2007 Second Quarter Report to Shareholders

Table of Contents

Introduction 1

1.0 Our Company

1.1 Overview of the business 3

2.0 Our strategy

2.1 Five-year Strategic Plan 4
2.2 Financial aspirations 4

3.0 Our performance in 2007

3.1 Consolidated results 6

4.0 Business segment performance

4.1 Canadian Tire Retail 9
4.1.1 Strategic Plan update and outlook 9
4.1.2 Key performance indicators 11
4.1.3 CTR's financial results 14
4.1.4 Business risks 15

4.2 Mark's Work Wearhouse 16
4.2.1 Strategic Plan update and outlook 16
4.2.2 Key performance indicators 16
4.2.3 Mark's financial results 18
4.2.4 Business risks 18

4.3 Canadian Tire Petroleum 19
4.3.1 Strategic Plan update and outlook 19
4.3.2 Key performance indicators 20
4.3.3 Petroleum's financial results 21
4.3.4 Business risks 22

4.4 Canadian Tire Financial Services 23
4.4.1 Strategic Plan update and outlook 23
4.4.2 Key performance indicators 24
4.4.3 Financial Services' financial results 27
4.4.4 Business risks 28

5.0 Capital structure and financing

5.1 Capital structure 29
5.2 Funding program 31
5.2.1 Funding requirements 31
5.2.2 Q2 2007 Capital program 31
5.2.3 2007 Annual capital plan 31
5.2.4 Working capital 32
5.2.5 Cash and cash equivalents 32
5.2.6 Loans receivable 33
5.3 Financial ratios 34
5.4 Incentive programs 34
5.5 Foreign operations 35

6.0 Tax matters 35

Table of Contents

7.0 Off-balance sheet arrangements

7.1 Glacier Credit Card Trust....36
7.2 Personal loan securitization....36
7.3 Trust financing for Associate Dealers....36
7.4 Bank financing for Associate Dealers and PartSource franchisees....36
7.5 Derivative financial instruments....36

8.0 Enterprise risk management....37

9.0 Contractual obligations....37

10.0 Changes in accounting policies

10.1 Consolidation of variable interest entities....37
10.2 Financial instruments, hedging, equity and comprehensive income....38

11.0 Non-GAAP measures....39

12.0 Controls and procedures....40

13.0 Consolidated financial statements (unaudited)....43

14.0 Notes to the consolidated financial statements (unaudited)....47

Introduction

This 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, the terms "we", "us", "our", "Company" and "Canadian Tire" 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 contents of this MD&A on August 9, 2007.

Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the second quarter (13 weeks ended June 30, 2007) are against results for the second quarter of 2006 (13 weeks ended July 1, 2006).

Restated figures

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

Accounting estimates and assumptions

The preparation of consolidated financial statements that conform with Canadian generally accepted accounting principles (GAAP) requires us 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. We calculate our estimates using detailed financial models that are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In our judgment, none of the estimates detailed in Note 1 of our Consolidated Financial Statements for the quarter ended June 30, 2007 requires us to make assumptions about matters that are highly uncertain. For these reasons, none of the estimates is considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission.

Forward-looking statements

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with Canadian Tire's business and the general economic environment. In addition to the principal risks identified in section 9.2 of the MD&A contained in our 2006 Financial Report, there are other external factors that could affect our results. These include, but are not limited to: changes in interest rates, currency exchange rates and tax rates; the ability of Canadian Tire to attract and retain quality employees, Associate Dealers, Petroleum agents and PartSource and Mark's store operators and franchisees; and the willingness of customers to shop at our stores or acquire our financial products and services.

Other specific risk factors that may cause actual results or events to differ materially from those forecasted in this MD&A include:

- expansion activity planned for Mark's Work Wearhouse (Mark's), PartSource, Canadian Tire Petroleum (Petroleum) and Canadian Tire Retail (CTR), as well as the associated supply chain infrastructure, could be affected by the Company's ability to acquire and develop real estate properties, obtain municipal and other required government approvals, access construction labour and materials at reasonable prices, lease suitable properties and weather conditions that could impact the timing of construction;
- unseasonable weather patterns could affect the sales of seasonal merchandise at CTR and Mark's throughout the year, particularly in the second and fourth quarters which historically are these divisions' largest selling periods;
- adverse environmental occurrences could damage the Company's reputation or threaten its licences to operate, particularly in the Petroleum division;
- changes in commodity prices could affect the profitability of Petroleum, CTR and Mark's;
- disruptions in the supply of gasoline could affect Petroleum's revenue and earnings;
- the earnings of Canadian Tire Financial Services (Financial Services) could be affected by customers' inability to repay their Canadian Tire credit card or loan balances or by an unsatisfactory response to the retail banking initiative; and
- failure to comply with applicable laws and regulations could result in sanctions and financial penalties by regulatory bodies that could impact our earnings and reputation. Areas of compliance include environmental, health and safety, competition law, transportation of dangerous goods, customs and excise tax and regulations governing financial institutions.

We cannot provide any assurance that forecasted financial or operational performance will actually be achieved, or if it is, that it will result in an increase in the price of Canadian Tire shares.

1.0 Our Company

1.1 Overview of the business

Canadian Tire has been in business for over 85 years, offering everyday products and services to Canadians through its growing network of interrelated businesses. Canadian Tire, our Associate Dealers, franchisees and Petroleum agents operate more than 1,100 general merchandise and apparel retail stores, gas stations and car washes. The Company also provides a variety of financial services to Canadians, primarily its proprietary Options MasterCard™ and Canadian Tire-branded credit cards, personal loans, insurance and warranty products. In October 2006, Financial Services began offering high interest savings accounts, guaranteed investment certificates and residential mortgages in two pilot markets.

Canadian Tire's model of interrelated businesses provides market differentiation and competitive advantage. Canadian Tire's businesses benefit from the Company's key capabilities in merchandising, marketing and advertising, supply chain and real estate, which enable us to achieve a greater level of efficiency. Canadian Tire's primary loyalty program, Canadian Tire 'Money'—shared by CTR, Financial Services and Petroleum—is an example of how interrelationships between the businesses create a strong competitive advantage for the Company.

Mark's has already derived meaningful cost and operating synergies from Canadian Tire's strengths in real estate and supply chain since its acquisition by the Company in 2002. Canadian Tire co-locates Mark's and Canadian Tire stores in certain locations and, increasingly, is extending its national marketing and advertising channels to boost customer traffic and loyalty to Mark's and increase its brand penetration.

Canadian Tire's four main businesses are described below.

CTR is Canada's most shopped general merchandise retailer with a network of 466 Canadian Tire stores that are operated by Associate Dealers, who are independent business owners. Associate Dealers buy merchandise from the Company and sell it to consumers in Canadian Tire stores. CTR also includes our online shopping channel and PartSource. PartSource is a chain of 67 specialty automotive hard parts stores that cater to serious "do-it-yourselfers" and professional installers of automotive parts. The PartSource network consists of 45 franchise stores and 22 corporate stores.

Mark's is one of Canada's leading clothing and footwear retailers, operating 341 stores nationwide, including 291 corporate and 50 franchise stores that offer men's wear, women's wear and industrial wear. Mark's operates under the banner "Mark's", and in Quebec, "L'Équipeur". Mark's also conducts a business-to-business operation under the "Imagewear by Mark's Work Wearhouse" brand.

Petroleum is Canada's largest independent retailer of gasoline with a network of 264 gas stations, 256 convenience stores and kiosks, 75 car washes, 13 Pit Stops and 85 propane stations. The majority of Petroleum's sites are co-located with Canadian Tire stores as a deliberate strategy to attract customers to Canadian Tire stores. Substantially all of Petroleum's sites are operated by agents.

Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, Gas Advantage MasterCard and Commercial Link MasterCard. Financial Services also offers personal loans, insurance and warranty products and an emergency roadside assistance service called "Canadian Tire Roadside Assistance". Canadian Tire Bank, a wholly-owned subsidiary of Financial Services, is a federally regulated bank that manages and finances Canadian Tire's MasterCard and retail credit card portfolios, as well as the personal loan portfolio. In October 2006, Canadian Tire Bank began offering high interest savings accounts, guaranteed investment certificates and residential mortgages in two pilot markets and has extended this to a third test market in 2007.

2.0 Our strategy

2.1 Five-year Strategic Plan

Canadian Tire has a five-year Strategic Plan to guide the Company's growth from 2005 to 2009. The Plan has five strategic imperatives outlined below. Each of these imperatives is supported by specific initiatives, outlined in section 4.0, on business segment performance.

1 — grow sales and revenues
2 — improve our 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 real estate assets

2.2 Financial Aspirations

As part of our initial strategic planning process, we developed five financial aspirations that we believe are important and logical metrics for both the Company and its shareholders to track progress against the Plan. These metrics are not to be construed as guidance or forecasts for any individual year within the Plan, but rather as long-term targets that we aspire to achieve over the life of the Plan, based on the successful execution of our various initiatives.

