retail sales
($ billions)

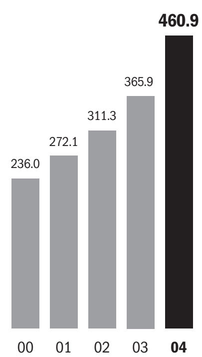


The following are the operational metrics, which are key drivers of our overall performance:

- net shipments to Canadian Tire stores increased by 7.4 percent in the fourth quarter and 5.6 percent for the full year
- Mark's Work Wearhouse increased its retail sales by 15.7 percent in the fourth quarter and 17.8 percent for the full year
- Petroleum increased retail sales by 14.5 percent in the fourth quarter and 14.4 percent for the full year
- Financial Services' gross average receivables were 20.9 percent higher in the fourth quarter and 24.5 percent higher for the full year of 2004, reflecting a similar increase in average account balances

Higher gross operating revenue due to strong sales and net shipments Gross operating revenue was higher in the fourth quarter and for the year because of higher net product shipments to Canadian Tire stores, higher retail sales at Mark's corporate stores and our petroleum sites, and higher credit card receivables.

Consolidated earnings before income taxes and minority interest
($ millions)



Successful execution of growth initiatives led to higher earnings Earnings before income taxes and minority interest were higher in the fourth quarter and for the year because of the successful execution of growth initiatives at Canadian Tire Retail, Mark's and Financial Services. The financial benefits associated with the new Associate Dealer contract also increased Canadian Tire's earnings in the fourth quarter and for the full year of 2004. Earnings from our Petroleum division, however, were down significantly in the fourth quarter and for the year due to higher expenses and lower gasoline gross margins.

Higher depreciation expense and higher effective tax rate impacted net earnings An increase in depreciation expense associated with supply chain upgrades related to the CustomerLink initiative, as well as a higher effective tax rate, had a negative effect on earnings in the fourth quarter and in 2004. The increase in the tax rate was due to changes in the mix of income.

Impact of sales of credit card receivables and disposals of property and equipment The tables below show our consolidated earnings (on a pre-tax and after-tax basis), excluding gains and losses from the sales of credit card receivables and the disposals of property and equipment.

Adjusted consolidated earnings before income taxes and minority interest

($ in millions)	**Q4 2004**	Q4 2003	Change	**2004**	2003	Change
Earnings before income taxes and minority interest	**$ 157.9**	$ 128.5	22.9%	**$ 460.9**	$ 365.9	25.9%
Less pre-tax adjustment for:						
Gain on sales of credit card receivables[1]	**14.2**	14.2		**22.6**	16.8	
Gain on disposals of property and equipment[2]	**2.9**	0.6		**14.4**	4.3	
Adjusted earnings before income taxes and minority interest[3]	**$ 140.8**	$ 113.7	23.7%	**$ 423.9**	$ 344.8	22.9%

1 See section 5.2.4 for information on Financial Services' performance.
2 See sections 5.2.1 and 5.2.3 for more information on the performance of CTR and Petroleum.
3 See section 11 on non-GAAP measures.

Adjusted consolidated net earnings

($ in millions except per share amounts)	**Q4 2004**	Q4 2003	Change	**2004**	2003	Change
Net earnings	**$ 100.4**	$ 86.0	16.6%	**$ 291.5**	$ 241.2	20.8%
Less after-tax adjustment for:						
Gain on sales of credit card receivables[1]	**9.3**	8.8		**14.7**	10.6	
Gain on disposals of property and equipment[2]	**1.9**	0.4		**9.3**	2.9	
Adjusted net earnings[3]	**$ 89.2**	$ 76.8	16.2%	**$ 267.5**	$ 227.7	17.4%
Basic earnings per share	**$ 1.24**	$ 1.06	16.0%	**$ 3.60**	$ 2.99	20.2%
Adjusted basic earnings per share[3]	**1.10**	0.95	15.5%	**3.30**	2.83	16.9%

1 See section 5.2.4 for information on Financial Services' performance.
2 See sections 5.2.1 and 5.2.3 for more information on the performance of CTR and Petroleum.
3 See section 11 on non-GAAP measures.

Selected annual consolidated financial information

($ in millions except for per share amounts)	**2004**	2003	2002
Gross operating revenue	**$ 7,153.6**	$ 6,552.8	$ 5,944.5
Net earnings	**291.5**	241.2	200.9
Basic earnings per share	**3.60**	2.99	2.54
Diluted earnings per share	**3.53**	2.95	2.51
Cash dividends declared per share	**0.50**	0.40	0.40
Total assets	**5,218.6**	4,893.1	4,865.7
Long-term debt (excluding current portion)	**1,081.8**	886.2	1,125.2

Seasonal impact We usually experience stronger revenues and earnings in the second and fourth quarters of every year because of the seasonal nature of our merchandise and marketing programs at CTR and Mark's. The table below shows our financial performance by quarter for the last two years.

Consolidated quarterly results

($ in millions, except per share amounts)	**Q4 2004**	**Q3 2004**	**Q2 2004**	**Q1 2004**	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Gross operating revenue	**$ 2,095.9**	**$ 1,715.5**	**$ 1,927.3**	**$ 1,414.9**	$ 1,907.3	$ 1,561.7	$ 1,785.1	$ 1,298.7
Net earnings	**100.4**	**69.4**	**80.8**	**40.9**	86.0	59.2	63.0	33.0
Basic earnings per share	**1.24**	**0.86**	**1.00**	**0.51**	1.06	0.73	0.79	0.41
Diluted earnings per share	**1.22**	**0.84**	**0.98**	**0.50**	1.05	0.72	0.77	0.41

5.2 Business segment performance

5.2.1 Canadian Tire Retail

Key performance indicators

The following are three key measures of CTR's sales productivity:

> retail and comparable store sales growth
> average retail sales per store
> average retail sales per square foot of retail space

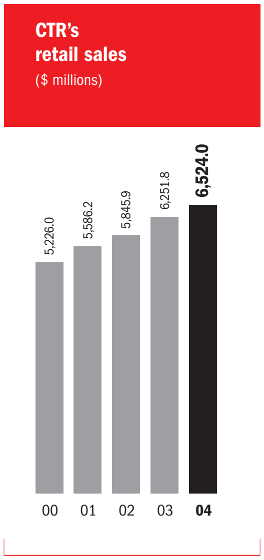
CTR retail and comparable store sales[1]

(year-over-year percentage change)	**Q4 2004**	Q4 2003	**2004**	2003
Total retail sales	**3.7%**	12.2%	**4.4%**	7.0%
13 weeks compared to 13 weeks	**9.3%**	6.4%		
52 weeks compared to 52 weeks			**6.0%**	5.3%
Comparable store sales	**1.1%**	9.4%	**1.8%**	4.7%
13 weeks compared to 13 weeks	**6.5%**	3.8%		
52 weeks compared to 52 weeks			**3.4%**	3.2%

[1] Includes sales from Canadian Tire stores, PartSource stores and sales from CTR's online web store.

CTR's retail sales

Retail sales represent total merchandise sales and the labour portion of automotive sales to consumers across CTR's network of stores, including CTR's online web store and PartSource, recorded at retail prices. Our ability to run effective merchandising programs, advertising campaigns, special events and product promotions is important to increasing sales at CTR.



Higher retail sales due to strong marketing programs, new-format store openings and Concept 20/20 CTR's retail sales were strong in the fourth quarter and for the year, especially compared to CTR's strong sales performance in 2003. New-format stores, including the rollout of our new Concept 20/20 store design and layout, as well as compelling marketing and advertising programs, such as our flyer program and demonstration-style television commercials, continued to play a key role in driving sales at Canadian Tire stores.

Significant factors that impacted sales in the fourth quarter and for the full year of 2004 were:

- sales in seasonal products, tools, car care and accessories, tires and batteries, and storage and organization categories performed well in the fourth quarter and in the year. Special holiday promotions of seasonal products and gift-related items boosted sales in the fourth quarter.
- our Exciting, New and Exclusive (ENE) products continued to perform well in all quarters of 2004
- sales of auto parts declined in the fourth quarter and for the full year of 2004

Retail sales by product division[1]

($ in millions)	**2004**	2003	2002
Home	**$ 2,671.3**	$ 2,615.6	$ 2,469.6
Leisure	**1,835.7**	1,682.2	1,548.2
Automotive	**1,706.2**	1,650.2	1,538.0
Total	**$ 6,213.2**	$ 5,948.0	$ 5,555.8

[1] Retail sales are shown on a 52-week basis in each year. Includes sales from Canadian Tire and PartSource stores, and excludes sales from CTR's online web store and the labour portion of CTR's auto service sales.

Average retail sales per Canadian Tire store[1,2]

($ in millions)	**2004**	2003	2002
Traditional stores	**$ 8.2**	$ 8.2	$ 8.2
New-format stores	**$ 15.6**	$ 15.2	$ 15.0

[1] Retail sales are shown on a 52-week basis in each year and exclude sales from PartSource stores, CTR's online web store and the labour portion of CTR's auto service sales.
[2] Only includes stores that have been open for a minimum of two years as of the beginning of the year.

Growth in sales at new-format stores continued to outpace growth at traditional stores in 2004. More customers are visiting new-format stores than traditional stores and on average, spending a higher amount per visit because of their larger size, more convenient layout and much greater selection of merchandise.

Average dollar amount of each retail sale[1]
($)

[1] Excludes sales from PartSource stores, CTR's online web store and the labour portion of CTR's auto service sales.

The average dollar amount of each retail sale at comparable new-format stores increased by approximately 11 percent between 2000 and 2004 and is now significantly higher than at comparable traditional stores. CTR plans to replace approximately 60 of the 130 remaining traditional stores over the 2005–2009 Plan period.

CTR store count

	2004	2003	2002	2001	2000
New-format stores[1]	**327**	309	290	270	233
Traditional stores	**130**	143	161	180	208
Total new-format stores and traditional stores	**457**	452	451	450	441
PartSource stores	**47**	39	33	30	28

[1] Includes 25 C20/20 stores at the end of 2004 and four C20/20 stores at the end of 2003.

Average sales per square foot of Canadian Tire retail space[1,2]

	2004	2003	2002
Retail square footage (millions of square feet)	**14.2**	13.5	13.1
Traditional stores	**$ 508**	$ 499	$ 495
New-format stores	**$ 436**	$ 423	$ 419

[1] Retail sales are shown on a 52-week basis in each year and exclude sales from PartSource stores, CTR's online web store and the labour portion of CTR's auto service sales.
[2] Retail space does not include warehouse, garden centre and auto service areas.

As expected, average sales per square foot in new-format stores are lower than in our traditional stores because new-format stores have much more retail space. The extra space is used to display more merchandise, provide wider aisles and include compelling product displays, creating an enjoyable shopping experience for customers.

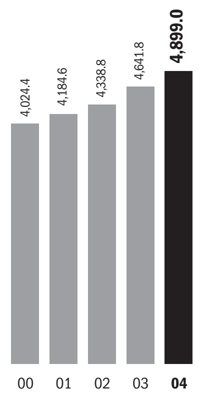
CTR financial performance

($ millions)	**Q4 2004**	Q4 2003	Change	**2004**	2003	Change
Retail sales	**$ 1,927.7**	$ 1,859.0	3.7%	**$ 6,524.0**	$ 6,251.8	4.4%
Net shipments (year-over-year percent change)	**7.4%**	11.9%		**5.6%**	7.0%	
Gross operating revenue	**$ 1,409.4**	$ 1,317.9	6.9%	**$ 4,899.0**	$ 4,641.8	5.5%
EBITDA[1] and minority interest	**133.8**	107.6	24.5%	**488.2**	409.6	19.2%
Earnings before income taxes and minority interest	**78.0**	50.4	54.6%	**271.9**	202.6	34.1%
Less adjustment for:						
Gain on disposals of property and equipment	**4.3**	1.8		**16.1**	6.1	
Adjusted earnings before income taxes and minority interest[1]	**$ 73.7**	$ 48.6	51.6%	**$ 255.8**	$ 196.5	30.1%

[1] See section 11 on non-GAAP measures.

CTR's net shipments
CTR's net shipments are the total value of merchandise shipped to Canadian Tire and PartSource stores, and through our online web store, less discounts and net of returns, recorded at the wholesale price that we charge to our Associate Dealers and PartSource franchisees.

CTR's gross operating revenue
($ millions)

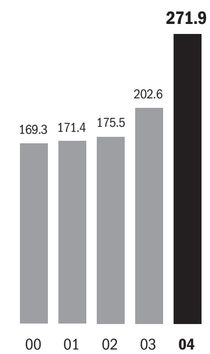


Higher gross operating revenue driven by similar increases in net shipments Strong retail sales and net shipments resulted in higher gross operating revenue in the fourth quarter and for the full year. See commentary on CTR's retail sales on page 57.

Higher net shipments and gross margins and benefits associated with the new Associate Dealer contract increased earnings before income taxes CTR's earnings before tax and minority interest rose over 50 percent in the fourth quarter, and over 30 percent for the year, mainly because of higher net shipments and higher gross margins. CTR's gross margins increased due to a greater volume of net shipments of higher-margin products and lower marketing expenses. As expected, the impact of the changes associated with the new Associate Dealer contract also contributed to CTR's earnings in 2004. PartSource also contributed modestly to CTR's earnings.

Impact of real estate sales The process of replacing Canadian Tire's traditional stores with new-format stores on new sites is the primary reason that CTR has excess real estate. CTR continued to benefit from the sales of redundant traditional store properties in 2004. Total gains on the sales of real estate increased by $2.5 million for the fourth quarter, and $10.0 million for the year, chiefly because of more aggressive initiatives to sell excess real estate.

CTR's earnings before income taxes and minority interest
($ millions)



Gain on the sales of real estate
Earnings before income taxes include gains from the sales of real estate we no longer need. This is included in Gain on disposals of property and equipment, which is an item not affecting cash in the operating activities section of the Consolidated Statements of Cash Flows. See CTR's financial performance table on page 58 for a calculation of earnings before tax, adjusted for these gains.

5.2.2 Mark's Work Wearhouse

Key performance indicators
The following are key performance indicators for Mark's Work Wearhouse:

- retail and comparable store sales growth
- average retail sales per corporate store
- average retail sales per square foot of retail space

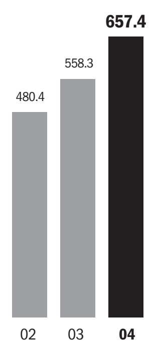
Mark's retail and comparable store sales[1]

	Q4 2004	Q4 2003	**2004**	2003[2]
Total retail sales	**15.7%**	16.8%	**17.8%**	8.6%
13 weeks compared to 13 weeks	**20.0%**	12.7%		
52 weeks compared to 52 weeks			**19.6%**	7.0%
Comparable store sales	**11.3%**	12.0%	**13.4%**	6.6%
13 weeks compared to 13 weeks	**15.4%**	7.9%		
52 weeks compared to 52 weeks			**15.1%**	5.0%

1 Mark's comparable store sales excludes new stores, stores not open for the comparable period and store closures.
2 Mark's was acquired by Canadian Tire on February 1, 2002. To provide a meaningful comparison of year-over-year sales, sales for the month of January 2002 were included in the calculations.

Mark's retail sales *represent total merchandise sales to consumers across Mark's entire network of stores, recorded at retail prices.*

Mark's retail sales[1]
($ millions)



[1] Mark's was acquired on February 1, 2002. Performance prior to that has been excluded.

Higher sales in most major product categories Most product categories were strong in 2004 and in the fourth quarter, balanced across all regions of Canada, with particularly strong performance in the women's casual wear, casual outerwear, casual footwear and accessories categories. Mark's innovative products also performed well in 2004. Stain-resistant clothing, metal-free safety footwear, gel-filled gloves, and socks for diabetics are examples of Mark's innovative products. Increasing the frequency of Mark's flyer program in the second half of the year and cross-promotions with Canadian Tire stores contributed to the increase in Mark's sales in the fourth quarter and in 2004.

Higher inventory improved in-stock position and resulted in higher sales In 2004, Mark's made a strategic decision to increase inventory in mature categories and invest in inventory in growth categories, which improved the in-stock position at Mark's stores and created customer interest by making more products available to customers. The improved in-stock position and overall inventory assortment resulted in higher sales in the fourth quarter and for the year. The opening of new Mark's Work Wearhouse stores and the conversion of Work World stores to higher-volume Mark's Work Wearhouse stores also resulted in higher inventory requirements in 2004.

Average corporate store sales[1]

	2004	2003	2002
Sales per store ($ in thousands)[2]	**$ 2,061**	$ 1,929	$ 1,929
Sales per square foot ($)[3]	**276**	254	248

[1] Dockers stores that were closed in 2002 are not included in this data.
[2] Average sales per corporate store include corporate stores that have been open for 12 months or more.
[3] Sales per square foot include sales from corporate stores. We have prorated square footage for corporate stores that have been open for less than 12 months.

Mark's corporate sales productivity measures, sales per corporate store and corporate sales per square foot have increased since Mark's was acquired in 2002. The increase in sales productivity was due to:

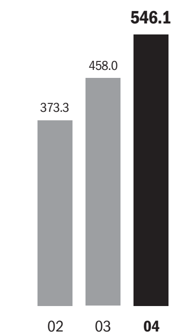
- higher investment in inventory in 2004
- the conversion of Work World stores to Mark's Work Wearhouse stores
- effective marketing and advertising programs designed to increase customer visits and raise awareness of Mark's brands

Mark's financial performance

($ in millions)	**Q4 2004**	Q4 2003	Change	**2004**	2003	Change
Retail sales[1]	**$ 273.7**	$ 236.6	15.7%	**$ 657.4**	$ 558.3	17.8%
Gross operating revenue[2]	**227.8**	195.2	16.8%	**546.1**	458.0	19.2%
EBITDA[3]	**35.2**	31.3	11.9%	**53.8**	41.0	31.0%
Earnings before income taxes	**30.9**	27.0	14.2%	**37.1**	25.0	48.2%

[1] Includes retail sales from corporate and franchise stores.
[2] Gross operating revenue includes retail sales at corporate stores only.
[3] See section 11 on non-GAAP measures.

Mark's gross operating revenue[1]
($ millions)

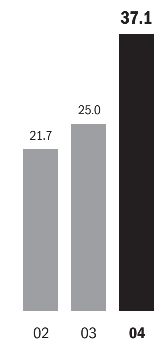


[1] Mark's was acquired on February 1, 2002. Performance prior to that date has been excluded.

Higher sales drove Mark's increase in pre-tax earnings The improvement in Mark's pre-tax earnings was mainly due to double-digit increases in comparable store sales that resulted in a higher dollar gross margin, in addition to lower expenses as a percentage of sales. Mark's continued its initiative to increase the number of products purchased from overseas suppliers, in order to reduce the cost of the products sold in Mark's stores.

Mark's also realized $7.8 million in cost savings from synergies between Mark's and CTR, exceeding the target of $6.0 million to $7.0 million. Consistently strong sales throughout the year, in addition to productivity improvements and cost savings from synergies with Canadian Tire, helped Mark's deliver earnings in three out of four quarters for the first time in 2004. Mark's sales and earnings have historically been concentrated in the fourth quarter because of the seasonal nature of its products, the timing of special sales promotions and generally higher consumer spending in the last few months of each year.

Mark's earnings before income taxes[1]
($ millions)



[1] Mark's was acquired on February 1, 2002. Performance prior to that date has been excluded.

5.2.3 Canadian Tire Petroleum

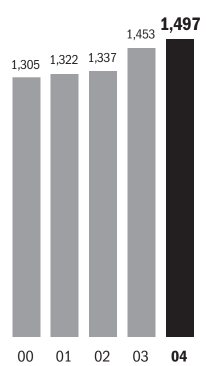
Key performance indicators

Gasoline sales volume is a key top-line performance indicator for Petroleum. On average, Petroleum sells approximately twice as much gasoline per site as the industry average. The following are the main factors that contribute to Petroleum's gasoline sales volume:

> the attractiveness of the Canadian Tire 'Money' loyalty program
> the success of cross-merchandising programs with Canadian Tire stores
> strong customer service

Wholesale and retail prices of gasoline are two other key performance indicators that have a significant impact on Petroleum's earnings. From period to period, however, wholesale and retail gasoline prices can fluctuate widely and are, therefore, difficult to predict.

Petroleum's gasoline sales volume
(millions of litres)



Gasoline sales volume

	Q4 2004	Q4 2003	Change	**2004**	2003	Change
Sales volume (millions of litres)	**389.0**	395.6	(1.7)%	**1,496.7**	1,453.1	3.0%
13 weeks in 2004 vs. 13 weeks in 2003	**389.0**	367.3	5.9%			
52 weeks in 2004 vs. 52 weeks in 2003				**1,496.7**	1,424.9	5.0%

Gasoline volume increased due to new site openings and re-branding The addition of eight new Petroleum sites, including two replacement sites, and the re-branding of 21 of our competitors' sites increased gasoline sales volume in 2004. In the fourth quarter, gasoline volume was 1.7 percent lower than in the same period in 2003, because of the extra week in the 2003 fiscal year. Not including this extra week, gasoline volume for the quarter rose approximately six percent, and five percent in the full year.