Financial Aspirations	2005-2009 Strategic Plan
Same store sales (see note below) (simple average of annual percentage growth, CTR stores only)	3% to 4%
Gross operating revenue (compound annual growth rate)	7% to 9%
EBITDA[1] and minority interest (compound annual growth rate)	10% to 15%
Basic earnings per share (compound annual growth rate)	12% to 15%
After-tax return on invested capital (annual simple average)	10%

[1] Earnings before interest, income taxes, depreciation and amortization. See section 11.0 on non-GAAP measures.

Same store sales

Previously, we reported on CTR's comparable store sales growth as part of our overall financial aspirations. Beginning in the fourth quarter of 2006, we began reporting solely on CTR's same store sales growth and accordingly, changed our financial aspirations to reflect our new practice. The key reasons for the change in reporting were that same store sales growth is the metric used by management and most commonly used in the retail industry and the same store sales calculation will include the large number of store expansions included in the Concept 20/20 store rollout, whereas the comparable store sales metric did not.

3.0 Our performance in 2007

3.1 Consolidated results

Consolidated financial results

($ in millions except per share amounts)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Retail sales[1]	$2,835.1	$ 2,696.6	5.1%	$ 4,641.4	$ 4,407.4	5.3%
Gross operating revenue	2,316.7	2,247.6	3.1%	4,060.1	3,819.7	6.3%
EBITDA[2] and minority interest	254.8	229.8	10.8%	418.4	373.5	12.0%
Earnings before income taxes and minority interest	188.2	161.5	16.5%	287.4	239.5	20.0%
Effective tax rate	35.0%	36.0%	(1.0)%	35.0%	36.0%	(1.0)%
Net earnings	122.3	103.3	18.4%	186.8	150.9	23.8%
Basic earnings per share	$ 1.50	$ 1.27	18.5%	$ 2.29	$ 1.85	23.9%
Adjusted basic earnings per share[2]	$ 1.35	$ 1.23	9.2%	$ 2.17	$ 1.89	14.5%

[1] Represents sales at CTR (which includes PartSource), Mark's corporate and franchise stores and Petroleum's sites.
[2] See section 11.0 for non-GAAP measures.

Highlights of top-line performance by business

(year-over-year percentage change)	Q2 2007	Q2 2006
CTR retail sales[1]	3.8%	5.3%
CTR gross operating revenue	(0.1)%	9.7%
CTR net shipments	(0.5)%	10.0%
Mark's retail sales	9.7%	16.0%
Petroleum retail sales	9.7%	18.4%
Petroleum gasoline volume	4.6%	1.5%
Financial Services' credit card sales	16.1%	12.7%
Financial Services' gross average receivables	6.6%	14.2%

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

Second quarter

Consolidated gross operating revenue increased in the second quarter due to higher sales at Mark's and Petroleum as well as growth in loans receivable at Financial Services. CTR experienced a slight decrease in net shipments in the second quarter, although net shipments are up approximately four percent on a year to date basis, in line with CTR's sales growth.

Higher operating revenue, margin improvements, lower expenses (as a percentage of gross operating revenue) due to a focus on productivity, lower interest costs due to reduced working capital, a lower effective tax rate and the net impact of non-operating items noted below contributed to the strong growth in earnings in the quarter.

Impact of non-operating items

The following tables show our consolidated earnings on a pre-tax and after-tax basis, excluding non-operating gains and losses for the disposal of shares, sales of loans receivable, disposals of property and equipment and former chief executive officer (CEO) retirement obligations that occurred in the second quarter of 2007.

Adjusted consolidated earnings before income taxes and minority interest[3]

($ in millions)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Earnings before income taxes and minority interest	$ 188.2	$ 161.5	16.5%	$ 287.4	$ 239.5	20.0%
Less pre-tax adjustment for:						
Gain on disposal/redemption of shares[1]	18.4	6.9		18.4	6.9	
Former CEO retirement obligations	(6.7)	-		(6.7)	-	
Gain (loss) on sales of loans receivable[1]	5.5	(3.4)		2.5	(16.1)	
Gain on disposals of property and equipment[2, 3]	2.3	0.9		1.7	4.0	
Adjusted earnings before income taxes and minority interest[4]	$ 168.7	$ 157.1	7.3%	$ 271.5	$ 244.7	11.0%

[1] See section 4.4.on Financial Services' performance.
[2] See section 4.1 for CTR's performance, section 4.2 for Mark's performance, section 4.3 for Petroleum's performance and section 4.4 for Financial Services' performance.
[3] Gain on disposals of property and equipment includes fair market value adjustments and impairments on property and equipment.
[4] See section 11.0 on non-GAAP measures.

On June 30, 2007, the employment agreement for Wayne Sales, the Company's former CEO who has been the Company's Vice-Chairman since stepping down as CEO in April 2006, terminated. The Company recorded a pre-tax charge of $6.7 million in the second quarter to reflect the cost of previously unvested share units he is now entitled to under the Company's share incentive programs (valued at the prevailing stock price on June 30, 2007), and other retirement obligations. For further details, see section 5.4 below.

In addition, while not considered a non-operating item and accordingly included in normal operating earnings, the second quarter included $9.8 million (2006 - $3.3 million) associated with the Company's various long term incentive programs (LTIP). For further details, see section 5.4 below.

Adjusted consolidated net earnings[1]

($ in millions except per share amounts)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Net earnings	$ 122.3	$ 103.3	18.4%	$ 186.8	$ 150.9	23.8%
Less after-tax adjustment for:						
Gain on disposal/redemption of shares	12.0	4.4		12.0	4.4	
Former CEO retirement obligations	(4.4)	-		(4.4)	-	
Gain (loss) on sales of loans receivable	3.6	(2.2)		1.6	(10.3)	
Gain on disposals of property and equipment[1]	1.5	0.5		1.1	2.5	
Adjusted net earnings[2]	$ 109.6	$ 100.6	9.1%	$ 176.5	$ 154.3	14.4%
Basic earnings per share	$ 1.50	$ 1.27	18.5%	$ 2.29	$ 1.85	23.9%
Adjusted basic earnings per share[2]	$ 1.35	$ 1.23	9.2%	$ 2.17	$ 1.89	14.5%

[1] Includes fair market value adjustments and impairments on property and equipment.
[2] See section 11.0 on non-GAAP measures.

Seasonal impact

We traditionally experience stronger revenues and earnings in the second and fourth quarters of each year because of the seasonal nature of some merchandise at CTR and Mark's and the timing of marketing programs. The following table shows our financial performance by quarter for the last two years.

Consolidated quarterly results

($ in millions except per share amounts)	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
Gross operating revenue[1]	$ 2,316.7	$ 1,743.4	$2,426.1	$2,023.3	$2,247.6	$ 1,572.1	$ 2,304.3	$ 1,888.6
Net earnings	122.3	64.5	108.3	95.4	103.3	47.6	118.2	84.4
Basic earnings per share	1.50	0.79	1.33	1.17	1.27	0.58	1.44	1.03
Fully diluted earnings per share	1.50	0.79	1.32	1.16	1.25	0.58	1.43	1.02

[1] Quarterly gross operating revenue for 2005 has been restated for the impact of EIC-156 as required by the CICA. See section 11.3 in our 2006 Financial Report MD&A for additional information.

4.0 Business segment performance

4.1 Canadian Tire Retail

4.1.1 Strategic Plan update and outlook

The following outlines CTR's performance in the second quarter of 2007 in the context of the 2005-2009 Strategic Plan, and provides an outlook for 2007 and for the full Plan period.

<table>
<tr><th colspan="2">Strategic Plan update and outlook</th></tr>
<tr><td colspan="2">Concept 20/20 store program
Concept 20/20 is the cornerstone of Canadian Tire Retail's current growth agenda. Concept 20/20 stores are experiencing strong first, second and third year sales, caused by increases in customer traffic and average transaction value, thereby providing the potential for a more attractive return on investment than previous store formats. Concept 20/20 same store sales were strong in the second quarter of 2007, up 4.4% year-over-year. On average, customers spend 40 percent more time in Concept 20/20 stores than in other store formats, demonstrating that the attractive Concept 20/20 store design, product displays and open-plan layout encourages customers to browse the stores, increasing the likelihood of incremental purchases. The strong sales performance of Concept 20/20 led to the decision to accelerate the store rollout in 2006 and 2007.</td></tr>
<tr><td>Q2 2007 Performance</td><td>2005-2009 Plan</td></tr>
<tr><td>Second quarter
CTR opened three new Concept 20/20 stores in the quarter, two of which were replacement stores.

CTR expanded and retrofitted 30 new-format stores and one existing smaller Concept 20/20 store to the Concept 20/20 format and closed two traditional stores and one new-format store.

At the end of Q2 2007, CTR had 466 stores, including 165 Concept 20/20 stores (of which 21 are Concept 20/20 Canadian Tire-Mark's Work Wearhouse combination stores). CTR added approximately 589,000 retail square feet to the network (net of reductions due to store closures) for a total of 17.0 million at the end of the quarter.</td><td>CTR plans to open approximately 270 Concept 20/20 stores between 2005 and 2009.

In 2007 CTR originally planned to open approximately 70 Concept 20/20 stores, adding 1.6 million retail square feet as follows:
▪ 19 new Concept 20/20 stores, including 10 replacement stores
▪ 51 expansions and retrofits

CTR currently anticipates opening approximately 67 stores and will add 1.5 million retail square feet as follows:
• 18 new Concept 20/20 stores, including 10 replacement stores
• 49 expansions and retrofits</td></tr>
<tr><td colspan="2">Exciting, new and exclusive (ENE) products
Canadian Tire has built a reputation for offering innovative products. CTR's objective is to introduce new products into the market that are only available at Canadian Tire. Examples of ENE products include cordless lawn mowers, solar-paneled tents that light up at night and flexible wiper blades.</td></tr>
<tr><td>2007 Performance</td><td>2005-2009 Plan</td></tr>
<tr><td>In the second quarter, retail sales of ENE products decreased by 15.1 percent compared to the second quarter of 2006. The decrease in the second quarter was due to the timing of ENE product sales and a strong comparable second quarter for particular ENE items in 2006.</td><td>CTR planned to increase sales of ENE products by approximately 10 percent in 2007 and is currently in the process of re-assessing this goal.</td></tr>
</table>

Global sourcing Canadian Tire is increasing the percentage of foreign-sourced products carried in its stores. The benefits of global sourcing are three-fold: access to innovative products; margin protection; and the ability to offer compelling price points.	
Q2 2007 Performance	**2005-2009 Plan**
In the second quarter, approximately 39 percent of products sold in CTR's retail stores were purchased from suppliers outside North America.	CTR plans to increase the percentage of products sourced from suppliers outside of North America to approximately 50 percent by the end of 2009.
PartSource network expansion PartSource will continue its expansion into new markets through a combination of opening new stores and small-scale acquisitions. PartSource's strategy to buy small local businesses and convert them to the PartSource banner has proven successful, with high rates of customer retention after conversion. PartSource began testing corporate stores in 2005, and due to the initial success of the pilot, will continue to roll out corporate stores.	
Q2 2007 Performance	**2005-2009 Plan**
Second quarter ▪ opened two new corporate stores, converted two franchise stores to corporate stores and acquired one new franchise store. PartSource had a total of 67 stores at the end of the second quarter of 2007, including 22 corporate stores and 45 franchise stores.	PartSource plans to increase its network to at least 100 stores by the end of 2009. In 2007, PartSource plans to add eight new stores through a combination of new store openings and small-scale acquisitions. PartSource and CTR will also undertake enhancements to the automotive parts supply chain to support continued growth and efficiency in PartSource and CTR.
Inventory practices program CTR's long-term objective is to ship more than 90 percent of products to stores on-time. In addition, CTR is working with Associate Dealers to improve ordering and shipping processes to better align the flow of product to customer purchasing patterns, thereby reducing corporate and store inventory levels and operational complexity, and increasing inventory turns.	
Q2 2007 Performance	**2005-2009 Plan**
In the second quarter of 2007, the percentage of products shipped on-time to stores increased marginally, to 90.5 percent compared to 90.4 percent in the second quarter of 2006. Inventory turns for the second quarter of 2007, based on cubic volume, increased to 10.5 from 9.9 in the second quarter of 2006.	CTR originally targeted 13 inventory turns by the end of 2009, but due to changes to Associate Dealer ordering practices and buying patterns, this target is being re-evaluated.

4.1.2 Key performance indicators

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

- total same store sales growth
- average retail sales per store
- average sales per square foot of retail space
- average transaction value

CTR total retail and same store sales

(year-over-year percentage change)	Q2 2007	Q2 2006	2007 YTD	2006 YTD
Total retail sales[1]	3.8%	5.3%	3.5%	5.1%
Same store sales	1.7%	3.3%	1.5%	3.2%

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

CTR's retail sales

Retail sales represent total merchandise sold at retail prices and the labour portion of automotive sales to consumers across CTR's network of stores, including CTR's online web store and PartSource.

CTR same store sales[1] by store format

(year-over-year percentage change)	Q2 2007	2007 YTD
Same store sales		
Concept 20/20 stores	4.4%	5.0%
New-format stores	(0.3)%	(0.8)%
Traditional stores	(0.8)%	(0.9)%

[1] Same store sales excludes PartSource

CTR's same store sales

Same store sales include sales from all stores that have been open for more than 53 weeks.

Historically, Concept 20/20 stores were classified as "new-format" stores in our financial disclosures. As of Q4 2006, we have been reporting three separate classes of stores, defined as follows:

Concept 20/20 store format (mid 2003 to 2007) Average retail square footage: 53,000	**New-format store format (1994 to mid 2003) Average retail square footage: 33,000**	**Traditional store format (1994 and prior) Average retail square footage: 16,000**
Larger format launched in September 2003, ranging in size from 24,000 to 89,000 square feet. Concept 20/20 stores make up approximately 50 percent of the retail square footage of the network. See section 4.1.1, Strategic Plan update and outlook, for more information on the Concept 20/20 rollout.	Large format, including "Class Of" and "Next Generation" stores, ranging in size from 16,000 to 66,000 square feet, most of which were opened between 1994 and mid 2003. New-format stores make up approximately 40 percent of the retail square footage in the network. This format immediately preceded the Concept 20/20 format.	Smaller than either the new-format or Concept 20/20 stores on average. Traditional stores are characterized by varied sizes and layouts. Traditional stores make up approximately 10 percent of the retail square footage in the network.

CTR store count

	Q2 2007	2006	2005	2004	2003
Concept 20/20 stores	165	126	53	25	4
New-format stores	205	237	292	302	305
Traditional stores	96	105	117	130	143
Total new-format, traditional and Concept 20/20 stores	466	468	462	457	452
PartSource stores	67	63	57	47	39

CTR continues to expand and retrofit its Concept 20/20 store network, consistent with the goals embodied in the 2005-2009 Strategic Plan and consumer preference for this store format, as evidenced by the same store sales trends. Retail sales in Concept 20/20 stores accounted for 45 percent of total retail sales in the second quarter.

The total store count declined in the second quarter due to the closure of two traditional stores and one new format store.

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

($ in millions)	For the 12 months ended June 30, 2007	For the 12 months ended July 1, 2006
Concept 20/20 stores	$ 19.9	$ 19.5
New-format stores	14.8	14.5
Traditional stores	7.9	7.9

[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 at the end of the quarter.

Sales at new-format and Concept 20/20 stores are higher than at traditional stores as they are larger, have a more convenient layout and offer a broader selection of merchandise. The average dollar amount of each retail sale transaction at new-format and Concept 20/20 stores continues to increase partly because they allow for larger displays of promotional, seasonal and ENE products, which are key sales drivers. With the increasing number of larger Concept 20/20 stores, this overall trend is continuing. Some of the most recent Concept 20/20 store openings, however, have experienced a lower than historical initial sales uplift due in part to lower than expected grand opening results, particularly in the Montreal area, as well as some store specific issues. Management is currently addressing these issues.

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

	For the 12 months ended, June 30, 2007	For the 12 months ended, July 1, 2006
Retail square footage[1] (millions of square feet)	17.0	15.5
Concept 20/20 stores[2,3] ($)	$ 385	$ 377
New-format stores[2,3] ($)	451	444
Traditional stores[2,3] ($)	509	507

[1] Retail square footage is based on the total retail square footage including stores that have not been open for a minimum of two years as at the end of the quarter.
[2] Retail sales are shown on a 52-week basis in each year for those stores that have been open for a minimum of two years as at the end of the quarter. Sales from PartSource stores, CTR's online web store and the labour portion of CTR's auto service sales are excluded.
[3] Retail space does not include warehouse, garden centre and auto service areas.

Average sales per square foot of retail space in the larger store formats are lower than in traditional stores, because the additional space is utilized to display more merchandise, accommodate wider aisles and include more appealing product displays. The larger store formats generate higher sales overall and offer a more compelling shopping experience.

Retail sales growth

CTR's second quarter retail sales grew 3.8 percent and same store sales increased 1.7 percent over the prior year, while same store sales at the new Concept 20/20 stores increased a strong 4.4 percent. The modest same store sales growth in the second quarter reflected a very weak retail environment in the month of April (down 5.6 percent), followed by stronger May and June retail sales (up 7.2 percent). It should be noted that Q2 2007 sales benefited by an extra selling day in comparison with the prior year comparable period.