The increase in gasoline volume was particularly significant in light of our decision to reduce our gasoline marketing and promotional programs in the last six months of the year. The reduction was a planned strategy to protect Petroleum's gross margins amid fluctuations in the wholesale price of gasoline and a generally challenging market for gasoline retailers.

Initiated in 2004, a cross-promotion program between Canadian Tire and Sobeys Inc., a leading national grocery retailer and food distributor, offers customers savings on both groceries and gas.

Gasoline pricing

Petroleum buys gasoline at wholesale prices and sells the gasoline at retail prices that are competitive in the geographic area of each Petroleum site. Higher retail pump prices across Canada in 2004 had a negative effect on gasoline sales volume throughout the industry.

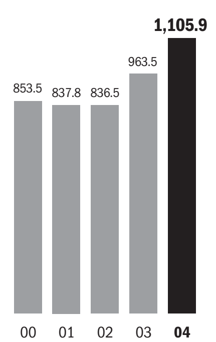
Petroleum financial performance

($ in millions)	Q4 2004	Q4 2003	Change	2004	2003	Change
Retail sales	**$ 315.7**	$ 275.7	14.5%	**$ 1,208.2**	$ 1,055.6	14.4%
Gross operating revenue	**289.2**	249.8	15.8%	**1,105.9**	963.5	14.8%
EBITDA[1]	**6.0**	10.7	(44.3)%	**16.4**	33.0	(50.3)%
Earnings before income taxes	**2.5**	7.5	(66.6)%	**3.4**	22.1	(84.4)%
Less adjustment for:						
Loss on disposals of property and equipment	**(0.1)**	(0.5)		**(0.7)**	(0.7)	
Adjusted earnings before income taxes[1]	**$ 2.6**	$ 8.0	(67.3)%	**$ 4.1**	$ 22.8	(81.7)%

[1] See section 11 on non-GAAP measures.

Petroleum's retail sales
Retail sales include the sales of gasoline at Petroleum's entire network of petroleum sites recorded at retail pump prices, including re-branded sites, and excluding goods and services taxes and provincial sales taxes, where applicable. Retail sales also include sales of products sold at our convenience stores, car wash sales and propane and PitStop sales, all of which we record at retail selling prices.

Petroleum's gross operating revenue
($ millions)



Increase in gross operating revenue due to higher non-gas sales and higher industry-wide pump prices In 2004, Petroleum maintained its competitive pricing strategy. The following factors were the main contributors to Petroleum's double-digit increase in gross operating revenue in the fourth quarter and for the year:

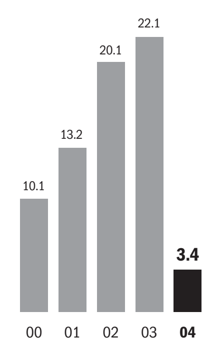
> higher gasoline prices at the pump
> higher sales volumes on a 52-week comparable basis
> increases in sales from our convenience stores and car washes

Lower pre-tax earnings due to disparity in fluctuations between wholesale and retail gasoline prices The volatility of the wholesale price of gasoline and retail pump prices made 2004 a difficult year for the Petroleum business. Petroleum's pre-tax earnings fell year-over-year in the fourth quarter and for the full year, primarily because gross margins decreased.

Focus on non-gas sales improved margins in the fourth quarter Strong increases in convenience sales and a modest increase in car wash sales reduced the impact of lower gasoline margins on Petroleum's earnings in the fourth quarter, compared to the first three quarters of the year. Over the year, Petroleum reduced overall spending on promotions and advertising and diligently managed marketing expenses related to the 'Money' loyalty program to help offset margin volatility.

In early 2005, Petroleum signed a new six-year contract with Imperial Oil to secure our supply of gasoline.

Petroleum's earnings before income taxes
($ millions)



Predictability of revenue and earnings
Unpredictable trends in wholesale gasoline and retail prices make both revenue and earnings difficult to forecast in the short term. Continuing to focus on increasing less volatile non-gasoline sales and reducing operating costs, however, will help to improve earnings over the long term.

5.2.4 Canadian Tire Financial Services

Key performance indicators
The following are key indicators of Financial Services' performance:

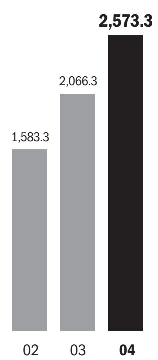
> size of the total managed portfolio
> profitability of the portfolio
> quality of the portfolio

Total managed portfolio

Financial Services' total managed portfolio of credit card receivables and personal (term) loans

($ in millions, except where noted)	**Q4 2004**	Q4 2003	Change	**2004**	2003	Change
Average number of accounts with a balance (thousands)	**1,772.0**	1,803.2	(1.7)%	**1,775.7**	1,774.6	0.1%
Average account balance ($)	**$ 1,557**	$ 1,265	23.0%	**$ 1,449**	$ 1,164	24.6%
Gross average receivables (GAR)	**2,758.6**	2,281.7	20.9%	**2,573.3**	2,066.3	24.5%
Total managed portfolio (at end of period)				**2,881.4**	2,459.1	17.2%
Net managed portfolio				**2,853.2**	2,433.3	17.3%

Financial Services' gross average receivables
($ millions)



Total managed portfolio
The total portfolio managed by Financial Services is the total value, before allowances, of credit card receivables and personal (term) loans. A significant portion of the credit card receivables that Financial Services manages is securitized.

Gross average receivables (GAR)
Gross average receivables is calculated as the monthly average of Financial Services' credit card receivables and personal (term) loan receivables averaged over a specified period of time.

Canadian Tire's Options MasterCard receivables represented 95.2 percent of Financial Services' total managed portfolio at the end of 2004. Growth in the number of Options MasterCard accounts and account balances is a key factor in increasing Financial Services' earnings. At the end of 2004, Financial Services' total managed portfolio was just under $2.9 billion, exceeding the target of $2.8 billion.

Receivables are driven by the number of accounts that carry a balance, and by the average balance per account. At the end of 2004, the average balance for standard bank credit cards in Canada was approximately $1,900, which is significantly higher than the average balance on our credit card accounts of $1,436 in 2004. Increases in the average account balances our customers carry on their credit card accounts is the most significant opportunity to boost Financial Services' earnings.

Securitization of credit card receivables
Securitization is a term that refers to the process by which financial assets are sold to a third party. At Financial Services, credit card receivables are routinely financed by selling a co-ownership interest in a portfolio of credit card receivables to Glacier Credit Card Trust. We record these transactions as a sale, and as a result, these assets are not included on our Consolidated Balance Sheets.

Portfolio profitability

Profitability of total managed portfolio[1]

	2004	2003	2002
Total revenue as a % of GAR[2]	**26.76%**	27.12%	28.42%
Gross margin as a % of GAR[2]	**14.18%**	15.09%	16.61%
Operating expenses as a % of GAR[2]	**9.29%**	10.28%	11.45%
Return on average total managed portfolio[2,3]	**4.89%**	4.81%	5.17%

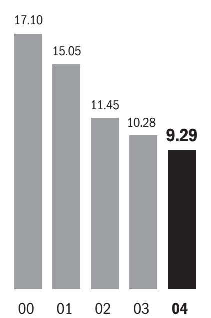
1 Figures are calculated on a rolling 12-month basis and include the total managed portfolio of credit card receivables and personal (term) loans.
2 Excludes gains on the sales of credit card receivables.
3 Return is calculated as earnings before taxes as a percentage of GAR.

Financial Services' profitability measures are tracked as a percentage of gross average receivables (shown in the table above). The following is Financial Services' 2004 performance compared to 2003 performance, and compared to 2004 targets:

- operating expense ratio of 9.29 percent was nearly a full percentage point better than in 2003, exceeding our target of 9.7 percent for 2004
- return on managed gross average receivables, not including gains and losses on the sales of credit card receivables, was 4.89 percent, slightly higher than in 2003, surpassing our target of 4.6 percent for 2004
- gross margin as a percent of gross average receivables was lower in 2004 due to Financial Services' program to convert our customers from higher-interest bearing Canadian Tire credit cards to the lower-interest bearing Options MasterCard

Our gross margin as a percentage of gross average receivables is expected to continue to decrease as the credit card portfolio grows and matures. We anticipate, however, that Financial Services' earnings will continue to rise over the long term as the portfolio grows through increases in the number of Options MasterCard accounts and average balances, and through continued lowering of our operating expense ratio. Financial Services expects to improve the operating expense ratio by leveraging the existing infrastructure, including the call centre, to serve a much larger customer base and portfolio of receivables.

Financial Services' operating expense ratio
(%)



The expected reductions in operating expense ratios will allow us to maintain a healthy return on our total managed portfolio, which is targeted in the range of 4.5 percent to 5.0 percent over the long term, excluding gains on sales of credit card receivables.

Gross margin *is Financial Services' revenues less direct expenses associated with credit cards, personal (term) loans, insurance, warranty and Auto Club services. The most significant direct expenses are the loyalty program and the provision for losses associated with the credit card and personal (term) loan portfolios.*

Operating expenses *include the costs associated with operating the call centre, credit card and personal (term) loan operating costs, and marketing and administrative costs.*

Return on total managed portfolio *is Financial Services' earnings before tax, expressed as a percentage of the average total managed portfolio at the end of each month in the period. See definition of total managed portfolio in this section.*

Portfolio quality

	2004	2003	2002
Net write-off rate	**5.82%**	5.90%	5.03%
Account balances less than 30 days overdue at end of period	**96.46%**	96.45%	95.69%

Portfolio quality is measured by tracking the net write-off expense as a percentage of the average total managed portfolio. Net write-off rates are expected to remain in the targeted range of five to six percent in 2005 through ongoing improvements in portfolio management, including new account approvals and credit limit adjustments. We expect fluctuations within the target range due to economic influences, such as bankruptcy rates.

The allowance for losses on the total managed portfolio is our estimate of the amount necessary to absorb future credit losses on accounts that are fraudulent, that we expect to become over 180 days past due, or for customers who go bankrupt. Reserves for these credit losses are calculated with models that use specific statistics derived from actual portfolio performance history, including average arrears for various stages of the aging of receivables, average bankruptcies, fraud and recovery rates over the previous 12-month period. Given our reliance on historical trends, there is a risk that the models may not produce accurate estimates of future losses. We would adjust the models if the credit performance of the portfolio differs from historic trends, but we believe it is unlikely that there will be a need for such an adjustment.

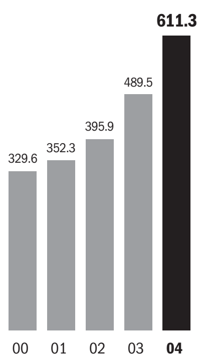
Net write-off expense *is the sum of account balances that were written off once they were 180 days past due, less monies that were collected against account balances that were previously written off. Account balances are also written off when a customer claims legal bankruptcy. Net write-off rate is net write-off expense, expressed as a percentage of gross average receivables in a given period.*

Financial Services financial performance

($ in millions)	Q4 2004	Q4 2003	Change	2004	2003	Change
Gross operating revenue	**$ 171.6**	$ 144.4	18.8%	**$ 611.3**	$ 489.5	24.9%
EBITDA[1]	**52.6**	49.6	6.3%	**172.0**	140.3	22.7%
Earnings before income taxes	**46.5**	43.6	6.9%	**148.5**	116.2	27.9%
Less adjustment for:						
Gain on sales of credit card receivables	**14.2**	14.2		**22.6**	16.8	
Adjusted earnings before income taxes[1]	**$ 32.3**	$ 29.4	9.9%	**$ 125.9**	$ 99.4	26.6%

[1] See section 11 on non-GAAP measures.

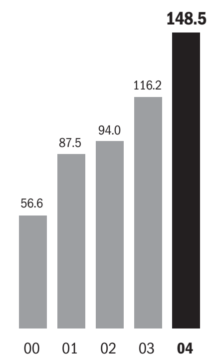
Financial Services' gross operating revenue
($ millions)



Higher gross operating revenue due to growth in credit card and related product portfolios Higher credit card receivables increased gross operating revenue in the fourth quarter and for the year. Increases in revenues from insurance and warranty products, as well as the growth of our personal (term) loan portfolio, which was introduced in June of 2004, also contributed to higher gross operating revenue for both periods.

Higher account balances drove increase in pre-tax earnings Financial Services' pre-tax earnings rose by 6.9 percent in the fourth quarter of 2004, and 27.9 percent for the year, mainly because of higher Options MasterCard account balances. The increase in pre-tax earnings in the fourth quarter was more modest than in the three previous quarters of the year because of higher investments in marketing programs in the fourth quarter, designed to attract new Options MasterCard customers and to increase average balances on existing customer accounts.

Financial Services' earnings before income taxes
($ millions)



6. Capital structure and financing

6.1 Capital structure

Improving our financial flexibility is one of our long-term financial goals and one of the imperatives of our current and new Strategic Plan.

We regularly review our funding plan and capital structure to ensure that we have funding alternatives that provide us with the financial flexibility to execute and meet the targets of our Strategic Plan.

We ended 2004 in a strong financial position, with:

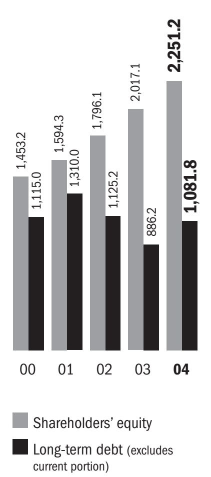
- $802 million of cash and cash equivalents
- no short-term debt
- less than one percent of our long-term debt due in 2005
- long-term debt at less than 30 percent of total capitalization
- $570 million in committed lines of credit
- the flexibility to access capital markets to refinance corporate debt at more favourable rates
- over $2 billion of book value in unencumbered real estate

Capital structure

(composition of total structure)	**2004**	2003
Shareholders' equity	**60.2%**	57.2%
Minority interest	**8.0%**	8.5%
Long-term debt[1]	**29.1%**	32.1%
Other long-term liabilities	**1.5%**	1.3%
Future income taxes	**1.2%**	0.9%
	100.0%	100.0%

[1] Long-term debt includes current portion.

Shareholders' equity and long-term debt
($ millions)



Equity The book value of Common and Class A Non-Voting Shares at the end of 2004 was $27.75 per share, compared to $24.98 at the end of 2003. We have a long-standing policy to buy back shares to offset, over the long term, the dilutive effects of issuing Class A Non-Voting Shares under our various employee profit sharing plans, stock option and share purchase plans and the dividend reinvestment plan.

In 2004, we:

> issued 1,903,013 Class A Non-Voting Shares under the share purchase, stock option, dividend reinvestment and various employee profit sharing plans

> purchased 1,541,100 Class A Non-Voting Shares on the Toronto Stock Exchange (TSX) under a normal course issuer bid

In 2003, we:

> issued 1,506,720 Class A Non-Voting Shares under the same plans discussed above

> purchased 600,000 Class A Non-Voting Shares on the TSX under a normal course issuer bid

On February 10, 2005, we announced our intention to buy up to 1.8 million of our Class A Non-Voting Shares prior to February 18, 2006 through a normal course issuer bid.

*A **normal course issuer bid** is a bid by a listed company to buy back its own shares on a stock exchange, subject to certain rules that protect investors, but without complying with all of the requirements applicable to issuer bids because the bid is made for a number of shares that is below a prescribed threshold.*

Shares outstanding The table below shows the shares outstanding at the end of 2004 and 2003.

	At January 1, 2005	At January 3, 2004
Class A Non-Voting Shares	**77,699,631**	77,337,718
Common Shares	**3,423,366**	3,423,366

Minority interest In November 2001, we formed a limited partnership to raise $300 million of capital. We are the general partner in this arrangement. A third party investor group invested $300 million in a trust that purchased the limited partnership interest.

Under this arrangement, the third party receives preferential rights to the distribution of income and capital derived from a portfolio of new-format stores owned by our real estate subsidiary.

The partnership has an indefinite life, but could be liquidated under certain circumstances, such as cash flows generated by the stores falling below a certain level. The flow of funds from our real estate subsidiary to its affiliates could be restricted under certain circumstances – such as our credit rating falling below investment grade – none of which we expect to happen.

Dividends In February 2004, we adopted a new dividend policy to set dividend payments at approximately 15 to 20 percent of the previous year's normalized basic net earnings per share, after considering our cash position, future cash flow requirements and investment opportunities at the end of that year. Normalized earnings are earnings that have been adjusted to eliminate the impact of gains or losses on the sales of credit card receivables, but include gains or losses on any disposals of property and equipment.

Consistent with our new dividend policy, we increased the annual dividend rate to $0.50 per share in 2004. Reflecting the increase in the dividend rate, we declared $40.5 million of dividends on Class A Non-Voting and Common Shares in 2004, compared to $32.5 million in 2003.

In February 2005, the Board of Directors approved an increase in the 2005 quarterly dividend payments from $0.125 per share to $0.145 per share, an annualized increase of 16 percent. The total annualized dividend payment will rise from $0.50 per share to $0.58 per share, consistent with our dividend policy. We declared the higher dividend for the first time in March 2005 and will pay it on June 1, 2005.

Short-term debt We can borrow short-term funds by issuing commercial paper and utilizing lines of credit. We had no commercial paper outstanding and did not utilize our committed lines of credit at the end of 2004 or 2003. At the end of 2004, we had $570 million in committed lines of credit.

We have a program in place that allows us to issue commercial paper up to an authorized limit of $800 million. Credit ratings for our commercial paper are R-1 (low) from Dominion Bond Rating Service Limited (DBRS) and A-1 (low) from Standard & Poor's (S&P).

Long-term debt In early 2004, we issued $200 million in 30-year medium term notes (MTNs) with annual interest of 6.32 percent under our shelf prospectus and, as planned, we used the proceeds to repay existing long-term debt. We repaid $85 million of MTNs with annual interest of 5.25 percent that matured on June 1, 2004 and $150 million of MTNs with annual interest of 6.25 percent that matured on December 1, 2004.

Long-term debt was $1.09 billion at January 1, 2005, which included the current portion of $5.6 million. This compared to $1.13 billion of long-term debt at January 3, 2004. At the end of 2004, long-term debt included $7.9 million in capital leases.

On February 25, 2005, we announced our intention to redeem on April 1, 2005, the $225 million of MTNs with annual interest of 7.05 percent that are due on May 18, 2006. We expect to finance the redemption through the issuance of new long-term debt, commercial paper and/or cash balances.

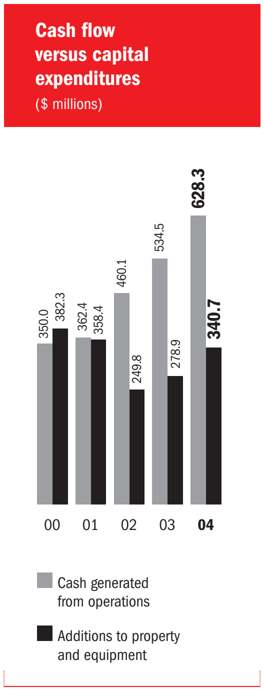
Like most borrowers, we provide covenants to some of our lenders. We are in compliance with all of these debt covenants.

Having a current shelf prospectus filed with provincial and territorial securities regulators allows us ready access to the debt markets when we require capital. We filed a new preliminary prospectus in February 2005 and expect to file a final prospectus in March 2005. We review this program every two years. Credit ratings for our long-term debt are A(low) by DBRS and BBB+ by S&P.

6.2 Funding program

Funding We fund our capital expenditures, working capital, dividend payments and other financing needs (such as debt repayments and share purchases under the normal course issuer bid) from a variety of sources. In 2004, funding came from five primary sources:

- $727 million in cash on hand at the beginning of 2004
- $628 million in cash generated from operations
- $349 million from the sales of credit card receivables
- $323 million from the sale of Associate Dealer receivables
- $202 million from issuing long-term debt, including $2 million of capitalized leases



2004 capital expenditures In 2004, we invested $341 million in property and equipment for our businesses compared to $279 million in 2003. The $341 million was allocated to the businesses as follows:

> $206 million for real estate, including $188 million for the rollout of new-format stores
> $27 million for Petroleum gas bars and car washes
> $23 million for the final stages of the CustomerLink implementation at the Brampton, Ontario distribution centres
> $18 million for Mark's
> $7 million for Financial Services
> $60 million for other purposes

Our capital investment in 2004 was higher than the $300 million planned because of the timing of sale/leaseback arrangements on new store development properties in Vancouver, which were not completed in 2004 as expected. We expect to execute these starting in 2005.

In the fourth quarter of 2004, we invested $118 million in property and equipment for our various businesses, as follows:

> $57 million for real estate, including $54 million for real estate projects associated with the rollout of new-format stores
> $14 million for Petroleum gas bars and car washes
> $8 million for Mark's
> $4 million for CustomerLink
> $2 million for Financial Services
> $33 million for other purposes

Capital expenditures in the same quarter of 2003 were $112 million.

Sources of liquidity We have the following sources from which to fund our 2005 capital program:

> existing cash reserves
> cash flow from operations
> $800 million of authorized commercial paper
> $750 million available in MTNs under our shelf prospectus, the final form of which we expect to have filed by the end of March 2005
> additional sales of credit card receivables
> proceeds from the dispositions of surplus property and equipment

2005 capital program We expect to invest approximately $380 million in capital expenditures in 2005. Financial Services also expects to sell or refinance approximately $550 million of credit card and personal (term) loan receivables in 2005. Financial Services' securitization program is discussed in more detail at the end of this section of the MD&A.