From a product category perspective, seasonal spring and summer businesses were up 5 percent, with strong sales registered in patio furniture, camping and car care and accessories. Retail sales for non-seasonal businesses grew 2.7 percent with strength registered in kitchen, home appliances and organizational categories, offset, in part, by softer sales in the home repair and hardware categories.

On a regional basis, strong retail sales were registered in Western Canada (particularly Alberta) while Ontario and Quebec were relatively softer, reflecting, in part, their relatively softer regional economies.

PartSource experienced strong double digit total sales growth in the second quarter, driven by the continued expansion of the corporate store network and growth in the commercial customer segment. PartSource also achieved strong single digit comparative store sales growth in the quarter.

Temporary impact of stores being converted to the Concept 20/20 format

During the construction and remerchandising of stores undergoing conversion to the Concept 20/20 format, sales are negatively impacted. Excluding the impact of the stores undergoing conversion, same store sales were 2.4 percent higher in the second quarter of 2007 compared with the second quarter of 2006.

4.1.3 CTR's financial results

($ millions)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Retail sales	$2,141.9	$ 2,064.4	3.8%	$ 3,384.4	$ 3,269.5	3.5%
Net shipments (year-over-year % change)	(0.5)%	10.0%		3.9%	5.9%	
Gross operating revenue	$ 1,517.5	$ 1,518.8	(0.1)%	$ 2,592.2	$ 2,488.0	4.2%
EBITDA[1] and minority interest	150.5	161.4	(6.7)%	249.5	258.9	(3.6)%
Earnings before income taxes and minority interest	88.7	97.9	(9.4)%	128.7	136.4	(5.7)%
Less adjustment for:						
Former CEO retirement obligations[2]	(6.7)	-		(6.7)	-	
Gain on disposals of property and equipment[3]	3.7	1.3		3.7	4.7	
Adjusted earnings before income taxes and minority interest[1]	$ 91.7	$ 96.6	(5.1)%	$ 131.7	$ 131.7	0.0%

[1] See section 11.0 on non-GAAP measures.
[2] As described in Section 3.1 above.
[3] Includes fair market value adjustments and impairments on property and equipment.

CTR's net shipments

CTR's net shipments are the total value of merchandise shipped to Canadian Tire Associate Dealer stores and PartSource franchise stores, at wholesale prices, net of returns, discounts and other adjustments. CTR shipments also include retail sales at PartSource corporate stores.

Explanation of CTR's financial results - revenue

Gross operating revenue decreased slightly, in spite of the higher retail sales, due to lower net shipments to Associate Dealer stores due to a reversal of the performance experienced in the first quarter where the growth in shipments exceeded sales growth. The level of both retail and corporate inventory is considered appropriate to meet forecasted demand. The softer shipment revenue was offset in part by higher rent charged to Associate Dealers due to higher retail sales.

Explanation of CTR's financial results – adjusted operating margins

($ millions)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
EBITDA – adjusted[1]	$153.5	$ 160.1	(4.1)%	$ 252.5	$ 254.2	(0.7)%
Gross operating revenue (GOR)	1,517.5	1,518.8	(0.1)%	2,592.2	2,488.0	4.2%
EBITDA – adjusted as a % of GOR	10.1%	10.5%	(0.4)%	9.7%	10.2%	(0.5)%

[1] Excludes former CEO retirement obligations and gain on disposal of property and equipment (see above).

The decline in the adjusted EBITDA margin in the second quarter primarily reflects CTR's share of the charge associated with the change to the LTIP program referred to above. Excluding those costs, adjusted EBITDA for the second quarter, expressed as a percentage of GOR, would have remained consistent with the prior year as an improvement in gross margins and productivity improvements were substantially offset by the impact of a favourable property tax adjustment recorded in the prior year comparative.

4.1.4 Business risks

CTR is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. These risks include, but are not limited to, supply chain disruption risk, seasonality risk and environmental risk. These specific risks and management's mitigation strategies are explained in more detail in Section 4.2.1.5 of our 2006 Financial Report.

Please also refer to section 8.0 of this MD&A for a discussion of some other industry-wide and Company-wide risks affecting the business.

4.2 Mark's Work Wearhouse

4.2.1 Strategic Plan update and outlook

The following outlines Mark's performance in the second quarter of 2007 in the context of the 2005-2009 Strategic Plan, and provides an outlook for 2007 and for the full Plan period.

<table>
<tr><th colspan="2">Strategic Plan update and outlook</th></tr>
<tr><td colspan="2">Network expansion
Mark's is focused on achieving "Superbrand" status for the Mark's name, with the objective of capturing an increasingly significant share of overall apparel sales in each geographic market and in each category in which Mark's competes. To increase Mark's market presence, the Company has an aggressive plan of continuing to expand the network of Mark's stores. Mark's also plans to expand, renovate and relocate some existing stores to the latest Mark's format.</td></tr>
<tr><td>Q2 2007 Performance</td><td>2005-2009 Plan</td></tr>
<tr><td>Second quarter
▪ opened two new corporate stores and closed one corporate store
▪ relocated four corporate stores
▪ expanded one franchise store

Mark's total retail square footage at the end of the second quarter of 2007 was 2.8 million square feet.</td><td>Mark's plans to expand the network to approximately 400 stores by the end of 2009.

2007 Outlook
In 2007, Mark's now expects to open only 22 of its 29 planned new stores due to the timing of the availability of new store sites. Mark's is now on target to expand, relocate or renovate 26 stores. Mark's now expects to increase its total retail square feet by approximately 12 percent in 2007.</td></tr>
<tr><td colspan="2">Category expansion
Mark's plans to grow through continued expansion of its three major categories: men's casual and dress wear; women's wear and industrial wear. The expansion of the women's wear category has enabled Mark's to leverage female customer traffic in the stores. Mark's is also leveraging its reputation for product integrity by designing and marketing new, innovative "Clothes That Work" items.</td></tr>
<tr><td>Q2 2007 Performance</td><td>2005-2009 Plan</td></tr>
<tr><td>Second quarter
• total corporate store sales of women's wear increased by 13.1 percent
• total corporate store sales of men's wear increased by 7.6 percent
• total corporate store sales of industrial wear increased by 10.7 percent</td><td>Mark's will continue to develop and expand high-potential product categories.</td></tr>
</table>

4.2.2 Key performance indicators

The following are key performance indicators for Mark's:

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

Mark's retail and same store sales growth

(year-over-year percentage change)	Q2 2007	Q2 2006	2007 YTD	2006 YTD
Total retail sales	9.7%	16.0%	13.0%	14.0%
Same store sales[1]	6.9%	15.2%	10.6%	13.0%

[1] Mark's same store sales excludes new stores, stores not open for the full period in each year and store closures.

Mark's retail sales

Mark's retail sales represent total merchandise sales to consumers and business-to-business customers, net of returns across Mark's entire network of stores, including Mark's on-line web store, recorded at retail prices.

Retail sales for the quarter grew in all regions, with strong results in Quebec (increase in total retail sales of 18.2 percent with same store sales increase of 10.4 percent), the British Columbia region (increase of 12.0 percent and same store sales increase of 12.1 percent) and Atlantic region (increase of 11.3 percent and same store sales increase of 6.9 percent).

From a product category perspective, in the quarter, corporate store retail sales of women's wear were up 13.1 percent with the largest dollar increases occurring in knits and casual and dress bottoms. Corporate store retail sales of men's casual and dress wear were up 7.6 percent with the largest dollar increases occurring in casual footwear and knit tops. Corporate store retail sales of Mark's industrial wear business were up 10.7 percent with the largest dollar increases occurring in industrial footwear.

Average corporate store sales[1]

	For the 12 months ended, June 30, 2007	For the 12 months ended, July 1, 2006	For the 12 months ended, July 2, 2005
Average retail sales per store ($ thousands)[2]	$ 2,867	$ 2,526	$ 2,233
Average sales per square foot ($)[3]	347	322	292

[1] Calculated on a rolling 12-month basis.
[2] Average retail sales per corporate store include corporate stores that have been open for 12 months or more.
[3] Average sales per square foot is based on sales from corporate stores. We have prorated square footage for corporate stores that have been open for less than 12 months.

Mark's continues to improve the productivity of its stores, as demonstrated by a 7.9 percent increase in corporate store sales per square foot for the rolling 12 months ended June 30, 2007. The increases in sales productivity are related to an attractive value proposition and a strong product assortment.

4.2.3 Mark's financial results

($ millions)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Retail sales[1]	$ 221.3	$ 201.9	9.7%	$ 399.7	$ 353.6	13.0%
Gross operating revenue[2]	187.2	170.1	10.1%	339.3	298.8	13.6%
EBITDA[3]	29.7	25.0	19.1%	45.7	37.8	21.1%
Earnings before income taxes	24.5	20.3	20.7%	35.8	28.7	24.7%
Less adjustment for:						
Loss on disposals of property and equipment[4]	(0.4)	-		(0.6)	(0.1)	
Adjusted earnings before income taxes[3]	$ 24.9	$ 20.3	22.2%	$ 36.4	$ 28.8	26.1%

[1] Includes retail sales from corporate and franchise stores.
[2] Gross operating revenue includes retail sales at corporate stores only.
[3] See section 11.0 on non-GAAP measures.
[4] Adjusted earnings reflects losses on disposals of property and equipment that were not previously disclosed in Q2 2006.

Explanation of Mark's second quarter financial results

The 10.1 percent increase in gross operating revenue is attributable primarily to the growth in corporate same store sales combined with the cumulative impact of new store builds and the conversion of franchisees to corporate stores.

Pre-tax income increased 20.7 percent due to higher sales combined with a 120 basis point improvement in gross margin. Margin improvement reflects increased purchase markups due primarily to Mark's on-going global sourcing initiative, combined with favourable foreign exchange rates. Operating expenses increased by 10.3 percent, less than the 12.9 percent increase in gross margin dollars and franchise royalties combined, due to improved overall productivity.

4.2.4 Business risks

Mark's is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. These include, but are not limited to, seasonality risk and market obsolescence risk. These risks and management's mitigation strategy are explained in more detail in Section 4.2.2.5 of the MD&A contained in our 2006 Financial Report.

Please also refer to section 8.0 of this MD&A for a discussion of some other industry and Company-wide risks affecting the business.

4.3 Canadian Tire Petroleum

4.3.1 Strategic Plan update and outlook

Petroleum plays a strategic role in increasing customer loyalty and driving revenue and earnings for CTR and Financial Services. Petroleum increases Canadian Tire's total value proposition by offering Canadian Tire 'Money' loyalty rewards on gas and ancillary purchases paid for in cash or by Canadian Tire's Options MasterCard. Petroleum also supports other interrelated promotions and joint product launches, such as Canadian Tire's Gas Advantage MasterCard, which has gained wide popularity since its introduction in Ontario in mid-2006. Customers who purchase gas at Petroleum and have a Canadian Tire MasterCard are Canadian Tire's most loyal and profitable customers.

The following outlines Petroleum's performance in the second quarter of 2007 in the context of the 2005-2009 Strategic Plan, and provides an outlook for 2007 and for the full Plan period.

Strategic Plan update and outlook	
Site renewal and expansion Petroleum is focusing on modernizing existing sites and adding new sites in high-potential markets. On an opportunistic basis, Petroleum will also continue its re-branding initiative to convert competitor sites to the Canadian Tire brand.	
Q2 2007 Performance	**2005-2009 Plan**
Second quarter In the second quarter, Petroleum opened one new gas station and closed two gas stations. Petroleum also opened one new convenience store and closed one convenience store. There was no activity in the number of car wash locations during the quarter. At the end of the quarter, Petroleum had 264 gas stations, including 42 re-branded sites, and 256 convenience stores.	Management will continue to evaluate the appropriate level of investment in Petroleum on an annual basis. **2007 Outlook** In 2007, Petroleum originally planned to open nine new petroleum sites in strategic locations and invest in the modernization of approximately 25 existing sites. To date in 2007, Petroleum has opened five new locations and refurbished six sites. Petroleum still plans to open nine new petroleum sites and to refurbish approximately 25 sites by the end of 2007.

Enhancing interrelatedness Petroleum's business is integrated with CTR and Financial Services through Canadian Tire 'Money' and various cross-marketing programs designed to build customer loyalty. Petroleum is also exploring the potential of interrelated programs with Mark's to extend Petroleum's marketing leverage across the Company.	
Q2 2007 Performance	**2005-2009 Plan**
Petroleum's cross-marketing programs include: ▪ 'Multiplier' coupons that increase the Canadian Tire 'Money' offered on gas purchases paid for in cash or by the Canadian Tire Options MasterCard ▪ coupons offering discounts on Canadian Tire merchandise with the purchase of gas ▪ the Gas Advantage MasterCard rolled out in Ontario in mid-2006 ▪ car wash vouchers available for purchase at Canadian Tire retail stores which began rollout in Q1 2007 The Gas Advantage MasterCard has been very successful in Ontario and is being tested in the Quebec market in 2007.	In 2007, Petroleum will aggressively seek out additional cross-marketing opportunities to leverage its customer loyalty to drive sales and earnings across the enterprise.

4.3.2 Key performance indicators

Gasoline sales volume is a key top-line performance indicator for Petroleum, as measured by the number of gasoline litres sold. Fluctuations in the wholesale and retail price of gasoline may result in fluctuations in Petroleum's margin and profitability.

Gasoline sales volume

	Q2 2007	Q2 2006	Change	YTD 2007	YTD 2006	Change
Sales volume (millions of litres)	437.4	418.0	4.6%	852.7	802.8	6.2%

Strong performance by the Gas Advantage MasterCard in Ontario, market share gains and the cumulative effect of new site openings over the past few quarters continued to drive gasoline volume in the second quarter of 2007, despite the higher retail pump prices. On a comparable site basis, gasoline volume increased by 3.2 percent in the quarter driven mainly by the Gas Advantage MasterCard and an improvement in the Western Canada loyalty program.

Petroleum's convenience and car wash sales

(year-over-year percentage change)	Q2 2007	Q2 2006	2007 YTD	2006 YTD
Total retail sales				
Convenience store sales	18.0%	14.0%	17.5%	11.7%
Car wash sales	20.8%	6.2%	20.8%	(3.5)%
Comparable sales				
Convenience[1]	13.0%	7.5%	12.7%	6.0%
Car wash	17.7%	(6.7)%	17.4%	(16.0)%

[1] Comparable convenience sales excludes three "Q" convenience stores.

The cumulative effect of the increase in network sites and the effectiveness of merchandise displays in refurbished stores drove the increase in convenience store sales in the second quarter of 2007. The cumulative impact of the increase in the number of sites, the rollout of car wash vouchers available for purchase at CTR stores and softness experienced in the comparable period of the prior year contributed to higher total car wash sales for the current quarter.

4.3.3 Petroleum's financial results

($ in millions)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Retail sales	$ 471.9	$ 430.3	9.7%	$ 857.3	$ 784.3	9.3%
Gross operating revenue	445.6	408.1	9.2%	808.4	743.2	8.8%
EBITDA[1]	10.5	2.5	331.9%	17.0	7.8	118.7%
Earnings (loss) before income taxes	6.4	(1.2)	611.9%	8.9	0.5	1,787.4%
Less adjustment for:						
Loss on disposals of property and equipment[2]	(1.0)	(0.2)		(1.3)	(0.3)	
Adjusted earnings (loss) before income taxes[1]	$ 7.4	$ (1.0)	818.6%	$ 10.2	$ 0.8	1,233.2%

[1] See section 11.0 on non-GAAP measures.
[2] including asset impairment losses.

Petroleum's retail sales
Retail sales include the sales of gasoline at Petroleum's network of petroleum sites, including re-branded sites, recorded at retail pump prices, 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, propane and PitStop sales, all of which we record at retail selling prices.

Gasoline pricing
Petroleum buys gasoline at wholesale cost, which varies by geographic region, and sells it at market prices. Petroleum has a multi-year contract with a major supplier to purchase, at competitive rates, the majority of its gasoline requirements.

Explanation of Petroleum's financial results
Growth in gasoline volume, sustained increases in pump prices in key markets and double-digit increases in convenience and car wash sales contributed to Petroleum's revenue growth in the second quarter.

Retail prices in the key Ontario market increased and exhibited less volatility during the quarter and contributed to a significant improvement in gasoline margins. Margins were also favourably impacted by changes to marketing programs during the current year. Petroleum incurred $1.8 million in environmental expenses for site remediation during the quarter.

4.3.4 Business risks

Petroleum is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. These include, but are not limited to, commodity price risk and environmental remediation risk. These risks and management's mitigation strategy are explained in more detail in Section 4.2.3.5 of the MD&A contained in our 2006 Financial Report.

Please also refer to section 8.0 for a discussion of some other industry-wide and Company-wide risks.

4.4 Canadian Tire Financial Services

4.4.1 Strategic Plan update and outlook

The following outlines Financial Services' performance in the second quarter of 2007 in the context of the 2005-2009 Strategic Plan, and provides an outlook for 2007 and for the full Plan period.

Strategic Plan update and outlook

Total managed portfolio of loans receivable (credit card, personal and residential mortgage loans)
Financial Services plans to grow its portfolio through increases in average balances, new account acquisition, the introduction of new credit cards and continued testing of the personal loan and retail banking products. Financial Services is leveraging its low-cost in-store acquisition program as a high-volume channel to grow the base of customer accounts. The average balance on customer accounts is gradually increasing through initiatives such as low-rate balance transfer offers. In addition, management believes that there are further opportunities to grow the customer base by introducing premium and specialty credit cards with different bonus features. The Gas Advantage MasterCard, for example, offers a compelling customer value proposition which drives credit card balances while increasing gasoline volume at Petroleum. The average balance on Financial Services' credit card accounts at the end of the second quarter is $1,872, well below the industry average of over $2,600, which translates into a substantial long-term growth opportunity.