Working capital As part of our imperative to improve financial flexibility, reducing our working capital continues to be a long-term priority. The table below shows the value of our working capital components at the end of 2004 and 2003.

Comparable working capital components

($ in millions)	**At January 1, 2005**	At January 3, 2004	Increase (decrease) in working capital
Accounts receivable	**$ 370.7**	$ 508.3	$ (137.6)
Merchandise inventories	**620.6**	465.9	154.7
Prepaid expenses and deposits	**24.1**	27.9	(3.8)
Income taxes payable	**(44.2)**	(97.3)	53.1
Accounts payable and other	**(1,437.6)**	(1,270.2)	(167.4)
			$ (101.0)

The most significant factors on the balance sheet that decreased working capital in 2004 were the decrease in accounts receivable and the increase in accounts payable, which more than offset the increase in merchandise inventories.

Accounts receivable At the end of 2004 accounts receivable totalled $694 million, of which $323 million were sold to independent investors. The remaining $371 million of accounts receivable were recorded on our 2004 Consolidated Balance Sheet. Of our total $607 million of accounts receivable at the end of 2003, we sold $99 million and reported $508 million on our 2003 Consolidated Balance Sheet.

The largest portion of accounts receivable was comprised of the monies owed to us from Associate Dealers for merchandise we shipped to them. Of the $694 million of year-end receivables, Associate Dealer receivables were $543 million compared to $462 million a year earlier. The $81 million increase in Associate Dealer receivables was a result of significant seasonal replenishment orders near the end of the year in anticipation of strong sales in early 2005.

Accounts payable The increase in accounts payable was primarily comprised of normal trade payables related to the increase in merchandise inventories.

Merchandise inventories Our inventory levels can fluctuate because of the timing of certain events. For example, we bought more from overseas suppliers in 2004, and we took ownership up to six weeks earlier than we would have if we had bought the product in North America. We also increased our inventory in 2004 to prepare for special events and promotions and to facilitate expected sales increases.

CTR increased its inventory levels by $118 million or 34.3 percent at the end of 2004 compared to the end of 2003. The increase in value of the products in transit from overseas suppliers was approximately $88 million at the end of 2004. The balance of the increase in inventory was to prepare for what CTR expects will be a strong spring and summer season in 2005. All of the increased inventory is regular inventory that CTR expects will sell in 2005.

Mark's increased its inventory levels by $36 million or 32.3 percent at the end of 2004 compared to a year earlier. The increase was related to improving Mark's in-stock position of basic, everyday products in mature categories, investing in under-developed categories and introducing new products. In addition, there was the impact of opening new stores and, over the past several years, actively converting Work World stores to Mark's Work Wearhouse stores and buying back franchise stores. The strategies of improving Mark's in-stock position of basic products, investing in under-developed categories and introducing new products increased sales in the fourth quarter and for the year.

Cash and cash equivalents At January 1, 2005, we held $802 million in cash and cash equivalents, including Canadian and U.S. government guaranteed securities and high quality commercial paper. We held $727 million of cash and cash equivalents at January 3, 2004. As in previous years, management expects cash to be significantly lower at the end of the first quarter of 2005, due to the effect of certain year-end financing programs.

Credit card receivables Our credit card receivables securitization program is designed to provide a cost-effective, alternative source of funding for our Financial Services business.

Net managed credit card receivables

($ in millions)	**At January 1, 2005**	At January 3, 2004
Securitized	**$ 2,209.3**	$ 1,870.5
Unsecuritized	**579.9**	562.8
Net managed credit card receivables	**$ 2,789.2**	$ 2,433.3

We continued to increase net credit card receivables in 2004 as more customers used the Options MasterCard. In 2004, the net ending managed credit card receivables were 14.6 percent higher than in 2003.

Canadian Tire Bank transfers co-ownership interests in the credit card receivables to Glacier Credit Card Trust (GCCT), but continues to service the receivables. We do not have a controlling interest in GCCT, so we do not include the financial results of GCCT in our Consolidated Financial Statements.

Following provisions of the CICA's Accounting Guideline 12, "Transfers of Receivables," which came into effect on July 1, 2001, we record the transfers of co-ownership interests to GCCT as sales. The proceeds of the sales are deemed to be the cash we receive, plus the estimated fair value of our portion of the service charges that will be paid on the receivables, less our servicing liability. We estimate fair value by discounting our expected future cash flows from the receivables sold. We record a gain on the date of the sale in the amount that the estimated fair value of the proceeds we receive exceeds the carrying value of our ownership share in receivables sold. We record gains from sales made before July 1, 2001 when we receive the service charges.

We recognized pre-tax gains of $22.6 million on securitization transactions in 2004, compared to $16.8 million in 2003.

Cash flows from securitizations

($ in millions)	Q4 2004	Q4 2003	2004	2003
Proceeds from new securitizations	**$ 625.0**	$ 570.0	**$ 625.0**	$ 570.0
Proceeds from collections reinvested in previous credit card securitizations	**1,512.1**	1,181.1	**5,601.0**	4,099.3
Other cash flows received on retained interests	**398.4**	336.7	**1,335.3**	953.6

We expect the growth in the number and average balances of Options MasterCards to lead to an increase in total credit card receivables in 2005. Financial Services expects to fund most of this increase from the sale of credit card receivables to GCCT.

The success of the securitization program is mainly due to GCCT's ability to obtain funds from third parties by issuing debt instruments with high credit ratings. As of January 1, 2005, GCCT had the following ratings:

> a rating of R-1(high) from DBRS for the asset-backed commercial paper program

> ratings of AAA by DBRS and S&P for the asset-backed senior notes

> ratings of A to A(high) from DBRS and A to AA from S&P for the asset-backed subordinated notes

The Canada Trust Company is the trustee and custodian for GCCT, manages the co-ownership interests and acts as agent for, and on behalf of, Canadian Tire Bank and GCCT, as the owners of the co-ownership interests. BNY Trust Company of Canada acts as indenture trustee with respect to GCCT and manages the security interests of the holders of the senior and subordinated notes. We are currently not aware of any events, commitments, trends or uncertainties that may have a negative impact on our arrangement with GCCT.

The table below lists the details of the outstanding asset-backed notes issued by GCCT.

Glacier Credit Card Trust asset-backed notes outstanding

($ in millions)	At January 1, 2005	At January 3, 2004	Process for repayment begins	Estimated final dates for payment
Series 1997-1 Commercial Paper Notes[1]	**$ 90**	$ 99		
6.26% Series 1999-1 Senior Notes[2]	**–**	200	Jan. 30, 2004	Fully repaid
6.665% Series 2000-1 Senior Notes[2]	**200**	200	Nov. 22, 2004	June 20, 2005
6.163% Series 2001-1 Senior Notes[2]	**300**	300	Apr. 1, 2006	July 21, 2006
4.82% Series 2002-1 Senior Notes[2]	**450**	450	Sep. 1, 2007	Dec. 20, 2007
4.444% Series 2003-1 Senior Notes[2]	**542**	542	Aug. 1, 2008	Nov. 20, 2008
4.274% Series 2004-1 Senior Notes[2]	**591**	–	Aug. 1, 2009	Nov. 20, 2009
Floating Rate Series 1999-1 Subordinated Notes[3,4]	**–**	4		
Floating Rate Series 2000-1 Subordinated Notes[3,4]	**4**	4		
7.203% Series 2001-1 Subordinated Notes[3]	**15**	15		
5.88% Series 2002-1 Subordinated Notes[3]	**23**	23		
5.034% Series 2003-1 Subordinated Notes[3]	**28**	28		
4.674% Series 2004-1 Subordinated Notes[3]	**34**	–		
Total	**$ 2,277**	$ 1,865		

1 Commercial Paper Notes mature on a business day within one year of the date of issue.

2 Process for repayment of principal begins from allocations to GCCT in the previous month. In some instances, earlier prepayment may be required. Final payment dates are estimated based on assumptions about the performance of the credit card receivables and other factors.

3 Repayment of principal for subordinated notes begins after all principal owing under the related series of senior notes has been repaid in full.

4 Interest on the Series 1999-1 Subordinated Notes and Series 2000-1 Subordinated Notes is payable at rates of Bankers' Acceptance plus 1.25 percent.

6.3 Financial ratios

We have ready access to funding from the financial markets because of our relatively strong balance sheet and healthy financial ratios.

We have a long-standing policy of keeping our ratio of long-term debt to total capitalization below 50 percent. This ratio decreased during 2004 primarily because we repaid more long-term debt than we issued and we also increased retained earnings.

The table below shows certain financial ratios.

	At January 1, 2005	At January 3, 2004
Ratio of long-term debt to total capitalization	**29.1%**	32.1%
Ratio of current assets to current liabilities	**1.62:1**	1.42:1
Interest coverage[1]	**6.9 times**	5.3 times

[1] We calculate interest coverage on a rolling 12-month basis using earnings before interest, income taxes and minority interest.

6.4 Funding costs

The table below shows total funding costs, not including those of GCCT. The figures include the impact of interest rate swaps, which are part of our interest rate risk management program.

Interest expense[1]

($ in millions)	**2004**	2003
Long-term interest expense	**$ 76.0**	$ 82.4
Short-term interest expense	**2.4**	2.6
Total	**$ 78.4**	$ 85.0
Effective blended cost of debt	**6.4%**	6.8%

[1] Interest expense is increased or decreased by the interest rate differentials paid or received on interest rate swap contracts.

The effective average blended cost of debt was lower in 2004 mainly because of the marking to market of an interest rate swap contract in 2003, which resulted in a higher interest expense in that year.

7. Off-balance sheet arrangements

We had the following off-balance sheet arrangements at the end of 2004.

7.1 Glacier Credit Card Trust

As previously described in section 6.2 of this MD&A, GCCT was formed to buy our credit card receivables and issues debt instruments to third party investors to fund its credit card receivables purchases.

7.2 Trust financing for Associate Dealers

A financing program has been established to provide an efficient and cost effective way for Associate Dealers to access the majority of the financing they require for their store operations, with specified support from Canadian Tire as described below.

Trust In 1995, a major Canadian bank set up a trust (the Trust) to provide financing to retail franchisees, and in 1997, began providing loans to Associate Dealers to help them buy core-level inventory and fixed assets. Each of these loans is secured by the assets of the applicable Associate Dealer. The loans totalled $794 million at January 1, 2005, compared to $893 million at January 3, 2004. In addition, Dealers use their own equity, as well as subordinated operating lines of credit from Canadian banks, to manage seasonal fluctuations in inventory levels and meet other regular business needs.

Co-owner trusts In the fourth quarter of 2004, the Trust sold all of its rights in the Associate Dealer loans to independent trusts (the co-owner trusts) that were set up by major Canadian banks. The Trust continues to advance new loans to Associate Dealers which are immediately sold to the co-owner trusts. The co-owner trusts raise funds in the capital markets to fund their initial and ongoing purchase of loans from the Trust.

Each bank administers its co-owner trust, provides it with a liquidity line, and in one case, is a counterparty to the co-owner trusts for interest rate swaps. The interest rate swaps are used to effectively convert the interest payments the co-owner trusts receive from Associate Dealers on fixed-rate loans into variable rate interest payments to match the co-owner trusts' variable rate debt raised in the capital markets.

Major Canadian trust companies are the trustees of the Trust and co-owner trusts and are accountable for the interests of the third party beneficiaries.

Most of our Associate Dealers participate in this program, and have individual loan agreements that are ultimately with the co-owner trusts.

Program support We provide support to this program in three ways:

> we provide credit enhancement in the form of guarantees of standby letters of credit provided by several Canadian banks

> we indemnify the co-owner trusts and certain other parties they deal with against certain events such as changes in laws and regulations (including tax legislation), and shortfalls in certain payments owed by the Trust. The terms of these indemnification agreements do not put a limit on our total potential liability. To date, we have made only a nominal payment under these indemnifications, and we have not accrued any amount for these indemnifications in our Consolidated Financial Statements.

> we have also provided a waiver of certain of our statutory rights as landlord and supplier that we have with respect to the Associate Dealers

As consideration for this support, the co-owner trusts pay us a monthly program support amount after they have paid all expenses, but before any distribution to their beneficiaries. The amount we receive from the co-owner trusts depends on how much the Associate Dealers borrow from them and the prevailing market interest rates.

We also pay fees to the banks that provide the standby letters of credit. The following table summarizes the program support amounts received and standby letters of credit fees paid.

($ in millions)	**Q4 2004**	Q4 2003	**2004**	2003
Program support amount received	**$ 2.4**	$ 2.6	**$ 9.3**	$ 9.8
Letters of credit fees paid	**0.2**	0.2	**0.9**	0.9

Our guarantees of the standby letters of credit provided as credit enhancement by several banks totalled $134 million at January 1, 2005 compared to $271 million at January 3, 2004. The letters of credit benefit the co-owner trusts by helping them achieve a high credit rating on the debt they issue to fund their initial and ongoing purchase of the Associate Dealer loans from the Trust.

The amount of credit enhancement required is based on a defined formula that considers the value of the assets of the participating Associate Dealers, and will increase if the value of the Associate Dealers' assets goes down, or the Associate Dealers increase the amount they borrow through this program.

No amount has ever been drawn on the letters of credit. The co-owner trusts can, however, draw on the letters of credit in various situations, including the following:

> if an Associate Dealer defaults on a loan held by the co-owner trusts. If we choose not to buy the defaulted loan, the co-owner trusts can draw on the letters of credit for the loan amount (including any unpaid interest and costs) and then must assign the Associate Dealer's loan agreement and related security documentation to us.

> to cover shortfalls in related fees and expenses owing to them

> if we do not provide sufficient credit enhancement. In this situation, the co-owner trusts can fully draw on the letters of credit and realize on the loans' underlying security.

> upon termination of the program

We must reimburse the banks for any amounts the co-owner trusts draw from the letters of credit.

Terminating the arrangement The Company, the Trust and the co-owner trusts cannot unilaterally terminate this financing program before December 2007, and, after that date, anyone deciding to terminate participation in the program must provide six months' written notice to the other parties.

The arrangement will automatically terminate if:

> we become insolvent

> we do not provide sufficient credit enhancement or indemnify against certain events

> the co-owner trusts' debt rating goes down significantly

If the arrangement is terminated, the Associate Dealers will need to replace the program loans with alternative financing. We are under no contractual obligation to provide financial support in this situation.

We are not currently aware of any events, commitments, trends or uncertainties that are expected to have a negative impact on this arrangement.

7.3 Associate Dealers and PartSource franchisees

We have also guaranteed bank debt of some Associate Dealers and PartSource franchisees. If an Associate Dealer or PartSource franchisee fails to make scheduled debt payments on loans we have guaranteed, we may be required to pay the amount guaranteed. The majority of these guarantees expire by the end of 2005, and can be extended on their expiry at our option.

As of January 1, 2005, the maximum amount we may be required to pay under these guarantees is $4.9 million, compared to $5.4 million at January 3, 2004. We have not paid or accrued any amount for these guarantees in our 2004 Consolidated Financial Statements.

7.4 Derivative financial instruments

We use derivative financial instruments to manage our exposure to changes in interest rates and foreign currency exchange rates. We also use equity derivative contracts to hedge certain future stock-based compensation expenses. We do not use hedging to speculate, but rather as a risk management tool.

To manage the credit risk associated with these instruments, we:

> deal only with counterparties that are highly rated financial institutions

> restrict the amount of hedging we can transact with any one counterparty

If we sell or terminate a hedged item, or it matures before the related hedging instrument is terminated, we recognize in income any realized or unrealized gain or loss on the hedging instrument.

Our credit exposure to hedges and other derivatives is the current replacement value of contracts that are in a gain position. As at January 1, 2005, our credit exposure from interest rate swap and foreign exchange contracts was $11 million.

We bought an equity derivative contract in 2004 for a premium of $6.9 million, to hedge our anticipated exposure to a portion of our performance conditioned share units. We amortize this premium over the life of the hedge, recording $1.3 million as an expense in 2004. We have no further financial obligation under this contract.

See Note 10 to the Consolidated Financial Statements for more information about our Performance Conditioned Share Unit Plan.

8. Risk management

Canadian Tire approaches the management of risk strategically, in keeping with our objective to provide superior total return to shareholders.

Board accountability

The Board of Directors has overseen the development of an enterprise risk management process (ERM) and has delegated to the Social Responsibility and Risk Governance Committee – and in certain instances, the Audit Committee – the task of gaining and maintaining reasonable assurance that we:

> appropriately identify and manage risks

> develop a policy which accurately sets out our risk philosophy and risk tolerance and the expectations and accountabilities for identifying, assessing, monitoring and managing risks

> fully implement and sustain the ERM process in compliance with the ERM policy and that the policy continues to set out accurately our risk philosophy and risk tolerance as well as the expectations and accountabilities for managing risks

> identify in a timely manner the most significant risks – Principal Risks – including those related to or arising from any weaknesses or threats to our business, and our assumptions underlying our Strategic Plan

> effectively assess, monitor and manage Principal Risks in compliance with the ERM policy

Enterprise risk management

In 2003, we introduced an ERM framework that set out principles, processes and tools for evaluating, prioritizing and managing risk effectively and consistently across the organization. Our ERM framework provides an integrated approach to managing risks to help us achieve our strategic objectives and is:

> designed to provide an understanding of risks across the organization and the impacts of risks on every part of the organization

> cross-functional in its perspective and employs a consistent discipline for assessing, managing and measuring risk

> designed to allow for improved capital allocation decisions to optimize risk and reward

> integrated into our strategic, operational and project planning processes, as opposed to being viewed as a distinct project

In 2004, we completed our initial risk assessment and identified 15 Principal Risks. We define a Principal Risk as a risk that 1) can have a significant, adverse impact on Canadian Tire's performance, reputation or ability to service its customers, and 2) has, in the absence of controls, a reasonable possibility of occurring.

Each Principal Risk has been assigned to at least one of our executives or management committees who have reporting, executive oversight and operational accountability for the risk. On a regular basis each Principal Risk is reviewed by our executive team, one or more of the Board committees, which have Board oversight accountability for the risk, as well as the Board of Directors. The table below lists our Principal Risks and the nature of the potential impact of these risks.

Principal Risks

		Potential impacts		
Category	Risk	Performance	Ability to service customers	Reputation
Business processes/execution	Technology – critical business systems[1,2]		✓	✓
	Product quality[1]			✓
Credit	Consumer credit[2,3]	✓		
External	Competitive[4]	✓		
	Economic[4]	✓		
	Hazards, disasters and business interruptions[1]	✓	✓	✓
	Legislative compliance[1,2,3]			✓
	Geopolitical events[4]	✓		
Finance	Accounting, valuation and reporting[2]	✓		✓
	Disclosure[2]	✓		✓
	Capital[4]	✓		
	Financial instruments[2]	✓		
People	Effective management[5]	✓	✓	✓
	Ethical business practices[1,2]			✓
	Quality of workplace[1,5]	✓	✓	✓

Board/Committee Oversight Accountability
1 Social Responsibility and Risk Governance
2 Audit
3 Canadian Tire Bank Board
4 Board of Directors
5 Management Resources and Compensation Committee

The following commentary provides a high level perspective on the nature of each identified Principal Risk and describes the main practices that we have in place to mitigate the impacts of these risks on our business activities.

Technology The integrity, reliability and availability of technology and the data processed and stored by that technology is critical to the daily requirements of our business and finance operations. The inability to process customer payments directly affects sales. Loss of our critical technology systems – those that support shipments and sales – would shut down our Operations Planning processes and impact our ability to move product through our distribution centres. Numerous controls are in place to manage technology risk, including disaster recovery procedures and monitoring of inappropriate external access attempts. Since the beginning of 2003, our Information Technology group has been implementing a strategy designed to operate a simpler technical environment with the appropriate standardized processes to minimize the risks associated with operating on a number of differing technology platforms.

Product quality Our brand equity and reputation are integrally linked to the quality of the products we sell to our customers, particularly our proprietary products and those which could pose a risk to the health and safety of our customers. All of our vendors are required to carry insurance to cover product liability and indemnify the Company. Our vendors are also required to provide Material Safety Data Sheets for all relevant products. We have a Quality Engineering group that proactively tests products for durability, safety and functionality. We analyze product returns and review consumer reports and use the resulting information to include product quality provisions in contract negotiations with vendors.

Consumer credit With a growing portfolio of credit card customers and the granting of credit, our Financial Services business assumes certain risks including the failure or inability to accurately predict the creditworthiness of our customers or their ability to pay debt. Financial Services minimizes credit risks to maintain and improve the quality of its consumer lending portfolio, by:

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

Competitive We compete against international, national and regional retailers such as department stores, mass merchandisers, home-improvement warehouses, petroleum retailers and specialty marketers which currently operate in one or more of our business segments. These retailers and new entrants represent a competitive risk to our ability to attract customers and operate successfully in our markets.

We actively monitor and analyze developments in our markets to determine our competitiveness within each market or business segment. Each of our businesses has core strengths and initiatives that provide differentiation in the marketplace and enhance its competitive position, reducing our overall competitive risk. The unique strengths and strategies of each of our businesses are described respectively in more detail in sections 2 and 4 of this MD&A.