Q2 2007 Performance	2005-2009 Plan
Second quarter Gross average loans receivable were $3.6 billion in the second quarter, up 6.6 percent from the second quarter of 2006. The growth reflects a 6.1 percent increase in the average account balance. Credit card gross average loans receivable were $3.4 billion in the second quarter, up 9.8 percent from the second quarter of 2006. The growth reflects primarily a 9.0 percent increase in average account balances.	Over the 2005-2009 Plan period, Financial Services plans to increase the number of accounts with balances by three to four percent annually. **2007 Outlook** Financial Services plans to increase total portfolio gross average loans receivable to $3.7 billion in 2007 and is on target to achieve that goal. Financial Services also plans to introduce at least one new credit card product and expand the Gas Advantage MasterCard into other regions of the country, beginning with Quebec.

Insurance and other ancillary products
Financial Services plans to enhance its insurance and warranty product offerings to credit card customers. Revenues from insurance and warranty products have increased significantly in the last four years through direct marketing to Canadian Tire's growing base of customers.

Q2 2007 Performance	2005-2009 Plan
Revenues from insurance and warranty products increased 10.8 percent in the second quarter of 2007 year-over-year.	Financial Services plans to increase revenues from insurance and warranty products by approximately six percent on a compound annual basis over the 2005- 2009 Plan period. **2007 Outlook** Financial Services plans to increase revenues from insurance and warranty products by approximately nine percent in 2007.

Retail banking Financial Services began offering retail banking products including high interest savings accounts, guaranteed investment certificates and residential mortgages in two pilot markets in October 2006. The retail banking business leverages the trust and credibility Canadian Tire has earned over the last 40 years by providing financial services to millions of customers.	
Q2 2007 Performance	**2005-2009 Plan**
Financial Services launched its retail banking products in two pilot markets in October 2006. Financial Services is supporting the launch with a multi-faceted marketing program including flyer inserts, direct mail, television and radio advertisements, billboards and in-store advertising to increase customer awareness. Customers can sign up for Canadian Tire's retail banking products online, by phone or in-store in the pilot markets. The investment in retail banking pilot programs impacted Financial Services' earnings before income taxes by $5.8 million during the quarter compared to $0.9 million during the same period in 2006.	The retail banking pilot will run for approximately 24 months. During this time its future potential will be assessed. **2007 Outlook** Financial Services plans to introduce additional retail banking products in 2007. Financial Services plans to incur approximately $25 million in expenses associated with the marketing and operations of the retail banking initiative in 2007. Financial Services has now extended the pilot to a third test market to expand the trial of new marketing approaches.

4.4.2 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

Financial Services' total managed portfolio of loans receivable

($ in millions, except where noted)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Average number of accounts with a balance (thousands)	1,855	1,846	0.5%	1,850	1,827	1.2%
Average account balance ($)	$ 1,940	$ 1,829	6.1%	$ 1,924	$ 1,830	5.1%
Gross average receivables (GAR)	3,599.6	3,376.6	6.6%	3,558.8	3,345.0	6.4%
Total managed portfolio (end of period)				3,704.3	3,429.3	8.0%
Net managed portfolio (end of period)				3,671.9	3,393.3	8.2%

Net managed portfolio
Financial Services' net managed portfolio is the total value, after allowances, of loans receivable including credit card, personal and residential mortgage loans.

The credit card portfolio represents approximately 95 percent of the total managed portfolio for Financial Services. The personal loan product continues to be tested and represents approximately five percent of the total managed portfolio.

Financial Services' portfolio of credit card loans receivable

($ in millions, except where noted)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Average number of accounts with a balance (thousands)	1,816	1,803	0.8%	1,810	1,786	1.3%
Average account balance ($)	$ 1,872	$ 1,718	9.0%	$ 1,850	$ 1,725	7.3%
Gross average receivables (GAR)	3,400.4	3,097.5	9.8%	3,349.5	3,080.6	8.7%
Total managed portfolio (end of period)				3,514.0	3,165.2	11.0%

Financial Services' total managed portfolio of credit card loans receivable reached $3.5 billion at the end of the second quarter. The successful rollout of the Gas Advantage MasterCard in Ontario in the second quarter of 2006 combined with an increase in average account balances resulted in an 11.0 percent increase in credit card loans receivable at the end of the second quarter over the second quarter of 2006.

In prior periods, Financial Services experienced a period of accelerated growth during the conversion of its existing proprietary card portfolio to a MasterCard portfolio. Now that the conversion is complete, Financial Services' growth will be driven by increases in average account balances, new account applications and the introduction of new credit card and insurance products. Management regards new retail banking products as another high-potential channel for long-term growth.

Financial Services' profitability

Financial Services' profitability measures are tracked as a percentage of GAR, shown in the table below.

Profitability of total managed portfolio[1]

	Q2 2007	Q2 2006	Q2 2005
Total revenue as a % of GAR[2]	24.88%	25.10%	26.13%
Gross margin as a % of GAR[2]	13.13%	13.17%	13.57%
Operating expenses as a % of GAR[3]	7.77%	8.10%	8.91%
Return on average total managed portfolio[2,3,4]	5.36%	5.07%	4.66%

[1] Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable.
[2] Excludes gains (losses) on sales of loans receivable and gain on disposal of shares.
[3] Excludes the impact of the modification to the stock option agreements in the fourth quarter of 2006.
[4] Return is calculated as earnings before taxes as a percentage of GAR.

Gross margin

Gross margin is Financial Services' total revenue less direct expenses associated with credit card, personal and mortgage loans, insurance and warranty products. The most significant direct expenses are the provision for credit losses associated with the credit card and personal loan portfolios, the loyalty program and interest expense.

Over the last few years, Financial Services' growth strategy has been the transformation of the credit card portfolio from a proprietary store credit card to a bank card (MasterCard). As expected, as the portfolio matures, this strategy has resulted in lower revenue and gross margin ratios as a percentage of GAR. These decreases have been more than offset through continued growth in average balances and a lower operating expense ratio, resulting in an increasing return on average total managed portfolio, as reflected in the table above.

Operating expenses as a percentage of GAR have continued to decline due to ongoing expense management efforts and growth in the size of the total managed portfolio. This was achieved even with the ongoing investment in the retail banking pilot project referenced above.

As part of the strategic planning process, management set a long-term goal of managing Financial Services' pre-tax return on the total managed portfolio in the target range of 4.5 to 5.0 percent. As shown in the table above, Financial Services exceeded this target in the second quarter of each of the last two years.

Portfolio quality

	Q2 2007	Q2 2006	Q2 2005
Net write-off rate (rolling 12-month basis)	5.89%	5.95%	5.96%
Account balances less than 30 days overdue at end of period	96.57%	96.39%	96.63%
Allowance rate	2.32%	2.47%	2.40%

Net write-offs

Net write-offs is the sum of account balances that are written off, less monies collected against account balances that were previously written off. Net write-off rate is the net write-offs, expressed as a percentage of gross average receivables in a given period.

The credit card portfolio net write off rate improved from 5.99 percent in the second quarter of 2006 to 5.62 percent in the second quarter of 2007, reflecting the benefits of a number of initiatives to improve the overall quality of the portfolio.

Periodic fluctuations in write-offs, aging and allowances occur as a result of a variety of economic influences such as job growth or losses, personal debt levels and personal bankruptcy rates.

4.4.3 Financial Services' financial results

($ in millions)	Q2 2007	Q2 2006	Change	2007 YTD	2006 YTD	Change
Gross operating revenue	$ 197.5	$ 179.6	9.9%	$ 379.8	$ 341.3	11.3%
EBITDA[1]	76.2	54.0	41.0%	128.4	89.6	43.3%
Earnings before income taxes	68.6	44.5	54.2%	114.0	73.9	54.3%
Less adjustment for:						
Gain on disposal/redemption of shares	18.4	6.9		18.4	6.9	
Loss on disposals of property and equipment	(0.1)	(0.2)		(0.2)	(0.3)	
Gain (loss) on sales of loans receivable	5.5	(3.4)		2.5	(16.1)	
Adjusted earnings before income taxes[1]	$ 44.8	$ 41.2	8.6%	$ 93.3	$ 83.4	11.9%

[1] See section 11.0 on non-GAAP measures.

Explanation of Financial Services' financial results

Growth in the Gas Advantage MasterCard portfolio and increases in the average account balance were the key drivers of gross operating revenue in the second quarter. Revenues from balance-based insurance products, warranties and other ancillary products were also higher in the quarter.