Economic Shifts in the economic health of the environment in which we operate – such as economic growth, inflation, exchange rates and levels of taxation – can impact consumer confidence and spending and impact our ability to source products at a competitive cost. We constantly monitor economic developments in the markets where we operate and where we source our products. We use this information in our continuous strategic and operational reviews to adjust our initiatives as economic conditions dictate and to facilitate ongoing innovation of stores, merchandising concepts and products.

Hazards, disasters and business interruptions and Geopolitical events Risks arising from natural disasters, war, random occurrences or acts can result in a material change to economic and market performance, consumer behaviour and business conditions or operations. We have established emergency response protocols and business continuity plans, and our emergency response teams have been trained to properly respond to situations as they arise. Our Business Continuity Management team assesses business contingency plans to ensure that they are adequately prepared and tested for all of our critical processes and systems. We also maintain insurance coverage to offset physical loss and loss of profits to mitigate the impact of an unusual event. The outcome of any insurance claim is subject to limitations set by the insurer.

Legislative compliance In operating our business, we must comply with a variety of laws and regulations to meet our corporate and social responsibilities and to avoid the risk of financial penalties and/or criminal and civil liability for our officers and directors. Areas of compliance include environment, health and safety, competition law, transportation of dangerous goods, customs and excise and regulations governing financial institutions.

We have in place a number of policies and programs – such as our environment, health and safety management system – to ensure ongoing compliance, and we carry out regular assessments of facilities and procedures to determine whether our operations meet regulatory and corporate requirements. Our Financial Services division has in place a Director of Compliance to ensure that Canadian Tire Bank is meeting the requirements of the Office of the Superintendent of Financial Institutions. At the corporate level, we have established a Business Conduct Compliance Office to monitor regulatory obligations and related corporate policies.

Accounting, valuation and reporting Risks can arise from changes in the rules or standards governing accounting or financial presentation that may adversely impact our operating performance and/or capital position. Risks also arise from the inability or failure to comply with securities regulations and Canadian generally accepted accounting principles in accounting and financial reporting processes.

We have put in place people, processes, policies and systems to maintain the integrity of our financial accounting and statements. We employ numerous professionally accredited accountants throughout our finance group and all of our divisional financial officers have a dotted line reporting relationship to our Chief Financial Officer (CFO). Senior finance representatives are assigned to all significant projects that impact financial accounting and reporting systems. Policies are in place to ensure the completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing and cash disbursement, and restricted physical access to the Treasury and cash settlements area. Accounting, measurement, valuation and reporting of accounts, which involve estimates and/or valuations, are reviewed quarterly by the CFO, external auditor and the Audit Committee. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee, and a presentation of quarterly scorecards on operational results and officer objectives are made to the Audit Committee and to the Board of Directors.

Disclosure We are required to comply with securities reporting legislation and accounting standards that are intended to ensure the full, accurate and timely communication of financial and other material information to the public. To ensure that we meet our obligations and mitigate risks associated with the disclosure of inaccurate or incomplete information – or a failure to disclose required information – we have put in place a Disclosure Policy and a Disclosure Committee to guide compliance.

> The Disclosure Policy sets out accountabilities, authorized spokespersons, and our approach to the determination, preparation and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.

> The Disclosure Committee reviews all financial information prepared for communication to the public to ensure it meets requirements and is responsible for raising all outstanding issues it believes require the attention of the Audit Committee prior to recommending disclosures for that Committee's approval.

The CEO, CFO, Senior Vice-President, Secretary and General Counsel, Senior Vice-President Corporate Affairs, Chairman of the Board and Chairman of the Audit Committee review all financial disclosures prior to submission to the Audit Committee for the Committee's review and recommendation for approval by the Board.

Capital We must maintain sufficient capital to operate our business and absorb the potential impact of unexpected losses.

We maintain adequate access to debt markets to meet our funding requirements. Our Treasurer is responsible for the effective management of capital within the target limits approved by the Board. To monitor our adherence to established policies, a Leverage and Liquidity Risk Management Report – which sets out targets and performance on debt to capital ratios, liquidity ratios and foreign exchange management – is provided to the Audit Committee on a quarterly basis. Our Financial Risk Management group approves financial risk management policies for recommendation to the Audit Committee and monitors compliance to those policies. The Funding Plan for the Company is prepared by our Treasury department and approved by the Board.

Financial instruments The use of derivative financial products to hedge currency, interest rates and equity exposures, as well as the use of other complex financial instruments pose certain risks.

To reduce our risk, our Treasury department does not operate as a profit centre. Controls are in place to detect and prevent speculative activity.

It is our policy to identify and manage currency and interest-rate risk proactively and conservatively. To ensure that any counterparty to our financial transactions has the ability to meet its financial commitments, we deal only with highly rated financial institutions. We also ensure that there is no undue concentration with any single counterparty.

Effective management Lack of effective recruitment programs, succession planning, compensation structures, as well as performance management and development would present risks to our ability to implement our strategic initiatives and to attract, motivate and retain talented people.

We have well-established performance management practices that are facilitated and monitored by our Human Resources group. Our compensation structure emphasizes employee share ownership and profit sharing, and is reviewed regularly to ensure it is competitive with the marketplace. Twice annually, the executive team undertakes a Leadership Review Process to identify high-potential individuals for development and to ensure that there are viable successors for all key management positions.

Ethical business practices Any violation of law, breach of Company policy or unethical behaviour poses significant risk to our reputation, our brand and our ability to operate.

Commitment to ethical business practices is core to our values and is reflected in a number of policies and practices which have been strengthened over the past year to ensure that our employees and directors uphold the highest standards of ethical behaviour. In 2004, our Board reviewed and approved updates to our Code of Business Conduct that all employees must sign annually as a condition of their employment. Directors are also required to provide consent to that Code. We introduced a separate Supplier Code of Business Conduct to ensure that we are conducting business with vendors who share our commitment to ethical business practices. We also established a Business Conduct Compliance Office to oversee compliance with our Code of Business Conduct and to provide channels for people to report, confidentially and anonymously, breaches of that code for subsequent investigation. The Office is expected to be fully operational in the first half of 2005.

Quality of workplace Ensuring a healthy and safe workplace minimizes injuries and other risks employees may face in carrying out their duties, improves productivity and avoids penalties or other liabilities for our officers and directors.

We have a number of practices in place to ensure a quality workplace, including guidelines for physical and ergonomic workspaces and shared facilities. Our environment, health and safety compliance and management system and policies ensure that procedures are followed to minimize workplace injuries and we offer programs to promote healthy lifestyles. The incidence of workplace injuries is monitored regularly and reports are reviewed by the Social Responsibility and Risk Committee on a quarterly basis.

9. Changes in accounting policies

9.1 Expensing of stock options

Effective December 29, 2002, we adopted the CICA's new recommendations on stock-based compensation, one year earlier than required. The recommendations call for use of the fair-value based method to account for all stock options issued after the date of adoption, measuring fair value on the day the option was granted, and expensing it over the vesting period.

We did not grant any stock options to employees in 2004. Options we issued in 2003 reduced our net earnings in 2004 by 0.18 percent, or $0.01 per share.

We recognize that other kinds of long-term incentives more closely align the interests of management and investors, and in the past few years, we have used different long-term incentives, including restricted share units and performance share units. We issued performance conditioned share units for the first time in 2004. These long-term incentives are notional share plans. All of the costs associated with our long-term incentive plans are expensed.

See Note 10 to the Consolidated Financial Statements for more information about our Restricted Share Unit Plan, Performance Share Unit Plan and Performance Conditioned Share Unit Plan.

9.2 Variable interest entities

In June 2003, the CICA issued Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities." This guideline was amended in September 2004 to harmonize it with the related U.S. accounting standard which had been revised in December 2003. AcG-15 requires companies with a calendar year end to include certain variable interest entities in their consolidated financial statements beginning in the first quarter of 2005.

In the fourth quarter, we made structural changes to the arrangements involving the independent trusts described in sections 6.2, 7.1 and 7.2 of this MD&A. As a result, although the rules are complex and interpretation is still evolving, based on our current understanding we will not have to include the trusts in our Consolidated Financial Statements for 2005 when the guideline comes into effect.

The over 700 corporations owned and operated by independent Associate Dealers, Mark's Work Wearhouse and PartSource franchisees, and Petroleum agents are potential variable interest entities. A small number of these corporations require more support from us and may have to be consolidated in our financial statements. The impact on the Consolidated Financial Statements would likely not be significant nor would it change our tax, legal or credit risks, or increase our legal liabilities.

*A **variable interest entity** is any kind of legal structure, like a partnership, corporation or trust, which is controlled by contractual or other financial arrangements and not voting equity.*

9.3 Asset retirement obligations

In the first quarter of 2004, we adopted on a retroactive basis, the CICA Accounting Handbook Section 3110, "Asset Retirement Obligations," which prescribes how to recognize and measure our legal liabilities related to the retirement of property and equipment that we buy, build, develop or operate.

We recognize the fair value of our liability for an asset retirement obligation when it can be reasonably estimated. We add the amount of the liability to the carrying amount of the asset, and allocate it to expenses over the asset's useful life, usually using the same method we use to depreciate the asset.

In periods subsequent to the initial recognition of the liability, changes to the liability will occur due to the passage of time and adjustments to the fair value of the liability due to either the timing or the amount of the future payment.

This standard applies to fiscal years beginning on or after January 1, 2004. The impact of implementing this standard retroactively was to decrease net earnings for 2003 by $1.2 million or $0.02 per share.

See Note 1 to the Consolidated Financial Statements for more information.

9.4 Financial instruments

The CICA recently issued three new accounting standards: "Financial Instruments - Recognition and Measurement," "Hedges" and "Comprehensive Income." These explain how financial assets should be classified on the balance sheet and are designed to harmonize Canadian accounting standards with those in the U.S. These accounting standards are to be applied no later than the fiscal years beginning on or after October 1, 2006. We are currently evaluating the potential impact of these new standards on our Consolidated Financial Statements.

9.5 Hedging relationships of derivative financial instruments

On January 4, 2004, we adopted the CICA's Accounting Guideline 13, "Hedging Relationships," which specifies when hedge accounting can be used, and includes requirements for designating, documenting and assessing the effectiveness of all new and existing derivative financial instruments. A derivative financial instrument that does not meet the new criteria for hedge accounting must be marked to market, and the related gain or loss and offsetting asset or liability recorded in the financial statements for the period.

Accounting Guideline 13 came into effect for fiscal years beginning on or after July 1, 2003. In 2004, we assessed all of our existing derivative financial instruments against the new criteria for hedge accounting, and when we made adjustments we used mark to market valuations and the critical terms in each contract to calculate fair value.

Derivatives to manage interest rate risk Some of our interest rate swap agreements did not meet the new criteria for hedge accounting. We made the following adjustments:

- we recorded a loss of $2.9 million on January 3, 2004 for an interest rate swap agreement that did not meet the criteria because the underlying debt matured on November 30, 2003. We recognized this amount as a liability on the balance sheet and a loss on the statement of earnings in the 2003 Consolidated Financial Statements.
- we recorded a gain of $0.1 million, assets of $3.2 million and liabilities of $6.0 million in 2004 for interest rate swap agreements that did not meet the hedge accounting criteria

Derivatives to manage foreign exchange risk Certain foreign currency derivative instruments did not meet the new criteria for hedge accounting but are effective economic hedges of identified risk exposures, and have been approved under our policy for foreign exchange hedging. We have elected not to apply hedge accounting to these instruments, and have set limits and guidelines to limit the effect of changes in currency exchange rates on our financial statements.

We record changes in the fair value of the foreign currency derivative instruments under other assets or liabilities on the balance sheet and recognize them on the statement of earnings as they occur. In the fourth quarter of 2004, we recorded a gain of $0.4 million related to these instruments, which offset a loss of $0.4 million in the first nine months of the year.

For substantially all of our foreign currency derivatives that did meet the new criteria for hedge accounting, we recognized foreign exchange translation gains and losses as an adjustment of cost when we recorded each purchase.

Derivatives to manage stock-based compensation expenses The equity derivative contract – described in section 7.4 of this MD&A – that we entered into to hedge our anticipated exposure to a portion of the performance conditioned share units meets the new criteria for hedge accounting.

Documenting hedging relationships We document the relationship between each hedging instrument and the item it hedges, along with the risk management objective and strategy for the transaction. This includes:

- linking every derivative to a specific asset or liability on the Consolidated Balance Sheets, or to a planned transaction
- assessing whether the derivative we have used is effective in offsetting changes in fair value or cash flow of the hedged item, both when we enter into the contract and on an ongoing basis

If we terminate a hedging instrument or determine that it is no longer effective before it matures, we defer realized and unrealized gains or losses on the Consolidated Balance Sheets. We recognize the gains or losses in income when the underlying hedged transaction is recognized. If we sell or terminate a hedged item, or it matures before the related hedging instrument is terminated, we recognize in earnings any realized gain or loss on the hedging instrument.

See Note 1 to the Consolidated Financial Statements for more information.

9.6 Vendor rebates

Effective July 4, 2004, we implemented the accounting policy issued by the CICA in EIC-144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," and restated the Consolidated Financial Statements for 2004 and prior years. This policy provides guidance on how a customer (Including a Reseller) of a vendor's products should account for rebates it receives from the vendor.

***Vendor rebates** are payments CTR receives from suppliers to support advertising and marketing programs that promote products CTR buys from them.*

The following table shows CTR's earnings before and after the implementation of the new accounting policy, EIC-144.

Impact of vendor rebates on CTR's earnings

($ millions)	**Q4 2004**	**Q3 2004**	**Q2 2004**	**Q1 2004**	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Earnings before income taxes and minority interest prior to the implementation of EIC-144	**$ 83.1**	**$ 69.7**	**$ 84.6**	**$ 32.4**	$ 61.1	$ 54.3	$ 69.3	$ 24.1
Impact of EIC-144	**(5.1)**	**1.5**	**(3.1)**	**8.8**	(10.7)	4.2	(1.5)	1.8
Earnings before income taxes and minority interest adjusted to include the impact of EIC-144	**$ 78.0**	**$ 71.2**	**$ 81.5**	**$ 41.2**	$ 50.4	$ 58.5	$ 67.8	$ 25.9

9.7 Guarantees

We enter into agreements that include guarantees to other parties as a regular part of our business. Effective December 29, 2002, we adopted CICA Accounting Guideline 14, "Disclosure of Guarantees," which requires additional disclosure about guarantees.

See Note 14 to the Consolidated Financial Statements for more information about agreements and guarantees that are significant to our business.

9.8 Impairment of long-lived assets

Effective January 4, 2004, we adopted the CICA Accounting Handbook Section 3063, "Impairment of Long-lived Assets," which changes how we recognize, measure and disclose the impairment of long-lived assets. This new standard came into effect for fiscal years beginning on or after April 1, 2003, and resulted in a net increase of $1.6 million in our 2004 pre-tax earnings.

9.9 Revenue recognition

We record revenue from individually priced extended warranty contracts on a straight-line basis over the term of the contract.

9.10 Actuarial liabilities

We appointed an actuary to calculate our actuarial liabilities for the reinsurance coverage we provide to Canadian Tire credit card holders. We set aside funds to cover these liabilities and include the liabilities in accounts payable and other current liabilities.

Liabilities include future benefits, taxes (other than income taxes) and expenses, less the premiums we expect to be paid and net investment income we expect to earn.

10. Contractual obligations

Contractual obligations due by period

($ in millions)	Total	2005	In years 2006–2007	In years 2008–2009	After 2009
Long-term debt	$ 1,079.5	$ 1.3	$ 426.9	$ 150.9	$ 500.4
Capital lease obligations	7.9	4.3	3.6	–	–
Operating leases	1,121.5	140.7	237.5	195.0	548.3
Purchase obligations	548.3	332.4	139.3	76.6	–
Other long-term obligations	53.1	41.7	5.9	4.2	1.3
Total contractual obligations	$ 2,810.3	$ 520.4	$ 813.2	$ 426.7	$ 1,050.0

11. Non-GAAP measures

The following two measures included in this MD&A do not have a standardized meaning under Canadian generally accepted accounting principles (GAAP):

> EBITDA (earnings before interest, income taxes, depreciation, amortization) and minority interest

> all references made to adjusted earnings

EBITDA and minority interest With the exception of Financial Services, we consider EBITDA and minority interest to be an effective measure of the contribution of each of our businesses to our profitability on an operational basis, before allocating the cost of income taxes and capital investments. EBITDA and minority interest is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of the success of any business.

A reconciliation of EBITDA and minority interest to the most comparable GAAP measure (earnings before income taxes and minority interest) is provided below:

Reconciliation of EBITDA to GAAP measures[1]

($ in millions)	**Q4 2004**	Q4 2003	**2004**	2003
EBITDA and minority interest				
CTR	**$ 133.8**	$ 107.6	**$ 488.2**	$ 409.6
Financial Services	**52.6**	49.6	**172.0**	140.3
Petroleum	**6.0**	10.7	**16.4**	33.0
Mark's	**35.2**	31.3	**53.8**	41.0
Eliminations	**(6.1)**	(5.4)	**(20.5)**	(18.9)
Total EBITDA and minority interest	**$ 221.5**	$ 193.8	**$ 709.9**	$ 605.0
Less: Depreciation and amortization expense				
CTR	**$ 33.1**	$ 30.5	**$ 129.6**	$ 116.5
Financial Services	**3.4**	3.2	**14.1**	13.7
Petroleum	**3.5**	3.2	**13.0**	10.9
Mark's	**3.6**	3.6	**13.9**	13.0
Total depreciation and amortization expense	**$ 43.6**	$ 40.5	**$ 170.6**	$ 154.1
Interest expense				
CTR	**$ 22.7**	$ 26.7	**$ 86.7**	$ 90.5
Financial Services	**2.7**	2.8	**9.4**	10.4
Mark's	**0.7**	0.7	**2.8**	3.0
Eliminations	**(6.1)**	(5.4)	**(20.5)**	(18.9)
Total interest expense	**$ 20.0**	$ 24.8	**$ 78.4**	$ 85.0
Earnings before income taxes and minority interest				
CTR	**$ 78.0**	$ 50.4	**$ 271.9**	$ 202.6
Financial Services	**46.5**	43.6	**148.5**	116.2
Petroleum	**2.5**	7.5	**3.4**	22.1
Mark's	**30.9**	27.0	**37.1**	25.0
Total earnings before income taxes and minority interest	**$ 157.9**	$ 128.5	**$ 460.9**	$ 365.9

[1] Differences may occur due to rounding.

References to adjusted earnings In several places in this MD&A, we refer to adjusted pre-tax and after-tax earnings before the impact of non-operating items. Non-operating items include gains and losses on the sales of credit card receivables and dispositions of surplus property and equipment. The timing and amount of gains and losses from these items is not consistent from quarter to quarter.

We believe the adjusted figures allow for a clearer assessment of earnings for each of our businesses, and provide a more meaningful measure of our consolidated and segmented operating results.

Management's Responsibility for Financial Statements

The management of Canadian Tire Corporation, Limited is responsible for the accompanying Consolidated Financial Statements and all other information in the Annual Report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, which recognize the necessity of relying on some best estimates and informed judgements. All financial information in the annual report is consistent with the Consolidated Financial Statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Company's systems of internal accounting control. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Management meets the objectives of internal accounting control on a cost-effective basis through the prudent selection and training of personnel, adoption and communication of appropriate policies, and employment of an internal audit program.

The Board of Directors oversees management's responsibilities for the Consolidated Financial Statements primarily through the activities of its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Company. This Committee meets with management and the Company's independent auditors, Deloitte & Touche LLP, to review the Consolidated Financial Statements and recommend approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment and for approving remuneration and the terms of engagement of the Company's auditors. The Audit Committee also meets with the auditors, without the presence of management, to discuss the results of their audit, their opinion on internal accounting controls, and the quality of financial reporting.

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, who were appointed by shareholder vote at the annual shareholders' meeting. Their report is presented below.

(SIGNED) Wayne C. Sales
President and
Chief Executive Officer

(SIGNED) J. Huw Thomas
Executive Vice-President, Finance and Administration and
Chief Financial Officer

March 10, 2005

Auditors' Report

To the Shareholders, Canadian Tire Corporation, Limited

We have audited the consolidated balance sheets of Canadian Tire Corporation, Limited as at January 1, 2005 and January 3, 2004 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 1, 2005 and January 3, 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(SIGNED) Deloitte & Touche LLP

Chartered Accountants
Toronto, Ontario

March 10, 2005

Consolidated Statements of Earnings and Retained Earnings

For the years ended (Dollars in millions except per share amounts)	**January 1, 2005 (52 weeks)**	January 3, 2004 (53 weeks)
		(Restated – Note 1)
Gross operating revenue	**$ 7,153.6**	$ 6,552.8
Operating expenses		
Cost of merchandise sold and all other operating expenses except for the undernoted items	**6,416.9**	5,924.1
Interest		
Long-term debt	**76.0**	82.4
Short-term debt	**2.4**	2.6
Depreciation and amortization	**170.6**	154.1
Employee profit sharing plan (Note 10)	**26.8**	23.7
Total operating expenses	**6,692.7**	6,186.9
Earnings before income taxes and minority interest	**460.9**	365.9
Income taxes (Note 11)		
Current	**150.8**	108.8
Future	**11.7**	7.2
Total income taxes	**162.5**	116.0
Net earnings before minority interest	**298.4**	249.9
Minority interest (Note 17)	**6.9**	8.7
Net earnings	**$ 291.5**	$ 241.2
Basic earnings per share	**$ 3.60**	$ 2.99
Diluted earnings per share (Note 9)	**$ 3.53**	$ 2.95
Weighted average number of Common and Class A Non-Voting Shares outstanding	**80,983,467**	80,605,607
Retained earnings, beginning of year as previously reported	**$ 1,334.2**	$ 1,138.0
Adoption of new accounting standards (Note 1)	**(16.2)**	(10.8)
Retained earnings, beginning of year, as restated	**1,318.0**	1,127.2
Net earnings	**291.5**	241.2
Dividends	**(40.5)**	(32.5)
Repurchase of Class A Non-Voting Shares (Note 9)	**(22.1)**	(17.9)
Retained earnings, end of year	**$ 1,546.9**	$ 1,318.0

Consolidated Statements of Cash Flows

For the years ended (Dollars in millions)	**January 1, 2005 (52 weeks)**	January 3, 2004 (53 weeks)
		(Restated – Note 1)
Cash generated from (used for):		
Operating activities		
Net earnings	**$ 291.5**	$ 241.2
Items not affecting cash		
Net provision for credit card receivables and personal loans	**184.4**	147.9
Depreciation and amortization of property and equipment	**166.2**	149.7
Future income taxes	**11.7**	7.2
Amortization of other assets	**7.1**	4.4
Other	**4.4**	5.2
Gain on sales of credit card receivables (Note 2)	**(22.6)**	(16.8)
Gain on disposals of property and equipment	**(14.4)**	(4.3)
Cash generated from operations	**628.3**	534.5
Changes in other working capital components (Note 12)	**(217.3)**	(14.4)
Cash generated from operating activities	**411.0**	520.1
Investing activities		
Investment in credit card receivables and personal loans	**(592.3)**	(646.3)
Additions to property and equipment	**(340.7)**	(278.9)
Long-term receivables and other assets	**(16.2)**	58.2
Purchases of franchise stores	**(1.3)**	(11.2)
Asset retirement obligations	**(0.3)**	(1.3)
Proceeds on disposition of property and equipment	**38.2**	40.2
Cash used for investing activities	**(912.6)**	(839.3)
Financing activities		
Securitization of credit card receivables	**349.4**	532.2
Sale of Associate Dealer receivables (Note 12)	**323.2**	98.7
Issuance of long-term debt	**201.5**	5.8
Repayment of long-term debt	**(244.8)**	(208.5)
Dividends	**(38.5)**	(32.2)
Class A Non-Voting Share transactions (Note 9)	**(13.6)**	21.6
Cash generated from financing activities	**577.2**	417.6
Cash generated in the year	**75.6**	98.4
Cash and cash equivalents, beginning of year	**726.6**	628.2
Cash and cash equivalents, end of year (Note 12)	**$ 802.2**	$ 726.6

Consolidated Balance Sheets

As at (Dollars in millions)		January 1, 2005		January 3, 2004 (Restated – Note 1)
ASSETS				
Current assets				
Cash and cash equivalents (Note 12)	**$**	**802.2**	$	726.6
Accounts receivable (Note 12)		**370.7**		508.3
Credit card receivables and personal loans (Note 2)		**592.4**		562.8
Merchandise inventories		**620.6**		465.9
Prepaid expenses and deposits		**24.1**		27.9
Total current assets		**2,410.0**		2,291.5
Long-term receivables and other assets (Note 3)		**129.7**		64.1
Goodwill (Note 4)		**41.7**		40.6
Intangible assets (Note 4)		**52.0**		52.0
Property and equipment (Note 5)		**2,585.2**		2,444.9
Total assets	**$**	**5,218.6**	$	4,893.1
LIABILITIES				
Current liabilities				
Accounts payable and other	**$**	**1,437.6**	$	1,270.2
Income taxes payable		**44.2**		97.3
Current portion of long-term debt (Note 6)		**5.6**		244.5
Total current liabilities		**1,487.4**		1,612.0
Long-term debt (Note 6)		**1,081.8**		886.2
Future income taxes (Note 11)		**42.6**		30.9
Other long-term liabilities (Note 7)		**55.6**		46.9
Total liabilities		**2,667.4**		2,576.0
Minority interest (Note 17)		**300.0**		300.0
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**709.0**		700.5
Contributed surplus		**1.3**		0.7
Accumulated foreign currency translation adjustment		**(6.0)**		(2.1)
Retained earnings		**1,546.9**		1,318.0
Total shareholders' equity		**2,251.2**		2,017.1
Total liabilities, minority interest and shareholders' equity	**$**	**5,218.6**	$	4,893.1

(SIGNED) Gilbert S. Bennett

Director

(SIGNED) Maureen J. Sabia

Director

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries and partnership (the "Company").

Fiscal year The fiscal year of the Company consists of a 52- or 53-week period ending on the Saturday closest to December 31. The fiscal years for the Consolidated Financial Statements and Notes presented for 2004 and 2003 are the 52-week period ended January 1, 2005 and the 53-week period ended January 3, 2004, respectively.

The results of certain subsidiaries which have different year ends from the Company have been included in the Consolidated Financial Statements for the 12 months ended December 31.

Translation of foreign currencies The components of the Consolidated Statements of Earnings related to foreign subsidiaries are translated to Canadian dollars using average currency exchange rates in effect during the accounting period, and assets and liabilities are translated at the exchange rates in effect at the end of the accounting period. Gains and losses on translation are included in net earnings, except for the exchange gains or losses related to investments in self-sustaining foreign operations, which are included in a separate component of shareholders' equity.

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each accounting period end date. Exchange gains or losses are included in the determination of net earnings.

Revenue recognition The Company's shipments of merchandise to Canadian Tire Retail's ("CTR") Associate Dealers and PartSource franchisees (retail store owner-operators) are recorded as revenue when delivered and are net of returns. Revenue on the sale of gasoline by Canadian Tire Petroleum ("Petroleum") is recorded upon sale to the customer. Revenue for Mark's Work Wearhouse Ltd. ("Mark's") is recognized at the time goods are sold by its corporate-owned stores to its customers and is net of returns. Merchant fees on credit card receivables are taken into revenue at the time new receivables are recorded. Service charges and credit interest on credit card receivables and personal loans are accrued each month according to the contractual provisions of the credit agreements. Revenue from separately-priced extended warranty contracts is recorded on a straight-line basis over the term of the contract.

Franchise royalties Royalties, based on sales by Mark's franchisees, are recorded as income as they are earned.

Stock-based compensation plans Stock-based awards are measured and recognized using a fair-value based method. Stock options granted after December 28, 2002 are measured on grant date using a fair-value based method and expensed over the vesting period. The counterpart is recorded as contributed surplus. When employees exercise their stock options, the share capital is increased by the sum of the consideration paid by employees together with the related portion previously added to contributed surplus when compensation costs were charged against income. For stock options granted to employees prior to December 29, 2002, the Company recorded no compensation cost. Accordingly, the Company discloses pro forma net earnings and earnings per share as if the fair-value based method had been used for stock options granted between December 30, 2001 and December 28, 2002 (see Note 10).

Compensation expense is recognized for the Company's contributions under the Employee Profit Sharing Plan, the Employee Stock Purchase Plan, the Deferred Share Unit Plan, the Restricted Share Unit Plan, the Performance Share Unit Plan and the Performance Conditioned Share Unit Plan (see Note 10).

Earnings per share Basic earnings per share is calculated using the weighted average number of shares outstanding during the accounting period. The diluted earnings per share calculation uses an increased number of shares, determined using the treasury stock method.

Cash and cash equivalents For purposes of the Consolidated Financial Statements, cash and cash equivalents is defined as cash and short-term investments less bank indebtedness. Short-term investments held include Canadian and United States government securities and notes of other creditworthy parties due within three months.

Credit card receivables and personal loans Credit card receivables are recorded at cost net of allowances established for credit losses, bankruptcy and fraud. Personal loans are recorded at cost net of allowances established for credit losses. The allowance for credit losses is calculated using the historical loss experience of account balances based on the aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans. The allowance for bankruptcy is recorded as the average number of months in arrears of bankrupt accounts multiplied by the average monthly bankruptcy charge-off. Historical bankruptcy data for the past 12 months is used to calculate the averages. The allowance for fraud is recorded as three months of the average monthly fraud charge-offs, which is calculated using historical fraud charge-off data for the past 12 months. Credit card receivables in arrears for over 180 days are written off. Personal loans are classified as impaired when the principal or interest payments are over 90 days in arrears, and are written off when they are 365 days in arrears.

Effective July 1, 2001, the Company adopted the Canadian Institute of Chartered Accountants' Accounting Guideline 12 ("AcG-12"), "Transfers of Receivables." Under the new policy, the Company is required to recognize gains or losses on its credit card securitizations subsequent to June 30, 2001 that qualify as sales. Sales of credit card receivables prior to July 1, 2001 were accounted for under the accounting guidelines in effect at that time. The gain or loss on the sale of the credit card receivables depends in part on the previous carrying amount of the receivables involved in the sale. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair value at the date of sale. The Company estimates fair value based on the present value of future expected cash flows using management's estimates of the key assumptions (see Note 2).

Merchandise inventories Merchandise inventories are valued at the lower of cost and estimated net realizable value, with cost being determined using the average cost method, except for the merchandise inventories of Mark's, which are accounted for by the retail method and are carried at the lower of the anticipated selling price (less an expected average gross margin) and the estimated cost.

1. Significant Accounting Policies (continued)

Vendor rebates Effective July 4, 2004, the Company implemented, on a retroactive basis, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants' Abstract 144 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (the "Abstract"). The Abstract requires a customer to generally record cash consideration received from a vendor as a reduction in the price of the vendor's products and reflect it as a reduction to cost of goods sold and related inventory when recognized in the income statement and balance sheet. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller, or is a payment for assets or services delivered to the vendor. The Abstract must be applied retroactively to annual and interim periods ending after August 15, 2004.

The Company receives allowances from certain of its merchandise vendors. This new guidance has changed the timing of recognition of some vendor allowances. As a result of the retroactive implementation of this new standard, the cumulative impact on previously reported balances on the following dates is as follows:

(Dollars in millions)	**January 3, 2004**	December 28, 2002
Retained earnings	**$ (13.3)**	$ (9.1)
Accounts receivable	**18.9**	7.5
Merchandise inventories	**(28.0)**	(18.6)
Accounts payable and other	**10.9**	2.8
Income taxes payable	**0.4**	(0.4)
Future income taxes	**(7.1)**	(4.4)

The impact of the retroactive implementation on previously reported net earnings for the year ended January 3, 2004 was a decrease of $4.2 million, or $0.05 per share.

Interest-only strip The interest-only strip represents the present value of the Company's share of the spread to be earned over the collection period on the credit card receivables sold (see Note 2). The spread is equal to the yield earned, less the net write-offs and interest expense on the credit card receivables sold. The interest-only strip is amortized into income over the collection period based on the projected collection rate.

Debt discount and other issue expenses Debt discount and other issue expenses are included in "Long-term receivables and other assets" on the Consolidated Balance Sheets and are amortized over the term of the respective debt issues.

Deferred expenses The Company capitalizes both direct and indirect costs with respect to ventures which are in the development stage. Capitalization of costs continues until formal operations have commenced, at which time the deferred costs are amortized over a three-year period. Should a venture be abandoned during the development stage, all capitalized costs are immediately expensed. The Company defers costs pertaining to the acquisition of most new businesses. These acquisition costs are amortized over the terms of the related contracts. All of the above costs are included in "Long-term receivables and other assets" on the Consolidated Balance Sheets.

Goodwill and intangible assets Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess, if any.

Intangible assets, which have indefinite lives are not amortized, and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in an amount equal to the excess, if any. Intangible assets with finite useful lives are amortized over their useful life.

Property and equipment Property and equipment are stated at cost. The cost of real estate includes all direct costs, financing costs on specific and general corporate debt relating to major projects and certain pre-development costs. Depreciation is provided for using the declining balance method commencing in the month that the equipment or facilities are placed into service. Amortization of leasehold improvements and lease inducements, and lease expense are recognized on a straight-line basis over the terms of the respective leases. Purchased computer software, including direct implementation costs, is amortized on a straight-line basis over a period of up to five years. Depreciation relating to each capital lease for fixtures and equipment and computer software is provided for on a straight-line basis over the term of the lease. If property and equipment are subject to permanent impairment, additional depreciation or a writedown is provided.

Impairment of long-lived assets Effective January 4, 2004, the Company implemented, on a prospective basis, the new Canadian Institute of Chartered Accountants' accounting standard for impairment of long-lived assets, which is effective for years beginning on or after April 1, 2003. The standard provides guidance on recognizing, measuring and disclosing the impairment of long-lived assets and replaces the previous standard regarding write-down provisions of property and equipment. The impact on the pre-tax earnings for the year ended January 1, 2005 was a net increase of $1.6 million.

Asset retirement obligations Effective January 4, 2004, the Company implemented, on a retroactive basis with prior periods restated, the new Canadian Institute of Chartered Accountants' accounting standard for asset retirement obligations, which is effective for years beginning on or after January 1, 2004. The standard addresses the recognition and measurement of legal obligations associated with the retirement of property and equipment when those obligations result from the acquisition, construction, development or normal operation of the asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset. The asset retirement obligation accretes due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to earnings for the period.

As a result of the retroactive implementation of this new standard, the cumulative impact on previously reported balances on the following dates is as follows:

(Dollars in millions)	**January 3, 2004**	December 28, 2002
Retained earnings	**$ (2.9)**	$ (1.7)
Property and equipment	**1.5**	1.4
Accounts payable and other	**(7.4)**	(8.9)
Asset retirement obligations	**12.7**	12.4
Income taxes payable	**0.4**	(0.2)
Future income taxes	**(1.3)**	(0.2)

The impact of the retroactive implementation on previously reported net earnings for the year ended January 3, 2004 was a decrease of $1.2 million, or $0.02 per share.

Site restoration costs Liabilities are recognized both for known site restoration costs and for probable site restoration costs that can be reasonably estimated.

Actuarial liabilities Actuarial liabilities for reinsurance of coverages provided to the Company's credit card holders represent the amount which, net of estimated future premiums and net investment income, will be sufficient to pay estimated future policy benefits, taxes (other than income taxes) and expenses on policies. The Company's appointed actuary is responsible for determining the amount of actuarial liabilities for which funds must be set aside and available in the future to meet these obligations. These amounts are included in "Accounts payable and other."

Employee future benefits The Company provides certain health care, dental care, life insurance and other benefits, but not pensions, for certain retired employees pursuant to Company policy. The Company accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The discount rate used is based on market rates as at the measurement date. The net actuarial gains and losses that exceed 10% of the accrued benefit obligation are amortized on a straight-line basis over the expected average remaining service life of employees, which is 12 years (2003 – 12 years). The most recent actuarial valuation of the obligation was performed as of January 1, 2002. The next required valuation will be as of January 2, 2005.

Hedging relationships Effective January 4, 2004, the Company implemented, on a prospective basis, the Canadian Institute of Chartered Accountants' Accounting Guideline 13 (AcG-13) "Hedging Relationships," which is effective for years beginning on or after July 1, 2003. This guidance deals with the identification, documentation, designation and effectiveness of hedges. Upon adoption of this new standard, the Company assessed all existing derivative financial instruments and designated certain derivative financial instruments that were effective economic hedges of identified risk exposures as hedges. Any gains or losses on these instruments are offset against the item being hedged. All derivative financial instruments that do not meet the criteria for hedge accounting are marked to market. The related gains and losses are included in earnings for the period with an offsetting asset or liability being recorded. The impact of this new standard on pre-tax earnings for the year ended January 1, 2005 was a net increase of $0.1 million.

Derivative financial instruments Derivative financial instruments are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses.

The Company documents the relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Company enters into foreign exchange contracts, primarily in U.S. dollars, to hedge future purchases of foreign currency denominated goods and services. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge future purchases are recognized as an adjustment of cost when the purchase is recorded.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest. Interest to be paid or received under such swap contracts is recognized over the life of the contracts as adjustments to interest expense. Unrealized gains or losses resulting from market movements are not recognized.

Equity derivative contracts are used to hedge the anticipated exposure relating to certain stock-based compensation plans. With respect to equity forwards, the amount to be paid at the expiration of the performance period is included in compensation expense over the life of the hedge period. Unrealized gains or losses resulting from market movement are not recognized. With respect to other types of equity derivative contracts, the accounting treatment varies depending on the particular type of contract entered into.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current or non-current assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

1. Significant Accounting Policies (continued)

Use of estimates The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used when accounting for items such as impairment of assets, employee benefits, product warranties, inventory provisions, amortization, uncollectible credit card receivables and personal loans, environmental reserves, asset retirement obligations and the liability for the Company's loyalty programs.

2. CREDIT CARD RECEIVABLES AND PERSONAL LOANS

During the year ended January 1, 2005, the Company sold undivided co-ownership interests in certain pools of credit card receivables (the "Receivables") to an independent trust, Glacier Credit Card Trust ("GCCT"), formerly known as Canadian Tire Receivables Trust, in transactions known as securitizations. Securitizations transfer to GCCT ownership interests in certain pools of the Receivables previously wholly owned by the Company that provide GCCT with (i) ownership of a share of the service charges generated by the pool up to a stipulated amount, and (ii) ownership of a share of the principal payments generated by the pool, both computed on a monthly basis. The Company retains any income in excess of GCCT's share of service charges on the Receivables. In these transactions, the Company also assumes responsibility for servicing the Receivables for which it will not receive any direct compensation. GCCT's recourse to the Company is generally limited to its income earned on the Receivables, although unexpected sizeable losses could also result in a reduction in the value of the co-ownership interest retained by the Company.

As the Company does not control GCCT, it has not been consolidated in these financial statements. The Company has reflected the transfer of the co-ownership interest to GCCT as a sale in accordance with AcG-12, "Transfers of Receivables," which became effective on July 1, 2001. In accordance with this Guideline, the proceeds of the sale to GCCT were deemed to be the cash received from GCCT plus the estimated fair value of the Company's retained interest in the service charges of the pool, net of the servicing obligation assumed. The excess of the estimated fair value of the proceeds over the carrying value of the interests in Receivables sold is reflected in these financial statements as a gain on the date of disposition. For the year ended January 1, 2005, the Company has recognized pre-tax gains of $22.6 million (2003 – $16.8 million) on such securitization transactions. The Company recognizes gains from securitization transactions prior to July 1, 2001, as the service charges are realized.

For transfers of Receivables occurring after July 1, 2001, the Company has computed the estimated fair values of its retained interest by discounting the expected future cash flows from the retained interest.

Quantitative information about net credit card receivables and net personal loans managed by the Company is as follows:

	Total principal amount of receivables		Average balances	
(Dollars in millions)	**2004**	2003	**2004**	2003
Total net managed credit card portfolio	**$ 2,789.2**	$ 2,433.3	**$ 2,512.6**	$ 2,035.2
Credit card receivables sold[1]	**(2,209.3)**	(1,870.5)	**(1,889.5)**	(1,475.5)
Credit card receivables held	**579.9**	562.8	**$ 623.1**	$ 559.7
Personal loans[2]	**64.0**	–		
Total	**643.9**	562.8		
Less: long-term portion of personal loans[3]	**51.5**	–		
Credit card receivables and current portion of personal loans	**$ 592.4**	$ 562.8		

1 Includes receivables sold pre and post adoption of AcG-12 "Transfers of Receivables" on July 1, 2001.

2 Personal loans are provided to qualified existing credit cardholders for terms of three to five years. Personal loans have fixed monthly payments, however, the personal loans can be repaid at any time without penalty.

3 The long-term portion of personal loans is included in "Long-term receivables and other assets" (see Note 3).

Net credit losses for the year ended January 1, 2005 were $149.6 million (2003 – $121.9 million). Net credit losses are charge-offs net of recoveries and are based on the total managed portfolio of credit card receivables and personal loans.

The fair value of future cash flows of the Company's retained interest at January 1, 2005 was $67.0 million (2003 – $44.4 million).

The following table shows the key economic assumptions used in measuring the retained interests at the date of securitization resulting from securitizations completed during the year. The table also displays the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in the 2004 key economic assumptions.

	Assumptions	Effects of adverse change on $100 million of GCCT debt[1]		Assumptions
(Dollars in millions)	**2004**	10%	20%	2003
Yield	**16.50%**	$ (0.7)	$ (1.4)	17.01%
Liquidation rate (% of sold receivables per month)[2]	**23.01%**	(0.5)	(1.0)	24.53%
Expected credit losses	**5.60%**	–	–	5.85%
Discount rate	**12.00%**	–	–	12.00%
Service costs[3]	**2.00%**	(0.1)	(0.2)	2.00%

1 These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent or 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower payments and increased credit losses), which might magnify or counteract the sensitivities.
2 Based on historical patterns the full receivable is estimated to be collected in 12 months.
3 The servicing liability as at January 1, 2005 was $13.5 million (2003 – $8.8 million).