Financial Services' earnings before income taxes were up 54.2 percent during the quarter due to higher gross operating revenue, combined with a reduction in the allowance rate due to improved aging and write off experience as explained above. Although there were investments in future oriented initiatives, operating expenses as a percentage of GAR improved by 33 basis points, demonstrating improved operating leverage. Second quarter 2007 results were also favourably impacted by a gain from the sale of MasterCard International shares of $18.4 million (compared with a gain of $6.9 million in the prior year) and a gain from securitization of $5.5 million (compared with a loss of $3.4 million in the prior year).

Second quarter results were, however, impacted by a reduction in interest income resulting from lower cash balances due to the payment of a prior year income tax reassessment related to dividends received from a reinsurance investment (see section 6.0 below).

Securitization of loans receivable

Securitization is the process by which interests in financial assets are sold to a third party. Financial Services routinely securitizes credit card loans receivable by selling a co-ownership interest to Glacier Credit Card Trust (GCCT). Personal loans are sold to a third party trust for considerations that include cash and a retained interest in the assets. We record these transactions as a sale, and as a result, these assets are not included on our Consolidated Balance Sheets. Financial Services securitizes between 70 percent and 80 percent of loans receivable on an ongoing basis.

4.4.4 Business risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. These include, but are not limited to, consumer credit risk, interest rate risk and securitization funding risk. These risks and management's mitigation strategies are explained in more detail in Section 4.2.4.5 of the MD&A contained in our 2006 Financial Report.

Please also refer to section 8.0 of this MD&A for a discussion of some other industry-wide and Company-wide risks affecting the business.

Most of Financial Services' revenue is not interest rate sensitive as it is generated primarily from Canadian Tire MasterCards, which carry a fixed interest rate appropriate to customer segments with common credit ratings. Canadian Tire constantly monitors the potential impact of interest rate fluctuations on its fixed versus floating rate exposure and manages its overall balance to reduce the magnitude of this exposure.

As the success of Financial Services is partially dependent upon its ability to access capital markets at favourable rates, and given the rapid growth of the total managed portfolio, maintaining the quality of the securitized loans receivable is a key priority of Financial Services.

5.0 Capital structure and financing

5.1 Capital structure

Improving our financial flexibility is one of our long-term goals and one of the imperatives of our 2005-2009 Strategic Plan.

We regularly review our funding plan and capital structure to ensure that we have sufficient funding options to provide us with the financial flexibility to implement our growth initiatives and meet the targets of our 2005-2009 Strategic Plan.

As at the dates indicated, our capital structure was as follows:

(composition of total structure)	At June 30, 2007	At July 1, 2006	At December 30, 2006
Shareholders' equity	68.0%	65.7%	67.2%
Long-term debt[1]	27.4%	29.3%	28.3%
Other long-term liabilities	2.9%	2.8%	2.7%
Future income taxes	1.7%	2.2%	1.8%
	100.0%	100.0%	100.0%

[1] Includes the current portion of long-term debt.

Equity

The book value of Common Shares and Class A Non-Voting Shares at the end of the quarter was $35.58 per share compared to $32.25 at the end of the second quarter of 2006.

We have a policy of repurchasing Class A Non-Voting Shares to offset the dilutive effect of shares issued to fulfill the Company's obligations under various employee profit sharing, stock option and share purchase plans and the dividend reinvestment plan. In the long term, these repurchases are expected to offset the issuance of new Class A Non-Voting Shares.

On February 8, 2007, we announced our intention to initiate a normal course issuer bid (NCIB) to purchase a maximum of 1.4 million of the issued and outstanding Class A Non-Voting Shares over the 12-month period ending February 18, 2008.

A NCIB is a bid by a listed company to buy back its shares, up to a prescribed number, on a stock exchange, subject to certain rules that protect investors. A total of approximately 1.2 million Class A Non-Voting Shares were purchased in 2006 under the previous NCIB.

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 was the general partner in this partnership. A third party investor group invested $300 million for a limited partnership interest with preferential rights to distribution of income and capital. On April 3, 2006, the limited partnership repaid the limited partners. Accordingly, the minority interest ceased to be reflected on the Consolidated Balance Sheets after April 3, 2006, and no further charge has been reflected in the Consolidated Statements of Earnings since April 3, 2006.

Shares outstanding

	At June 30, 2007	At July 1, 2006
Class A Non-Voting Shares (CTC.a)		
Shares outstanding at beginning of period	78,047,456	78,032,724
Shares issued under plans[1]	290,571	678,247
Shares purchased under NCIB	(287,000)	(593,400)
Shares outstanding at end of period	78,051,027	78,117,571
Common Shares (CTC)		
Shares outstanding at beginning and end of the period	3,423,366	3,423,366

[1] We issue shares under various employee profit sharing, stock option and share purchase plans, and the dividend reinvestment plan.

Dividends

Dividends of $15 million were declared on Common Shares and Class A Non-Voting Shares in the second quarter of 2007 compared to dividends of $13.5 million in the second quarter of 2006. The increase in dividends declared reflected the Board of Directors' decision in February 2007 to increase the annual dividend rate by 12 percent from $0.66 per share to $0.74 per share. The second quarterly dividend at the 2007 rate was declared on May 10, 2007 in the amount of $0.185 per share payable on September 4, 2007 to shareholders of record as of July 31, 2007.

Dividend policy

Canadian Tire's policy is to maintain dividend payments equal to approximately 15 to 20 percent of the prior year's normalized basic net earnings per share, after giving consideration to the period-end cash position, future cash requirements and investment opportunities. Normalized earnings per share for this purpose exclude gains and losses on the sale of credit card receivables and non-recurring items but include gains and losses on the ordinary course disposition of property and equipment.

Short-term debt

We have a program in place that allows us to issue commercial paper to a maximum authorized limit of $800 million. We had no commercial paper outstanding at June 30, 2007, July 1, 2006 or December 30, 2006.

Credit ratings for the Company's commercial paper are R-1(low) from Dominion Bond Rating Service Limited (DBRS) and A-1(low) from Standard & Poor's (S&P).

At June 30, 2007, July 1, 2006 and December 30, 2006 we had $645 million in committed lines of credit. The committed lines were not drawn upon at the end of any of these periods.

Long-term debt

To allow for timely access to debt markets, we filed a shelf prospectus with provincial and territorial securities commissions on March 9, 2007 for the issuance of a maximum of $750 million of MTNs over a 25 month period.

As of the end of the second quarter of 2007, long-term debt included $1.5 million of capital leases.

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

The Company's long-term debt is currently rated A(low) by DBRS and BBB+ by S&P.

5.2 Funding program

5.2.1 Funding requirements

We fund our capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under the NCIB, from a combination of sources. In the second quarter of 2007, the primary sources of funding were:

- $202 million of cash flow from operations, before working capital requirements
- $140 million of cash generated from the securitization of loans receivable

5.2.2 Second quarter 2007 capital program

Canadian Tire's capital expenditures totaled $139 million in the second quarter on a cash basis, ($168 million on an accrual basis as disclosed in the Unaudited Consolidated Financial Statements, Note 10 – Supplementary Cash Flow Information), an 80 percent increase from the $77 million spent on a cash basis in the second quarter of 2006 ($84 million on an accrual basis as disclosed in the Unaudited Consolidated Financial Statements, Note 10 – Supplementary Cash Flow Information). Those capital expenditures were comprised of:

- $88 million for real estate projects, including $70 million associated with the rollout of CTR's Concept 20/20 stores
- $30 million for the Eastern Canada distribution centre in the province of Quebec
- $11 million for information technology
- $10 million for other purposes

Overall, capital investments for real estate projects were up significantly year-over-year in the second quarter, primarily due to the acceleration of the Concept 20/20 store rollout, investment in the construction of the Eastern Canada distribution centre and other capital required for some larger urban store developments.

5.2.3 2007 Annual capital plan

The 2007 capital plan is for expenditures to be in the range of $580 million to $620 million on an accrual basis. The 2007 annual capital plan is comprised of the following investments, which total $600 million:

- $352 million for real estate projects, including $269 million associated with the rollout of CTR's Concept 20/20 stores
- $110 million for the Eastern Canada distribution centre
- $ 75 million for information technology
- $ 63 million for other purposes

5.2.4 Working capital

Reducing our working capital requirements continues to be a long-term priority. The table below shows the change in the value of our working capital components at the end of the second quarter of 2007 and 2006.

Comparable working capital components

($ in millions)	At June 30, 2007	At July 1, 2006	Increase/ (decrease) in working capital
Accounts receivable	$ 363.8	$ 382.1	$ (18.3)
Merchandise inventories	810.7	817.4	(6.7)
Prepaid expenses and deposits	59.6	58.8	0.8
Income taxes recoverable/(payable)	103.6	(28.2)	131.8
Accounts payable and other	(1,155.9)	(1,025.7)	(130.2)
			$ (22.6)

The change in the balance of income taxes from being an amount payable to an amount recoverable is attributable to the statutory requirements for remittances regarding prior year reassessments, as explained in Section 6.0 below.