Details of cash flows from securitizations[1]:

(Dollars in millions)	**2004**	2003
Proceeds from new securitizations	**$ 625.0**	$ 570.0
Proceeds from collections reinvested in previous credit card securitizations	**5,601.0**	4,099.3
Other cash flows received on retained interests[2]	**1,335.3**	953.6

1 Cash flows from securitizations include securitizations before and after the adoption of AcG-12 on July 1, 2001.
2 Retained interests represent receivables held by the Company in addition to those sold to GCCT.

3. LONG-TERM RECEIVABLES AND OTHER ASSETS

(Dollars in millions)	**2004**	2003
Personal loans (Note 2)	**$ 51.5**	$ –
Interest-only strip	**41.3**	26.1
Other assets	**15.3**	8.2
Loans receivable	**12.2**	12.2
Long-term debt issue costs	**7.5**	8.3
Mortgages receivable	**1.9**	9.3
	$ 129.7	$ 64.1

Loans receivable Loans receivable include interest-free housing and relocation loans of $0.4 million (2003 – $1.6 million) that have been provided to certain employees. These loans have various maturity dates extending to 2012.

4. GOODWILL AND INTANGIBLE ASSETS

The change in the carrying amount of goodwill is as follows:

(Dollars in millions)	CTR	Mark's	Total
Balance, January 3, 2004	$ 8.6	$ 32.0	$ 40.6
Goodwill acquired	0.2	0.9	1.1
Balance, January 1, 2005	**$ 8.8**	**$ 32.9**	**$ 41.7**

4. Goodwill and Intangible Assets (continued)

The following intangible assets were acquired on February 1, 2002:

(Dollars in millions)	
Mark's Work Wearhouse/L'Équipeur store banner	$ 46.0
Mark's private label brands	4.0
Mark's Franchise Agreements	2.0
	$ 52.0

These intangible assets are considered to have indefinite lives because they are expected to generate cash flows indefinitely. There were no writedowns of goodwill or intangible assets due to impairment during 2004 and 2003.

5. PROPERTY AND EQUIPMENT

	2004			2003 (Restated – Note 1)			
(Dollars in millions)	**Cost**	**Accumulated depreciation and amortization**	**Net book value**	Cost	Accumulated depreciation and amortization	Net book value	Depreciation amortization rate/term
Land	**$ 672.1**	**$ –**	**$ 672.1**	$ 620.4	$ –	$ 620.4	
Buildings	**1,987.5**	**652.5**	**1,335.0**	1,882.8	607.2	1,275.6	4%–10%
Fixtures and equipment	**470.2**	**316.4**	**153.8**	445.6	294.5	151.1	10%–33%
Leasehold improvements	**201.0**	**69.0**	**132.0**	185.9	58.9	127.0	Term of lease
Computer software	**293.3**	**173.7**	**119.6**	192.3	134.0	58.3	Up to 5 years
Assets under capital lease	**24.8**	**18.0**	**6.8**	24.0	12.2	11.8	Term of lease
Construction in progress	**165.9**	**–**	**165.9**	200.7	–	200.7	
	$ 3,814.8	**$ 1,229.6**	**$ 2,585.2**	$ 3,551.7	$ 1,106.8	$ 2,444.9	

Included in property and equipment are land and buildings held for disposal with a cost of $44.3 million (2003 – $75.1 million) and accumulated depreciation of $21.0 million (2003 – $31.3 million). The Company capitalized interest of $3.8 million (2003 – $2.6 million) on indebtedness related to property and equipment under construction.

6. LONG-TERM DEBT

(Dollars in millions)	**2004**	2003
Medium term notes		
5.25% due June 1, 2004	**$ –**	$ 85.0
6.25% due December 1, 2004	**–**	150.0
5.65% due January 16, 2006	**200.0**	200.0
7.05% due May 18, 2006	**225.0**	225.0
5.70% due June 9, 2008	**150.0**	150.0
6.25% due April 13, 2028	**150.0**	150.0
6.32% due February 24, 2034	**200.0**	–
Debentures, 12.10% maturing May 10, 2010	**150.0**	150.0
Capital lease obligations	**7.9**	12.9
Other	**4.5**	7.8
Total long-term debt	**1,087.4**	1,130.7
Less: amounts due within one year	**5.6**	244.5
Total – net of current portion	**$ 1,081.8**	$ 886.2

Medium term notes Certain of the medium term notes are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption.

Debentures The debentures are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption. Commencing with the quarter ended October 1, 1994 and for each subsequent quarter, the Company may (subject to availability and pricing) be required to purchase up to 1.15 percent of the debentures outstanding at the beginning of such quarter. To date, no such purchases have been made.

Capital lease obligations The fixtures and equipment and computer software under capital leases are the security for the respective obligations. The leases have an average interest rate of 8.83 percent and an average remaining term of 25 months.

Debt covenants The Company has provided covenants to certain of its lenders. All of the covenants were complied with during 2004 and 2003.

Repayment requirements

(Dollars in millions)	2005	2006	2007	2008	2009	Thereafter	Total
Medium term notes	$ –	$ 425.0	$ –	$ 150.0	$ –	$ 350.0	$ 925.0
Debentures	–	–	–	–	–	150.0	150.0
Capital lease obligations	4.3	2.4	1.2	–	–	–	7.9
Other	1.3	1.2	0.7	0.7	0.2	0.4	4.5
	$ 5.6	$ 428.6	$ 1.9	$ 150.7	$ 0.2	$ 500.4	$ 1,087.4

On February 24, 2004, the Company completed an issuance of $200.0 million of unsecured medium term notes, which mature on February 24, 2034, and bear interest at 6.32 percent.

On June 1, 2004, medium term notes totalling $85.0 million matured and were repaid, and on December 1, 2004, medium term notes totalling $150.0 million matured and were repaid.

On February 25, 2005, the Company announced that on April 1, 2005, it will redeem the medium term notes totalling $225.0 million, due May 18, 2006.

7. OTHER LONG-TERM LIABILITIES

(Dollars in millions)	**2004**	2003
		(Restated – Note 1)
Employee future benefits (Note 8)	**$ 37.6**	$ 34.2
Asset retirement obligations	**12.9**	12.7
Other	**5.1**	–
	$ 55.6	$ 46.9

8. EMPLOYEE FUTURE BENEFITS

The Company provides certain health care, dental care, life insurance and other benefits for certain retired employees pursuant to Company policy. The Company does not have a pension plan. Information about the Company's defined benefit plan is as follows:

(Dollars in millions)	2004	2003
Accrued benefit obligation, beginning of year	**$ 44.8**	$ 41.2
Current service cost	**1.6**	1.2
Interest cost	**2.8**	2.7
Benefits paid	**(1.6)**	(1.5)
Actuarial losses	**2.5**	1.2
Accrued benefit obligation, end of year[1]	**50.1**	44.8
Unamortized net actuarial losses	**(12.5)**	(10.6)
Accrued benefit liability	**$ 37.6**	$ 34.2
Elements of benefit plan costs recognized		
Current service cost	**$ 1.6**	$ 1.2
Interest cost	**2.8**	2.7
Actuarial losses	**2.5**	1.2
Elements of employee future benefits before adjustments to recognize the long-term nature of employee future benefit costs	**6.9**	5.1
Difference between actuarial loss recognized for the year and actual actuarial loss on accrued benefit obligation for the year	**(2.0)**	(0.7)
Benefit costs recognized	**$ 4.9**	$ 4.4

[1] The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets.

Significant actuarial assumptions used:

	2004	2003
Accrued benefit obligation		
Discount rate	**5.75%**	6.25%
Benefit costs recognized		
Discount rate	**6.25%**	6.50%

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004 (2003 – 10.5 percent). The rate was assumed to decrease gradually to 4.5 percent for 2009 and remain at that level thereafter (2003 – 4.5 percent and thereafter). A 4.5 percent annual rate of increase in the per capita cost of covered dental costs was assumed for 2004 and thereafter (2003 – 4.5 percent and thereafter). The expected average remaining service life of the active employees covered by the benefit plan is 12 years (2003 – 12 years).

Sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2004:

	Impact of a change in health care cost trend rates	
(Dollars in millions)	1% increase	1% decrease
Total of service and interest cost	$ 0.2	$ (0.2)
Accrued benefit obligation	1.6	(2.0)

9. SHARE CAPITAL

(Dollars in millions)			**2004**		2003
Authorized					
3,423,366	Common Shares				
100,000,000	Class A Non-Voting Shares				
Issued					
3,423,366	Common Shares (2003 – 3,423,366)	**$**	**0.2**	$	0.2
77,699,631	Class A Non-Voting Shares (2003 – 77,337,718)		**708.8**		700.3
		$	**709.0**	$	700.5

During 2004 and 2003, the Company reissued and repurchased Class A Non-Voting Shares. Reissued shares are recorded using the proceeds received. The net excess of the repurchase price over the issue price is allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2004 and 2003:

	2004		2003	
(Dollars in millions)	**Number**	**$**	Number	$
Shares outstanding at the beginning of the year	**77,337,718**	**700.3**	76,430,998	660.8
Issued				
Dividend reinvestment plan	**30,843**	**1.4**	58,828	2.0
Stock option plans	**1,213,062**	**28.4**	571,403	13.5
Employee stock purchase plan	**449,186**	**20.8**	578,894	19.4
Employee profit sharing plan	**65,958**	**3.0**	133,442	4.3
Associate Dealer profit sharing plans	**143,964**	**6.6**	164,153	5.8
Repurchased	**(1,541,100)**	**(73.8)**	(600,000)	(23.4)
Excess of repurchase price over issue price	**–**	**22.1**	–	17.9
Shares outstanding at the end of the year	**77,699,631**	**708.8**	77,337,718	700.3

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

From January 2, 2005 to March 10, 2005, the Company issued 350,876 Class A Non-Voting Shares for proceeds of $11.6 million.

The reconciliation of the number of shares used in the diluted earnings per share calculation is as follows:

	2004	2003
Average number of shares for basic earnings per share calculations	**80,983,467**	80,605,607
Dilutive options	**1,523,889**	1,119,476
Average number of shares for diluted earnings per share calculations	**82,507,356**	81,725,083

Conditions of Class A Non-Voting Shares and Common Shares The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of $0.01 per share per annum. After payment of a dividend on each of the Common Shares at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in each year in equal amounts per share. In the event of liquidation, dissolution or winding-up of the Company, the Class A Non-Voting Shares and Common Shares rank equally with each other on a share-for-share basis.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders but, except as provided by the *Business Corporations Act* (Ontario) and as hereinafter noted, are not entitled to vote thereat. Holders of Class A Non-Voting Shares, voting separately as a class, are entitled to elect the greater of: (i) three directors or (ii) one-fifth of the total number of the Company's directors.

Common Shares can be converted, at any time, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of shares of either class cannot be increased without the approval of the holders of the other class. Neither the Class A Non-Voting Shares nor the Common Shares can be changed by way of subdivision, consolidation, reclassification, exchange or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all or substantially all of the holders of Common Shares (other than an offer to purchase both Class A Non-Voting Shares and Common Shares at the same price and on the same terms and conditions) and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon be entitled to one vote per share at all meetings of the shareholders.

9. Share Capital (continued)

The foregoing is a summary of certain of the conditions attached to the Class A Non-Voting Shares of the Company and reference should be made to the Company's articles for a full statement of such conditions.

As at January 1, 2005, the Company had dividends payable to holders of Class A Non-Voting Shares and Common Shares of $10.1 million (2003 – $8.1 million).

10. STOCK-BASED COMPENSATION PLANS

The Company has seven stock-based compensation plans, which are described below.

Employee Profit Sharing Plan The Company offers its employees a Deferred Profit Sharing Plan ("DPSP"). The amount of the award is contingent on the Company's profitability. The maximum contribution is based on 6.75 percent of earnings before income taxes and minority interest, after certain adjustments. The maximum amount of the Company's contribution to the DPSP per employee per year is subject to limits set by the Canada Revenue Agency. The DPSP is required to invest and maintain 10 percent of its holdings in the Company's Class A Non-Voting Shares. The Company's contributions to the DPSP vest 20 percent after one year of continuous service and 100 percent after two years of continuous service.

In 2004, of the employee profit sharing plan expense for the prior year, the Company contributed $15.0 million (2003 – $13.8 million) under terms of the DPSP, towards the Trustee-managed investment portfolio. As of January 1, 2005, the DPSP held 419,280 Common Shares (2003 – 419,280) and 1,317,407 Class A Non-Voting Shares (2003 – 1,581,801) of the Company.

Employee Stock Purchase Plan The Company offers an Employee Stock Purchase Plan ("ESPP") to its employees, whereby employees can choose to have up to 10 percent of their annual base earnings withheld to purchase Class A Non-Voting Shares of the Company. The purchase price of the shares is calculated monthly and is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange for a given month. The Company may elect to match up to 50 percent of employee contributions to the ESPP. The Company's matching contribution vests in increments of 10 percent for every year of an employee's service.

In return for employee contributions, the Company issued to employees 449,186 Class A Non-Voting shares in 2004 (2003 – 578,894). The Company's matching contribution of $9.4 million in 2004 (2003 – $8.9 million) was used to purchase Class A Non-Voting shares on the Toronto Stock Exchange. In addition, the Company recorded as compensation expense $5.8 million (2003 – $5.0 million) for reimbursement of employee income tax liabilities relating to the ESPP.

Deferred Share Unit Plan The Company offers a Deferred Share Unit Plan ("DSUP") for members of the Board of Directors. Under the DSUP each director may elect to receive all or a percentage of his or her annual compensation in the form of notional Class A Non-Voting Shares of the Company called deferred share units ("DSUs"). The issue price of each DSU is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange during the 10-day period prior to the last day of the quarter in which the DSU is issued. A director must elect to participate or change his or her participation in the DSUP prior to the beginning of a fiscal quarter. The DSU account of each director includes the value of dividends, if any, as if reinvested in additional DSUs. The director is not permitted to convert DSUs into cash until retirement from the Board. The value of the DSUs, when converted to cash, will be equivalent to the market value of the Class A Non-Voting Shares at the time the conversion takes place. The value of the outstanding DSUs as at January 1, 2005, was $3.8 million (2003 – $2.2 million).

Restricted Share Unit Plan The Company has granted restricted share units ("RSUs") to certain employees which entitle the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the restriction period, multiplied by an applicable multiplier if specific performance-based criteria are met. The restriction period is a maximum of three years less 30 days from the date of grant. Compensation expense related to the RSUs is accrued over the term of the RSU based on the expected total compensation to be paid out at the end of the restriction period, factoring in the impact of the probability of any performance-based criteria being met during the restriction period and the impact of the equity derivative contracts used to hedge the anticipated exposure relating to RSUs. As the end of the restriction period was October 3, 2003 and all RSUs were settled with cash payments, no compensation expense was recorded for the year ended January 1, 2005, in respect of this plan (2003 – $4.9 million).

Performance Share Unit Plan The Company has granted performance share units ("PSUs") to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. The performance period is a maximum of three years less 45 days from the date of grant. Compensation expense related to the PSUs is accrued over the term of the performance period based on the expected total compensation to be paid out at the end of the performance period, factoring in the probability of any performance-based criteria being met during that period. The compensation expense recorded for the year ended January 1, 2005 in respect of this plan was $14.4 million (2003 – $4.5 million).

Performance Conditioned Share Unit Plan The Company has granted performance conditioned share units ("PCSUs") to certain employees. Each PCSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the performance period, multiplied by applicable multipliers determined by specific performance-based criteria. Compensation expense related to PCSUs is accrued over the term of the performance period based on the expected total compensation to be paid out at the end of the performance period, factoring in the probability of any performance-based criteria being met during that period. Compensation expense for PCSUs for the year ended January 1, 2005 was $1.6 million (2003 – nil).

Stock options The Company has granted options to certain employees for the purchase of Class A Non-Voting Shares, with vesting occurring on a graduated basis over a four-year period. The exercise price of each option equals the weighted average closing price of Class A Non-Voting shares on the Toronto Stock Exchange for the 10-day period preceding the date of grant. Options are exercisable over a term of 10 years. The aggregate number of Class A Non-Voting Shares issuable under the stock option plan may not exceed 11.0 million Class A Non-Voting Shares.

The compensation expense recorded in the year ended January 1, 2005, in respect of stock options granted on or after December 29, 2002 was $0.8 million (2003 – $0.7 million). The counterpart is recorded as contributed surplus. Any consideration paid by employees on exercise of stock options is credited to share capital.

No stock options were granted in 2004. The weighted average grant-date fair value of options granted in 2003 was estimated at $6.99 per option using the Black-Scholes model for valuing options. The following weighted average assumptions were used: expected dividend yield of 1.47 percent per annum, risk-free interest rate of 4.5 percent per annum, expected stock price volatility of 27.4 percent and expected option life of 3.5 years.

The outstanding options as at January 1, 2005 were granted at prices between $14.87 and $41.47 and expire between August 2005 and November 2013.

Stock option transactions during 2004 and 2003 were as follows:

	2004		2003	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**4,032,126**	**$ 25.79**	4,323,504	$ 25.25
Granted	**–**	**–**	523,800	30.04
Exercised	**(1,213,062)**	**23.23**	(571,403)	23.71
Forfeited and expired	**(85,476)**	**24.84**	(243,775)	30.25
Outstanding at end of year	**2,733,588**	**$ 26.95**	4,032,126	$ 25.79
Stock options exercisable at end of year	**1,884,558**		2,274,809	

The following table summarizes information about stock options outstanding at January 1, 2005:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life[1]	Weighted average exercise price	Number exercisable at January 1, 2005	Weighted average exercise price
$ 29.77 to 41.47	**596,775**	**4.65**	**$ 36.95**	**541,175**	**$ 37.33**
26.81 to 29.63	**823,075**	**6.59**	**28.29**	**486,720**	**27.37**
22.90 to 26.48	**546,936**	**6.80**	**25.27**	**241,236**	**25.23**
14.87 to 21.03	**766,802**	**5.81**	**18.91**	**615,427**	**18.43**
$ 14.87 to 41.47	**2,733,588**	**5.99**	**$ 26.95**	**1,884,558**	**$ 27.04**

[1] Weighted average remaining contractual life is expressed in years.

Pro forma stock option disclosure Had the fair-value based method been used to expense stock options granted between December 30, 2001 and December 28, 2002, the Company's net earnings would have decreased to the pro forma amounts indicated below:

(Dollars in millions except per share amounts)	**2004**	2003
		(Restated – Note 1)
Net earnings:		
As reported	**$ 291.5**	$ 241.2
Pro forma	**290.1**	239.9
Basic earnings per share:		
As reported	**3.60**	2.99
Pro forma	**3.58**	2.98
Diluted earnings per share:		
As reported	**3.53**	2.95
Pro forma	**3.52**	2.94

11. INCOME TAXES

Income taxes in the Consolidated Statements of Earnings vary from amounts that would be computed by applying the statutory income tax rate for the following reasons:

(Dollars in millions)	**2004**	2003
		(Restated – Note 1)
Income taxes based on a combined Canadian federal and provincial income tax rate of 35.4% (2003 – 36.0%)	**$ 163.3**	$ 131.7
Adjustment to income taxes resulting from:		
Large corporations tax	**2.6**	3.4
Lower income tax rate on earnings of foreign subsidiaries	**(3.3)**	(16.6)
Other	**(0.1)**	(2.5)
Income tax expense	**$ 162.5**	$ 116.0

The following are the components of the income tax provision:

(Dollars in millions)	**2004**	2003
		(Restated – Note 1)
Current tax expense	**$ 150.8**	$ 108.8
Future income tax expense relating to the origination and reversal of temporary differences	**11.5**	4.4
Future income tax expense resulting from increase in tax rate	**0.2**	2.8
Income tax expense	**$ 162.5**	$ 116.0

The tax-effected temporary differences which result in future income tax assets and (liabilities) are as follows:

(Dollars in millions)	**2004**	2003
		(Restated – Note 1)
Reserves and deferred income	**$ 37.8**	$ 32.9
Employee future benefits	**13.4**	12.1
Property and equipment	**(51.8)**	(42.0)
Deferred items	**(38.8)**	(34.2)
Intangible assets	**(9.3)**	(9.4)
Other	**6.1**	9.7
Future income taxes	**$ (42.6)**	$ (30.9)

12. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Working capital components

(Dollars in millions)	**2004**	2003
		(Restated – Note 1)
Cash generated from (used for):		
Accounts receivable	**$ (185.6)**	$ (15.4)
Merchandise inventories	**(154.3)**	22.0
Prepaid expenses and deposits	**3.8**	(8.8)
Accounts payable and other	**175.8**	(19.4)
Income taxes payable	**(53.1)**	17.2
Other	**(3.9)**	(10.0)
Change in other working capital components	**$ (217.3)**	$ (14.4)

Cash and cash equivalents

The components of cash and cash equivalents are:

(Dollars in millions)	**2004**	2003
Cash	**$ (34.3)**	$ (13.7)
Short-term investments	**836.5**	740.3
Cash and cash equivalents	**$ 802.2**	$ 726.6

Supplementary information For the year ended January 1, 2005, the Company paid income taxes amounting to $200.0 million (2003 – $84.0 million) and interest payments of $78.3 million (2003 – $82.9 million).

Sale of Associate Dealer receivables In December 2004, the Company sold certain Associate Dealer receivables to independent investors. According to the terms of the sale, the Company retained full servicing responsibilities for which it received no compensation. For the year ended January 1, 2005, the Company has recognized a loss of $2.1 million (2003 – $0.7 million) on the sale of the Associate Dealer receivables, which assumes no expected credit losses and a servicing liability of 1.0 percent. Quantitative information about accounts receivable managed by the Company is as follows:

	Total principal amount of receivables	
(Dollars in millions)	**2004**	2003
		(Restated – Note 1)
Associate Dealer receivables	**$ 543.3**	$ 462.3
Associate Dealer receivables sold	**(323.2)**	(98.7)
Other accounts receivable	**150.6**	144.7
Receivables held	**$ 370.7**	$ 508.3

13. OPERATING LEASES

The Company is committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) for equipment and properties under leases with termination dates extending to 2043. Under sublease arrangements with Associate Dealers, the majority of the properties are income-producing. The minimum annual rental payments for equipment and property are as follows:

(Dollars in millions)

2005	$ 140.7
2006	126.1
2007	111.4
2008	102.3
2009	92.7
2010–2043	548.3
	$ 1,121.5

14. GUARANTEES, COMMITMENTS AND CONTINGENCIES

Guarantees In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay its indebtedness when due.

The Company has provided the following significant guarantees to third parties:

Standby letters of credit and performance guarantees The Company has arranged for several major Canadian banks to provide standby letters of credit (the "LCs") to an independent trust (the "Trust"), which provides loans to Associate Dealers for their purchase of inventory and fixed assets (the "Loans"). During the year, the Trust sold all of its rights in the LCs and Loans to other independent trusts set up by major Canadian banks (the "Co-owner Trusts") that raise funds in capital markets to finance their purchase of these undivided co-ownership interests. As a result, the Trust's only remaining role is that of originator and servicer of the Loans. Total Loans as at January 1, 2005 were $793.6 million (2003 – $893.5 million). In the event that an Associate Dealer defaults on a Loan, the Company has the right to purchase such Loan from the Co-owner Trusts, at which time the Co-owner Trusts will assign such Associate Dealer's debt instrument and related security documentation to the Company. The assignment of this documentation provides the Company with first priority security rights over all of such Associate Dealer's assets, subject to certain prior ranking statutory claims. In most cases, the Company would expect to recover any payments made to purchase a defaulted Loan, including any associated expenses. In the event the Company does not elect to purchase an Associate Dealer's defaulted Loan, the Co-owner Trusts may draw against the LCs.

14. Guarantees, Commitments and Contingencies (continued)

The Co-owner Trusts may also draw against the LCs to cover any shortfalls in certain related fees owing to them. In both cases, the Company has agreed to reimburse the banks issuing the LCs for the amount so drawn. In the unlikely event that all the LCs were fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $133.5 million at January 1, 2005 (2003 – $270.9 million). The Company has not recorded any liability for these amounts, due in part to the credit quality of the Loans and to the nature of the underlying collateral, represented by the fixed assets and inventory of the borrowing Associate Dealers.

Business and property dispositions In connection with agreements for the sale of all or a part of a business and in addition to indemnifications relating to failure to perform covenants and breach of representations and warranties, the Company has agreed to indemnify the purchasers against claims from its past conduct of the business, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the agreement. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification agreements.

Lease agreements The Company has entered into agreements with certain of its lessors that guarantee the lease payments of certain sub-lessees of its facilities to lessors. Generally, these lease agreements relate to facilities the Company has vacated prior to the end of the term of its lease. These lease agreements require the Company to make lease payments throughout the lease term if the sub-lessee fails to make the scheduled payments. These lease agreements have expiration dates through November 2013. The maximum amount that the Company may be required to pay under these types of agreements is $11.6 million (2003 – $5.4 million), except for one lease agreement for which the maximum amount cannot be reasonably estimated as it is based on a percentage of the lessee's gross revenue. In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the Consolidated Financial Statements with respect to these lease agreements.

Third party debt agreements The Company has guaranteed the debt of certain PartSource franchisees and Associate Dealers. These third party debt agreements require the Company to make payments if the franchisee or Associate Dealer fails to make scheduled debt payments. The majority of these third party debt agreements have expiration dates extending to March 20, 2005. The maximum amount that the Company may be required to pay under these types of debt agreements is $4.9 million (2003 – $5.4 million). No amount has been accrued in the Consolidated Financial Statements with respect to these debt agreements.

Indemnification of lenders and agents under credit facilities In the ordinary course of business, the Company has agreed to indemnify its lenders under various credit facilities against costs or losses resulting from changes in laws and regulations which would increase the lenders' costs and from any legal action brought against the lenders related to the use of the loan proceeds. These indemnifications generally extend for the term of the credit facilities and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification agreements.

Other indemnification commitments In the ordinary course of business, the Company provides indemnification commitments to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above) and the arrangement with the Trust and Co-owner Trusts discussed above. These indemnification agreements require the Company to compensate the counterparties for certain amounts and costs incurred, including costs resulting from changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification commitments.

Other commitments and contingencies As at January 1, 2005, the Company had the following other commitments and contingencies. In accordance with Canadian generally accepted accounting principles, the Company has not recognized a liability relating to these commitments and contingencies except for a provision for legal proceedings:

The Company has obtained documentary and standby letters of credit aggregating $33.2 million (2003 – $32.1 million) relating to the importation of merchandise inventories and to facilitate various real estate activities for the Company's merchandise operations.

The Company had commitments of approximately $37.9 million (2003 – $46.9 million) for the acquisition of property and equipment and the expansion of retail store facilities during 2005.

The Company has committed to pay a minimum of $47.0 million (2003 – $40.1 million) in total to third parties for credit card processing services (to 2009) and information technology services (to 2005).

The Company has agreements in place whereby, at the option of the franchisee, the Company would be obligated to buy back eight Mark's franchise stores at an estimated total amount of $3.8 million (2003 – $3.8 million).

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

15. FINANCIAL INSTRUMENTS

The purpose of this Note is to disclose the Company's exposure related to financial instruments.

The Company enters into interest rate swap contracts with approved creditworthy counterparties to manage the Company's current and anticipated exposure to interest rate risks. The Company also enters into foreign exchange contracts, primarily in U.S. dollars, to hedge future purchases of foreign currency denominated goods and services with an emphasis on those purchases that are expected to be completed within a six-month period. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the Consolidated Balance Sheets. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. The Company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities.

During the year, the Company entered into an equity derivative contract to hedge a portion of the PCSUs (Note 10). The premium paid of $6.9 million will be amortized over the term of the contract. As at January 1, 2005 the unamortized portion of the premium was $5.6 million and is included in "Long-term receivables and other assets." The contract terminates on March 9, 2007, at which time the Company will be entitled to receive an amount based on the share price of the Class A Non-Voting Shares of the Company. Since the contract is considered a hedge for accounting purposes, as at January 1, 2005, a derivative asset in the amount of $1.2 million is included in "Long-term receivables and other assets." This asset offsets the accrued compensation liability that is being recorded for PCSUs.

As at January 1, 2005, outstanding off-balance sheet financial instruments of the Company are summarized as follows:

	Notional amounts maturing					
(Dollars in millions)	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years	**2004 Total**	2003 Total
Interest rate swap contracts	$ 50.0	$ 175.0	$ 150.0	$ 100.0	**$ 475.0**	$ 325.0
Foreign exchange contracts[1]	1,358.3	–	–	–	**1,358.3**	1,088.1

[1] May include both forward contracts and options.

For the year ended January 1, 2005, interest expense included a net receipt of approximately $8.1 million (2003 – $0.8 million) relating to interest rate swaps. Any unsettled interest differentials outstanding at year end were accrued for and included in "Accounts payable and other."

The estimated fair values of financial instruments as at January 1, 2005 and January 3, 2004 are based on relevant market prices and information available at that time. The fair-value estimates below are not necessarily indicative of the amounts that the Company might receive or pay in actual market transactions. For financial instruments which are short-term in nature, carrying value approximates fair value. The fair values of other financial instruments are as follows:

	2004		2003	
(Dollars in millions)	**Book value**	**Fair value**	Book value	Fair value
Financial assets and liabilities				
Loans and mortgages receivable and long-term portion of personal loans	**$ 65.6**	**$ 59.1**	$ 19.9	$ 20.2
Equity derivative contract	**6.8**	**8.4**	–	–
Long-term debt (excluding current portion)	**(1,081.8)**	**(1,163.4)**	(886.2)	(964.6)
Off-balance sheet financial instruments				
Interest rate swap contracts	**$ –**	**$ 1.1**	$ –	$ 7.7
Foreign exchange contracts[1]	**–**	**(60.3)**	–	(33.4)

[1] The average effective rate at January 1, 2005 was $1.2856 (2003 – $1.3704).

The fair values of loans and mortgages receivable, long-term portion of personal loans, long-term debt (excluding current portion) and interest rate swap contracts were estimated based on quoted market prices (when available) or discounted cash flows, using discount rates based on prevailing market interest rates and the Company's credit rating. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates, and reflect the time value of money. The equity derivative contract was valued by the counterparty based on year-end market interest rates, implied Company volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange. For interest rate swap, foreign exchange and equity derivative contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to unwind the contracts at the reporting date.

Interest rate risk The following table identifies the Company's financial assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive as they are either non-interest bearing or bear interest at fixed rates.

15. Financial Instruments (continued)

(Dollars in millions)	2004 Interest sensitive	2004 Non-interest sensitive	2003 Interest sensitive	2003 Non-interest sensitive
Cash and cash equivalents	**$ 802.2**	**$ –**	$ 726.6	$ –
Credit card receivables and current portion of personal loans	**–**	**592.4**	–	562.8
Loans, mortgages receivable and long-term portion of personal loans	**–**	**65.6**	–	19.9
Long-term debt (including current portion)	**–**	**(1,087.4)**	–	(1,130.7)
	$ 802.2	**$ (429.4)**	$ 726.6	$ (548.0)

The Company enters into interest rate swap contracts to manage its exposure to interest rate risk. As at January 1, 2005, the Company had entered into contracts that exchanged a net notional amount of $275.0 million from fixed to floating rate debt (2003 – $125.0 million exchanged from fixed to floating). These contracts hedge the Company's net balance sheet interest rate sensitivity position. A one percent change in interest rates would not materially affect the Company's earnings, cash flow or financial position.

Credit risk The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Associate Dealers who individually comprise less than one percent of the total balance outstanding and are spread across Canada. Similarly, credit card receivables and personal loans are generated by credit card customers, a large and geographically dispersed group. Current credit exposure is limited to the loss that would be incurred if all of the Company's counterparties were to default at the same time.

The credit exposure with respect to hedges and similar financial instruments is the current replacement value of only those contracts which are in a gain position. As at January 1, 2005, the credit exposure due to interest rate swap and foreign exchange contracts was $11.0 million (2003 – $12.3 million). The Company believes that its exposure to credit and market risks for these instruments is negligible.

16. SEGMENTED INFORMATION

The Company's reportable operating segments are strategic business units that offer different products and services. The Company has four reportable operating segments: Canadian Tire Retail ("CTR"), Canadian Tire Financial Services ("Financial Services"), Canadian Tire Petroleum ("Petroleum") and Mark's Work Wearhouse ("Mark's"). CTR derives its revenue primarily from shipments of merchandise to Associate Dealers and PartSource franchisees. Financial Services is primarily engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards and also derives revenue from ancillary products such as extended warranty contracts. Petroleum revenue arises primarily from the sale of petroleum products through its agents. Mark's revenue arises from the sale of merchandise to customers from its corporate-owned stores.

The accounting policies of the segments are the same as those described in the significant accounting policies in Note 1. The Company evaluates each segment's performance based on earnings before income taxes and minority interest. The only significant non-cash item included in segment earnings before income taxes and minority interest is depreciation and amortization.

	CTR		Financial Services		Petroleum		Mark's		Eliminations		Total	
(Dollars in millions)	**2004**	2003[1]	**2004**	2003	**2004**	2003[1]	**2004**	2003	**2004**	2003	**2004**	2003[1]
Gross operating revenue[2]	**$ 4,899.0**	$ 4,641.8	**$ 611.3**	$ 489.5	**$ 1,105.9**	$ 963.5	**$ 546.1**	$ 458.0	**$ (8.7)**	$ –	**$ 7,153.6**	$ 6,552.8
Earnings before income taxes and minority interest	**271.9**	202.6	**148.5**	116.2	**3.4**	22.1	**37.1**	25.0	**–**	–	**460.9**	365.9
Income taxes											**(162.5)**	(116.0)
Minority interest											**(6.9)**	(8.7)
Net earnings											**$ 291.5**	$ 241.2
Interest revenue[3]	**$ 18.5**	$ 25.9	**$ 10.2**	$ 7.5	**$ –**	$ –	**$ –**	$ –	**$ (20.5)**	$ (18.9)	**$ 8.2**	$ 14.5
Interest expense[3]	**86.7**	90.5	**9.4**	10.4	**–**	–	**2.8**	3.0	**(20.5)**	(18.9)	**78.4**	85.0
Depreciation and amortization	**129.6**	116.5	**14.1**	13.7	**13.0**	10.9	**13.9**	13.0	**–**	–	**170.6**	154.1
Total assets	**3,960.7**	3,755.1	**1,178.0**	989.4	**509.8**	459.0	**332.5**	285.2	**(762.4)**	(595.6)	**5,218.6**	4,893.1
Capital expenditures	**289.0**	207.5	**7.2**	8.1	**26.6**	38.8	**17.9**	24.5	**–**	–	**340.7**	278.9

1 Restated (see Note 1).
2 Gross operating revenue includes dividend and interest income.
3 Interest revenue and expense are not allocated to Petroleum for performance evaluation purposes.

17. MINORITY INTEREST

In November 2001, the Company formed a limited partnership for the purpose of raising $300 million of capital in relation to a portfolio of its retail properties. The Company is the general partner in this partnership. A third party investor group invested $300 million in the partnership for a limited partnership interest with preferential rights to distribution of income and capital. The preferred interest is entitled to a cumulative, quarterly preferred distribution on its capital account of 3.6 percent for the year ended January 1, 2005 (2003 – 4.2 percent) and the partnership intends to follow a full distribution policy. The partnership invested in the retail properties by way of a note and equity in an entity that holds the properties. The partnership has an indefinite life, but could be liquidated in certain circumstances including shortfalls in cash flows generated by the retail properties. The assets and liabilities, results of operations and cash flows of the partnership are included in the Consolidated Financial Statements of the Company. The preferred interest is treated as minority interest on the Consolidated Balance Sheets and is presented net of income taxes in the Consolidated Statements of Earnings. The Company did not recognize a gain or loss on the formation of the partnership.

18. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

Supplementary Information: Interest Coverage

The Company's long-term interest requirements for the 52 weeks ended January 1, 2005, after annualizing interest on long-term debt issued and retired during this period, amounted to $68.6 million. The Company's earnings before interest on long-term debt, income taxes and minority interest for the 52 weeks then ended were $534.2 million, which is 7.8 times the Company's long-term interest requirements for this period.

2004 Quarterly Information[1]

(Dollars in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (January 4, 2004 to April 3, 2004)	Second Quarter (April 4, 2004 to July 3, 2004)	Third Quarter (July 4, 2004 to October 2, 2004)	Fourth Quarter (October 3, 2004 to January 1, 2005)	Total
Canadian Tire Retail					
Gross operating revenue	$ 952.3	$ 1,367.0	$ 1,170.3	$ 1,409.4	$ 4,899.0
Earnings before income taxes and minority interest	41.2	81.5	71.2	78.0	271.9
Canadian Tire Petroleum					
Gross operating revenue	243.9	288.3	284.5	289.2	1,105.9
Earnings before income taxes	0.1	0.8	–	2.5	3.4
Mark's Work Wearhouse					
Gross operating revenue	89.6	119.8	108.9	227.8	546.1
Earnings before income taxes	(1.0)	5.5	1.7	30.9	37.1
Canadian Tire Financial Services					
Gross operating revenue	131.3	154.3	154.1	171.6	611.3
Earnings before income taxes	25.8	39.5	36.7	46.5	148.5
Total					
Gross operating revenue	$ 1,414.9	$ 1,927.3	$ 1,715.5	$ 2,095.9	$ 7,153.6
Cost of merchandise sold and all expenses except for the undernoted items	1,284.0	1,729.6	1,537.0	1,866.3	6,416.9
Interest					
Long-term debt	19.9	19.1	18.8	18.2	76.0
Short-term debt	0.3	0.1	0.2	1.8	2.4
Depreciation and amortization	41.2	42.9	42.9	43.6	170.6
Employee profit sharing plan	3.4	8.3	7.0	8.1	26.8
Earnings before income taxes and minority interest	66.1	127.3	109.6	157.9	460.9
Income taxes	23.3	44.9	38.6	55.7	162.5
Minority interest	1.9	1.6	1.6	1.8	6.9
Net earnings	40.9	80.8	69.4	100.4	291.5
Basic earnings per share[2]	0.51	1.00	0.86	1.24	3.60
Canadian Tire Retail					
Retail sales growth	5.0%	5.1%	3.9%	3.7%	4.4%
Comparable store sales growth	3.1%	2.2%	1.2%	1.1%	1.8%
Net shipments growth	10.0%	1.2%	5.3%	7.4%	5.6%
Number of new-format stores	312	319	321	327	
Number of traditional stores	141	136	134	130	
Cumulative number of Canadian Tire stores	453	455	455	457	
Number of PartSource stores	39	40	45	47	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	354.3	377.1	376.3	389.0	1,496.7
Number of gas bars	243	247	248	253	
Number of car washes	52	54	54	58	
Number of convenience stores	233	237	237	241	
Mark's Work Wearhouse					
Retail sales growth	11.3%	19.4%	26.5%	15.7%	17.8%
Comparable store sales growth	7.0%	14.7%	22.8%	11.3%	13.4%
Number of Mark's Work Wearhouse stores	322	320	325	333	
Class A Non-Voting Shares					
High	$ 47.57	$ 49.00	$ 50.35	$ 57.40	$ 57.40
Low	39.00	42.37	43.66	49.36	39.00
Close	44.85	48.10	50.35	56.21	56.21
Volume (thousands of shares)	13,177	12,602	10,925	10,936	47,640
Common Shares					
High	$ 61.00	$ 61.00	$ 59.20	$ 75.50	$ 75.50
Low	43.75	55.75	53.05	56.75	43.75
Close	58.00	58.50	59.20	71.50	71.50
Volume (thousands of shares)	78	35	29	66	208

1 Certain figures have been restated as required due to the implementation in 2004 of the Canadian Institute of Chartered Accountants standard EIC-144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor."

2 Quarterly basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the quarter, while annual basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the full year.

2003 Quarterly Information[1]

(Dollars in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (December 29, 2002 to March 29, 2003)	Second Quarter (March 30, 2003 to June 28, 2003)	Third Quarter (June 29, 2003 to September 27, 2003)	Fourth Quarter (September 28, 2003 to January 3, 2004)	Total
Canadian Tire Retail					
Gross operating revenue	$ 865.0	$ 1,347.3	$ 1,111.6	$ 1,317.9	$ 4,641.8
Earnings before income taxes and minority interest	25.9	67.8	58.5	50.4	202.6
Canadian Tire Petroleum					
Gross operating revenue	243.7	226.4	243.6	249.8	963.5
Earnings before income taxes	4.1	5.2	5.3	7.5	22.1
Mark's Work Wearhouse					
Gross operating revenue	77.5	99.4	85.9	195.2	458.0
Earnings before income taxes	(2.1)	2.8	(2.7)	27.0	25.0
Canadian Tire Financial Services					
Gross operating revenue	112.5	112.0	120.6	144.4	489.5
Earnings before income taxes	24.3	21.7	26.6	43.6	116.2
Total					
Gross operating revenue	$ 1,298.7	$ 1,785.1	$ 1,561.7	$ 1,907.3	$ 6,552.8
Cost of merchandise sold and all expenses except for the undernoted items	1,185.0	1,623.0	1,410.5	1,705.6	5,924.1
Interest					
Long-term debt	20.5	19.6	19.2	23.1	82.4
Short-term debt	0.9	–	–	1.7	2.6
Depreciation and amortization	36.7	38.4	38.5	40.5	154.1
Employee profit sharing plan	3.4	6.6	5.8	7.9	23.7
Earnings before income taxes and minority interest	52.2	97.5	87.7	128.5	365.9
Income taxes	17.2	32.2	26.2	40.4	116.0
Minority interest	2.0	2.3	2.3	2.1	8.7
Net earnings	33.0	63.0	59.2	86.0	241.2
Basic earnings per share	0.41	0.79	0.73	1.06	2.99
Canadian Tire Retail					
Retail sales growth	5.8%	5.4%	3.7%	12.2%	7.0%
Comparable store sales growth	4.3%	3.9%	1.9%	9.4%	4.7%
Net shipments growth	(2.3)%	10.7%	5.0%	11.9%	7.0%
Number of new-format stores	293	296	299	309	
Number of traditional stores	156	154	151	143	
Cumulative number of Canadian Tire stores	449	450	450	452	
Number of PartSource stores	33	33	38	39	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	341.6	355.0	360.9	395.6	1,453.1
Number of gas bars	216	220	221	232	
Number of car washes	37	41	43	47	
Number of convenience stores	208	211	213	222	
Mark's Work Wearhouse					
Retail sales growth	5.4%	1.6%	3.4%	16.8%	8.6%
Comparable store sales growth	6.9%	0.5%	2.1%	12.0%	6.6%
Number of Mark's Work Wearhouse stores	300	308	315	322	
Class A Non-Voting Shares					
High	$ 33.65	$ 37.29	$ 36.49	$ 42.60	$ 42.60
Low	27.85	28.70	32.00	35.30	27.85
Close	29.90	32.20	36.09	39.65	39.65
Volume (thousands of shares)	13,549	11,757	10,937	15,691	51,934
Common Shares					
High	$ 40.50	$ 41.00	$ 41.50	$ 47.40	$ 47.40
Low	35.00	35.75	37.75	39.50	35.00
Close	35.60	38.38	41.50	46.90	46.90
Volume (thousands of shares)	16	19	20	36	91

[1] Certain figures have been restated as required due to the implementation in 2004 of the Canadian Institute of Chartered Accountants standards EIC-144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" and Section 3110, "Asset Retirement Obligations."

Ten-Year Financial Review[1]

(Dollars in millions except per share amounts)	2004	2003[2]	2002
Consolidated Statements of Earnings			
Gross operating revenue	**$ 7,153.6**	$ 6,552.8	$ 5,944.5
Earnings before interest, income taxes, depreciation & amortization and minority interest	**709.9**	605.0	553.0
Earnings before income taxes and minority interest	**460.9**	365.9	311.3
Income taxes	**162.5**	116.0	103.0
Net earnings before minority interest	**298.4**	249.9	208.3
Minority interest	**6.9**	8.7	7.4
Net earnings	**291.5**	241.2	200.9
Cash generated from operations	**628.3**	534.5	460.1
Cash generated from operating activities	**411.0**	520.1	442.0
Earnings retained and reinvested	**251.0**	208.7	169.3
Capital expenditures	**340.7**	278.9	249.8
Consolidated Balance Sheets			
Current assets	**$ 2,410.0**	$ 2,291.5	$ 2,303.1
Long-term receivables and other assets[3]	**223.4**	156.7	211.5
Property and equipment	**2,585.2**	2,444.9	2,351.1
Total assets	**5,218.6**	4,893.1	4,865.7
Current liabilities	**1,487.4**	1,612.0	1,577.0
Long-term debt (excludes current portion)	**1,081.8**	886.2	1,125.2
Other long-term liabilities	**55.6**	46.9	43.7
Future income taxes	**42.6**	30.9	23.7
Minority interest	**300.0**	300.0	300.0
Shareholders' equity	**2,251.2**	2,017.1	1,796.1
Consolidated per share			
Basic earnings per share	**$ 3.60**	$ 2.99	$ 2.54
Diluted earnings per share[4]	**3.53**	2.95	2.51
Cash generated from operations	**7.76**	6.63	5.82
Cash generated from operating activities	**5.08**	6.45	5.59
Dividends declared	**0.50**	0.40	0.40
Shareholders' equity	**27.75**	24.98	22.49
Statistics at Year End			
Number of Canadian Tire stores	**457**	452	451
Number of PartSource stores	**47**	39	33
Number of gas bars	**253**	232	212
Number of car washes	**58**	47	33
Number of Mark's Work Wearhouse stores[5]	**333**	322	306

1 Certain figures for 1995 to 2003 have been restated as required due to the implementation in 2004 of the Canadian Institute of Chartered Accountants standards EIC-144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" and Section 3110, "Asset Retirement Obligations."
2 53-week period.
3 Includes goodwill and intangible assets.
4 Data required to calculate diluted earnings per share prior to 1998 is not available.
5 Mark's Work Wearhouse was acquired on February 1, 2002.

2001	2000	1999	1998	1997[2]	1996	1995
$ 5,374.7	$ 5,207.6	$ 4,728.3	$ 4,347.3	$ 4,087.8	$ 3,930.4	$ 3,795.6
496.6	457.8	447.3	410.2	350.6	323.7	320.5
272.1	236.0	222.2	248.8	207.0	192.1	184.3
98.0	90.9	79.4	82.4	60.2	62.8	66.0
174.1	145.1	142.8	166.4	146.8	129.3	118.3
0.6	–	–	–	–	–	–
173.5	145.1	142.8	166.4	146.8	129.3	118.3
362.4	350.0	323.6	315.6	306.8	271.7	250.5
189.4	504.1	326.1	364.9	274.8	303.6	124.8
142.0	113.8	112.0	135.1	113.5	94.4	83.1
358.4	382.3	377.7	303.2	253.5	220.7	195.1
$ 1,985.0	$ 1,519.6	$ 1,896.1	$ 1,504.9	$ 1,433.8	$ 1,334.5	$ 1,554.7
134.4	122.9	105.4	36.0	33.3	34.1	30.0
2,245.0	2,098.4	1,865.5	1,619.7	1,404.6	1,231.4	1,087.3
4,364.4	3,740.9	3,867.0	3,160.6	2,871.7	2,600.0	2,672.0
1,106.5	1,119.6	1,434.0	1,042.0	1,155.6	848.4	893.9
1,310.0	1,115.0	1,050.3	815.0	380.4	420.4	509.2
38.6	34.2	15.9	6.3	5.9	5.7	5.4
15.0	18.9	25.4	36.0	30.8	24.0	19.4
300.0	–	–	–	–	–	–
1,594.3	1,453.2	1,341.4	1,261.3	1,299.0	1,301.5	1,244.1
$ 2.21	$ 1.85	$ 1.85	$ 2.09	$ 1.77	$ 1.49	$ 1.34
2.19	1.85	1.82	2.04	–	–	–
4.61	4.47	4.19	3.96	3.69	3.12	2.84
2.41	6.43	4.22	4.57	3.31	3.49	1.42
0.40	0.40	0.40	0.40	0.40	0.40	0.40
20.29	18.50	17.17	16.19	15.80	15.06	14.05
450	441	432	430	430	426	424
30	28	8	5	–	–	–
203	206	202	195	193	197	199
20	16	10	8	3	–	–
–	–	–	–	–	–	–

Glossary of Terms

Bank card
A credit card offered by, or with, Visa or MasterCard.

Bankers' acceptance
A short-term credit investment created by a non-financial firm and guaranteed by a bank as to payment.

Black-Scholes model
A complex formula that computes the value of an option by using normal probability distribution to consider the entire range of possible future stock prices throughout the term of the option.

Capital-light
A project that requires a relatively low investment of capital.

Comparable store sales – Canadian Tire Retail
Sales growth of stores open for a minimum of 53 weeks that have not undergone a significant change during that period. A significant change is defined as an expansion of retail square footage of more than 25 percent.

Comparable store sales – Mark's Work Wearhouse
Sales growth of stores open for a minimum of 24 months, including stores that have been renovated, relocated or converted. Stores that closed within the last 24 months are excluded from the calculation.

Counterpart
In the context of stock-based compensation plans, an offsetting entry to stock option expense.

Credit card receivables
The aggregate amount billed to Canadian Tire credit card customers under credit card agreements.

Credit risk
The potential for loss due to the failure of a borrower to meet their financial obligation.

Current ratio
Current assets divided by current liabilities.

Debentures
Long-term corporate debt that is not secured by the pledge of specific assets.

Debt covenants
Restrictions on the activities of a debtor written into bank loan agreements or bond indenture agreements that prohibit the debtor from taking actions that might hurt the interests of the lenders or bondholders.

Debt discount
The amount by which the price for a security is less than its par or face value. The discount or difference between such a reduced value purchase price and the redemption (par) value comprises all or part of the investor's compensation for owning the security.

Derivative
A financial instrument whose value depends upon the values of underlying assets, interest rates, currency exchange rates, or indices.

Derivative equity contract
A financial instrument used to hedge the anticipated exposure relating to certain stock-based compensation plans.

Diluted earnings per share
The amount of earnings for the period available to each share outstanding during the period and to each share that would have been outstanding, assuming the issuance of shares for all dilutive potential shares outstanding during the period.

Discount rate
An interest rate applied to a single cash flow that will not be paid or received until a future date in order to calculate the present value of that future cash flow.

Documentary letter of credit
A financial instrument issued by a bank on behalf of a customer whereby the issuing bank has guaranteed payment of a financial obligation to a third party upon presentation of specified documents. The customer in turn reimburses the bank.

Fair value
The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair-value based method
A method of accounting for stock options whereby compensation expense is recorded for the fair value of the stock options issued.

Foreign exchange contract
An agreement between parties to exchange stipulated amounts of one currency for another currency at one or more future dates.

Hedge
A risk management technique used to manage interest rate, foreign currency exchange or other exposures arising from regular business transactions.

Interest coverage
Earnings before interest and income taxes divided by interest expense.

Interest-only strip
Represents the present value of the Company's share of the spread to be earned over the collection period on the credit card receivables sold.

Interest rate risk
The potential impact on the Company's earnings and economic value due to changes in interest rates.

Interest rate swap
A contractual agreement between two parties to exchange fixed and floating rate interest payments based on a notional value in a single currency.

Intrinsic value
The amount by which the market price of the underlying stock exceeds the exercise price of an option.

Inventory turnover
Cost of goods sold divided by average inventory for the main CTR distribution centres.

Liquidation rate
The rate at which receivables held by the lender are paid down by the debtor.

Long-term debt to total capitalization
Long-term debt divided by the sum of short-term debt, long-term debt, future income taxes, other long-term liabilities, minority interest and shareholders' equity.

Marked to market
The valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Medium term notes
Debt instruments with maturities ranging from nine months to 30 years that are offered on a continuous basis, which means that they are issued and sold as buyers request them rather than on a single issue date.

Minority interest
A reference to shareholders – individuals, corporations or partnerships – that own less than 50 percent of a subsidiary's outstanding voting common stock. The minority shareholders hold an interest in the subsidiary's net assets and share earnings with the majority shareholder.

Net provision for credit card receivables
A calculation as writeoffs, less recoveries, plus the change in allowance for future losses.

New-format store
A Canadian Tire store that has opened since 1993 in one of the Company's new-store formats, including Concept 20/20, and incorporating, among other features, a larger, more convenient layout and expanded merchandising offering.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts.

Off-balance sheet financial instrument
An asset or liability that is not recorded on the balance sheet, but has the potential to produce positive or negative cash flows in the future.

Personal loans
Personal (term) loans were introduced in 2004, through an initial test offering to qualified Options MasterCard customers.

Projected benefit method
An actuarial valuation method whereby a distinct unit of future benefit is attributed to each year of credited service with equal portions of the total estimated future benefit attributed to each year of service in the attribution period. The actuarial present value of that unit of benefit is computed separately for the period during which it is presumed to have accrued.

Re-branding
In the context of Canadian Tire Petroleum's strategy, re-branding is the conversion of a competitor's gas bar and kiosk (in most cases) to the Canadian Tire brand. Generally, Petroleum incurs relatively low costs to convert the site. In exchange for the conversion, the re-branding partner participates in the profits of the converted site or is paid a fixed rent depending upon the agreement.

Retail method
An inventory valuation method used primarily by retailers under which the inventory is carried at the lower of the estimated cost and anticipated selling price, less an expected average gross margin.

Retained interest
A beneficial interest in the assets transferred over which a seller has not relinquished control, including servicing assets, residual interest, cash reserve accounts and securities backed by the transferred assets.

Return on equity
Net earnings divided by average shareholders' equity.

Return on invested capital
After-tax earnings before interest, income taxes and minority interest divided by average invested capital. Invested capital is the sum of current assets, current portion of long-term debt, property and equipment, goodwill, intangible assets, long-term receivables and certain other assets less current liabilities.

Securitization
Securitization is a term that refers to the process by which financial assets are sold to a third party. At Financial Services, credit card receivables are routinely financed by selling a co-ownership interest in a portfolio of credit card receivables to Glacier Credit Card Trust. We record these transactions as a sale, and as a result, these assets are not included on our Consolidated Balance Sheets.

Self-sustaining foreign operation
A foreign operation which is financially and operationally independent of the reporting enterprise such that the exposure to exchange rate changes is limited to the reporting enterprise's net investment in the foreign operation.

Servicing
The collection of principal and interest from borrowers, accounting for the cash flows due and the cash flows received, and remitting the cash flows to the entitled recipients.

Servicing liability
A contract to service receivables under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are not expected to adequately compensate the company that is servicing the receivables.

Standby letter of credit
A financial instrument issued by a bank on behalf of a customer whereby the issuing bank has guaranteed payment of a financial obligation to a third party should the customer fail to meet its obligation to the third party.

Superbranding
A Mark's Work Wearhouse initiative to expand the distribution and strength of the brand and to elevate the banner to a Superbrand status, available, relevant and popular with ever more Canadians.

Total managed portfolio
The total value, before allowances, of credit card receivables and personal (term) loans. A significant portion of the credit card receivables that are managed have been securitized.

Traditional store
A Canadian Tire store that has not been replaced by a new-format store or expanded to incorporate new-format store features.

Treasury stock method
A method of recognizing the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period.

Undivided co-ownership interest
A partial legal or beneficial ownership of account assets.

Weighted average number of shares
The number of shares determined by relating the portion of time within the reporting period the shares have been outstanding to the total time in that period.

Responding to our stakeholders' needs

Canadian Tire has been recognized in Canadian retailing for leadership on environment, health and safety issues. We believe our ability to support the objective of our Strategic Plan depends in part on our ability to manage our environmental responsibilities and to respond to the health and safety needs and well-being of our employees and customers.

To ensure that we continue to grow as a responsible corporate citizen, in 2004, we retained a well-respected environmental consulting firm to undertake a comprehensive audit of our environment, health and safety compliance and management system. Based on the results of the audit, we reviewed and updated our environment, health and safety organizational structure to meet the needs of our current business model.

Health, Safety and Wellness

Our workplace health and safety programs continue to deliver outstanding results as we strive to eliminate accidents and lost time injuries. Once again in 2004, we had fewer lost time injuries than the industry average, according to data provided by the Ontario Workers' Safety Insurance Board (WSIB). Canadian Tire also expanded its employee EnTire Health Wellness Program, including:

- the introduction of a new Healthy Steps walking program;
- launch of a home office wellness program;
- a health and safety expo attended by over 700 employees; and,
- a smoking cessation laser treatment program.

For our customers, we improved the availability of product safety information for the chemical products we sell by launching, web-based access to Material Safety Data Sheets, MSDS Online, to replace our MSDS Faxback Service. In the first six months of operation, more than 5,800 Material Safety Data Sheets were accessed online through MSDS Online.

Environment

At Canadian Tire, we use various techniques to reduce the environmental impact of our operations. For example, through the diligent reuse of shipping pallets, we diverted 82 percent of the waste generated at our Brampton distribution centres from landfill. We collected over 22 million pounds of scrap lead acid batteries from our customers for recycling by our battery vendor. We also replaced or upgraded 21 storage tanks, located on our store properties, that are used to store bulk and used oil related to our automotive service centres. In addition, we completed environmental site assessments for all stores that changed ownership. Our Petroleum division continued to manage gasoline inventory loss at half the industry average.

Canadian Tire has embarked on a number of initiatives to conserve energy. We began major upgrades to our electrical and ventilation systems at our distribution centres in 2004, which we believe will significantly reduce electricity and gas consumption. We also began to educate our employees on how they can reduce energy consumption, through the Let's Get Started on Energy Conservation program. As well, we established an Energy Conservation Committee to build awareness of the need to conserve energy and to address energy conservation opportunities across the enterprise.

Finally, we continued to contribute to environmental well-being by supporting various projects in communities across Canada through our annual Canadian Tire Community Environmental Awards. These projects, which are nominated by employees, included a wide range of environmental improvement activities, such as:

- a river restoration in British Columbia;
- a community creek clean-up in Ontario;
- a public education program on sustainable hiking in Nova Scotia; and,
- the organization of a bird interpretation walk along a river in Quebec.

Directors and Officers

Directors

Gilbert S. Bennett
Chairman of the Board of the Company,
Consultant and Corporate Director

Martha G. Billes[3,4]
President, Albikin Management Inc.,
an investment holding company

Owen G. Billes
Manager, New Business Development,
Canadian Tire Corporation, Limited

Adam Bucci
President, Adam Bucci Ltée.,
which operates a Canadian Tire store

Gordon F. Cheesbrough[2,3]
Managing Partner, Blair Franklin Capital Partners Inc.,
an investment bank and asset management
company and Corporate Director

Austin E. Curtin[3]
President, Austin Curtin Sales Ltd.,
which operates Canadian Tire
stores and a Petroleum outlet

James D. Fisher[1,2]
Associate Dean, Rotman School
of Management, University of Toronto

H. Earl Joudrie[3,4]
Corporate Director

John S. Lacey[1,4]
Chairman, Alderwoods Group, Inc.,
an international funeral services provider

Rémi Marcoux, FCA[2,4]
Executive Chairman, Transcontinental Inc.,
a company holding interests in printing
and publishing companies

Kathleen Misunas[1,3]
Principal, Essential Ideas, a consulting firm,
and Corporate Director

Frank Potter[3,4]
Chairman, Emerging Market Advisors Inc.,
a consulting firm dealing with foreign direct
investment

Maureen J. Sabia[1,2]
President, Maureen Sabia International,
a consulting firm, and Corporate Director

Wayne C. Sales
President and Chief Executive Officer
of the Company

Graham W. Savage[1,2]
Chairman, Callisto Capital LP,
a merchant banking partnership

Stephen G. Wetmore[2,3]
Group President National Markets and
Executive Vice-President, BCE Inc.,
a communications company

Note: Numbering indicates committee membership.

Board Committees

1 **Management Resources and Compensation Committee**
Chairman, James D. Fisher

2 **Audit Committee**
Chairman, Maureen J. Sabia

3 **Social Responsibility and Risk Governance Committee**
Chairman, Frank Potter

4 **Governance Committee**
Chairman, Martha G. Billes

Officers

Gilbert S. Bennett
Chairman of the Board

Wayne C. Sales
President and Chief Executive Officer

J. Huw Thomas
Executive Vice-President, Finance and
Administration and Chief Financial Officer

A. Mark Foote
President, Canadian Tire Retail

Thomas K. Gauld
President, Canadian Tire
Financial Services

Michael R. Lambert
President, Mark's Work Wearhouse Ltd.
and Executive Vice-President, Canadian Tire
Corporation, Limited

Michael B. Medline
Executive Vice-President, New Business
Development

Stanley W. Pasternak
Senior Vice-President and Treasurer

Susan J. E. Rogers
Senior Vice-President, Corporate Affairs

Kenneth Silver
Senior Vice-President, Real Estate
and Construction

Patrick R. Sinnott
Senior Vice-President, Supply Chain

Cameron D. Stewart
Senior Vice-President, Secretary and
General Counsel

Andrew T. Wnek
Senior Vice-President, Information Technology
and Chief Information Officer

Robyn Collver
Associate General Counsel and
Assistant Secretary, General Counsel,
Canadian Tire Financial Services

Candace A. MacLean
Divisional Vice-President and Assistant Treasurer

Complete disclosure on Canadian Tire's corporate governance is provided in the Company's Management Information Circular, which is available on the Canadian Securities Administrators' SEDAR web site at www.sedar.com, or in the investor relations section of Canadian Tire's web site at http://investor.relations.canadiantire.ca

Shareholder and Corporate Information

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Shareholder and Corporate Information

Susan J. E. Rogers
Senior Vice-President, Corporate Affairs

Robert J. Tait
Director, Investor Relations

Annual and Special Meeting of Shareholders

Metro Toronto Convention Centre
Room 801, South Building
222 Bremner Boulevard
Toronto, Ontario
Thursday, May 12, 2005
10:00 a.m. (E.S.T.)

Exchange Listings

The Toronto Stock Exchange:
Common Shares (CTR)
Class A Non-Voting Shares (CTR.NV)

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Bank of Nova Scotia
TD Canada Trust
Citibank Canada
National Bank Financial

Registrar and Transfer Agent

Computershare Trust Company of Canada

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Email: service@computershare.com

To change your address, eliminate multiple mailings, transfer Canadian Tire shares, inquire about our Dividend Reinvestment Program or for other shareholder account inquiries, please contact the principal offices of Computershare Trust Company of Canada in Halifax, Montreal, Toronto, Winnipeg, Calgary or Vancouver.

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Pour obtenir la version française du rapport annuel de Canadian Tire, veuillez vous adresser au Service des relations extérieures en composant le 1-800-564-6253 ou écrire à :

La Société Canadian Tire
C.P. 770, succursale K
Toronto (Ontario) M4P 2V8

Corporate governance disclosure and other investor information are available online from the investor relations pages of the Company's web site at http://investor.relations.canadiantire.ca. Additional copies of this annual report and other disclosure documents such as the Company's Management Information Circular, the Annual Information Form and quarterly reports can be downloaded or requested in print form from the same web site.

DESIGN: BRYAN MILLS GROUP WWW.BRYANMILLS.COM

Customers for Life

One thing that hasn't changed since our first store opened in 1922, is that we want every one of our customers to have a great experience with Canadian Tire. It's so important to us, in fact, that we established a separate imperative within our Strategic Plan to reinforce and revitalize a customer-centric culture across our entire organization. We want everyone that represents the Canadian Tire name to perform in a way that encourages our customers to be "Customers for Life."

www.canadiantire.ca

Investor Relations web site:
http://investor.relations.canadiantire.ca