The increase in accounts payable and other is primarily attributable to a change in the timing of payments compared to the prior year.

5.2.5 Cash and cash equivalents

At June 30, 2007, the Company was in a negative cash position of $17 million in cash and cash equivalents compared to positive cash positions of $93 million at July 1, 2006 and $741 million at December 30, 2006. These changes partly reflect seasonal fluctuations in cash balances. During the second quarter of 2007, we used cash primarily for the following:

- $139 million for the addition of property and equipment
- $102 million to fund further net growth in loans receivable
- $ 22 million related to repayment of commercial paper
- $ 85 million related to tax payments related to prior year reassessments

5.2.6 Loans receivable

Our loans receivable securitization program is designed to provide a cost-effective source of funding for Financial Services. Loans receivable were as follows at the indicated dates:

($ in millions)	At June 30, 2007	At July 1, 2006	At December 30, 2006
Securitized	$ 2,916.4	$ 2,540.3	$ 2,827.4
Unsecuritized	755.5	853.0	771.8
Net managed loans receivable	$ 3,671.9	$ 3,393.3	$ 3,599.2

Net managed loans receivable continued to increase over the last 12 months as customers' use of the Canadian Tire MasterCard grew and new personal loans were granted. At the end of the second quarter of 2007, net managed loans receivable were 8.2 percent higher than at the end of the second quarter of 2006.

Canadian Tire Bank (CTB) sells co-ownership interests in credit card loans to GCCT. The Company does not have a controlling interest in GCCT, so we do not include the financial results of GCCT in our Consolidated Financial Statements.

We record the sale of loans receivable in accordance with CICA's Accounting Guideline 12 "Transfers of Receivables". Please see Note 2 to the Consolidated Financial Statements found in the 2006 Financial Report.

For the 13 weeks ended June 30, 2007, we recognized a pre-tax gain of $5.5 million (2006 – $3.4 million pre-tax loss) on securitization transactions.

We expect the growth in the number and average balances of Canadian Tire MasterCard credit card accounts to lead to an increase in total loans receivable in 2007. Financial Services expects to continue to fund most of this increase from the sale of co-ownership interests in credit card loans to GCCT. GCCT is a third party trust that was formed to buy our credit card loans and also issues debt to third party investors to fund its credit card loans purchases. See section 7.1 below for further information. 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 June 30, 2007 GCCT had the following ratings:

- a rating of R-1(high*)* from DBRS for the asset-backed commercial paper program
- ratings of AAA from DBRS and S&P for the asset-backed senior notes
- ratings of A from DBRS and S&P for the asset-backed subordinated notes

The trustee and custodian for GCCT, The Canada Trust Company, manages the co-ownership interest 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 issued by GCCT. We are currently not aware of any events, commitments, trends or uncertainties that may have a negative impact on our arrangement with GCCT.

5.3 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.

The following table shows the changes in financial ratios over the past year.

	At June 30, 2007	At July 1, 2006
Ratio of long-term debt to total capitalization[1]	27.4%	29.3%
Ratio of current assets to current liabilities	1.6:1	2.1:1
Interest coverage[2]	9.9 times	7.8 times

[1] Long-term debt includes current portion.
[2] We calculate interest coverage on a rolling 12-month basis using earnings before interest, income taxes and minority interest.

5.4 Incentive programs

On June 30, 2007, the former CEO retired from his position as Vice-Chairman and, as a result, the Company included a charge of $6.7 million in the second quarter to reflect the cost of previously unvested share units he is now entitled to under the Company's share incentive programs (valued at the prevailing stock price on June 30, 2007) in addition to other retirement obligations. The ultimate cost to the Company of a significant portion of this compensation, and the value provided to the former CEO, will be based on the future performance of the Company over the next three year period, as the share units will be marked to market until they are fully paid. The mark to market adjustments will be reflected in the Company's financial results each quarter until that time.

In addition, while not considered a non-operating item and accordingly included in normal operating earnings, the second quarter included the cost associated with the Company's various long term incentive programs (LTIP) of $9.8 million (2006 $3.3 million). The largest component of this related to the expensing of stock options, including the mark to market impact of the fully vested pre-2004 stock options (net of the benefit of an economic hedge). The year-over-year increase was driven by the modification to the stock option programs in the fourth quarter of 2006 combined with the appreciation in the value of the Company's stock price over the prior year comparative period and the issuance of stock options with tandem stock option appreciation rights under the 2006 and 2007 stock option programs. The cost of the 2006 stock option program was substantially offset by the benefits of an economic hedge.

For a full description of stock based compensation plans, please refer to Note 10 to the Consolidated Financial Statements contained in our 2006 Financial Report.

5.5 Foreign operations

Since the late 1970s, the Company has established operations outside Canada for a variety of business purposes. This has resulted in a portion of the Company's capital and accumulated earnings being in wholly owned foreign subsidiaries. As there are currently no plans to repatriate the capital and earnings, Canadian and foreign taxes that might arise upon such repatriation have not been provided for. These funds have been accumulated in the following international operations:

a) U.S. based subsidiaries hold highly rated short-term securities and loans to the Company and its wholly owned Canadian subsidiaries. The capital and earnings of these U.S. based subsidiaries arose from investments made to offset net operating losses incurred by U.S. retail operations closed in the 1980s and 1990s and from the reinsurance of risks relating to certain insurance products marketed to customers of Financial Services and other reinsurance activities.
b) subsidiaries operating in the Pacific rim have provided the Company with a variety of important services related to product sourcing, logistics and vendor management. These subsidiaries have earned commissions for such services for over 20 years.
c) a Bermuda-based reinsurance company was established in 2004 to reinsure the risk of certain insurance products marketed to customers of Financial Services. In addition to its reinsurance activities, this company invests in highly rated short-term securities and makes loans to the Company.

6.0 Tax matters

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

The Canada Revenue Agency (CRA) has reassessed and is also expected to issue further reassessments regarding the tax treatments of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 onwards), and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities were expected to (and, as noted below, subsequently did) reassess for the corresponding periods. The Company does not have a significant exposure on these matters subsequent to the 2003 taxation year. The reassessments and expected reassessments in these matters are based on multiple grounds, some of which are highly unusual, and the Company will appeal these reassessments as and when they are received.

If the CRA (and applicable provincial tax authorities) were entirely successful in their reassessments - an outcome that the Company and its tax advisors believe to be very unlikely - it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately $263 million. Although the Company will appeal these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately $163 million, of which $157 million had been remitted by the end of the quarter.

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

7.0 Off-balance sheet arrangements

7.1 Glacier Credit Card Trust

As noted earlier, GCCT was formed to buy our credit card loans and issues debt to third party investors to fund its credit card loans purchases. Please refer to sections 4.4.3 and 5.2.6 of this MD&A for additional information on GCCT.

7.2 Personal loan securitization

As previously discussed in section 5.2.6 of this MD&A, we sold a portion of our personal loan receivables to a third party trust. Please refer to MD&A section 8.2 of our 2006 Financial Report for additional information.

7.3 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. Please refer to MD&A section 8.3 of our 2006 Financial Report for additional information on this program.

7.4 Bank financing for Associate Dealers and PartSource franchisees

We have guaranteed the bank debt of some Associate Dealers and some PartSource franchisees. Please refer to MD&A section 8.4 of our 2006 Financial Report for additional information on these guarantees.

7.5 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. Please refer to MD&A section 8.5 in our 2006 Financial Report for additional information on derivative financial instruments.

8.0 Enterprise risk management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its Enterprise Risk Management (ERM) framework. Introduced in 2003, the ERM framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across the Company.

The ERM framework and the identification of principal risks that the Company manages on an ongoing basis is described in detail in section 9.0 of the MD&A in our 2006 Financial Report.

Management reviews risks on an ongoing basis and did not identify any new principal risks during the second quarter of 2007

9.0 Contractual obligations

Contractual obligations due by period

($ in millions)	Total	In the remaining six months of 2007	In years 2008 - 2009	In years 2010 - 2011	After 2011
Long-term debt[1]	$ 1,170.2	$ 1.0	$ 153.7	$ 164.9	$ 850.6
Capital lease obligations	1.5	0.5	1.0	-	-
Operating leases	1,874.8	95.0	374.7	318.9	1,086.2
Purchase obligations	972.6	822.2	133.4	11.7	5.3
Other obligations	23.5	5.8	8.8	3.0	5.9
Total contractual obligations	$ 4,042.6	$ 924.5	$ 671.6	$ 498.5	$ 1,948.0

[1] The long-term debt number in the Consolidated Balance Sheet has been adjusted by $5.3 million due to the implementation of the new Financial Instrument standard.

10.0 Changes in accounting policies

10.1 Consolidation of variable interest entities

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG-15). This guideline was amended in September 2004 to harmonize with the related U.S. accounting standard, which had been revised in December 2003. AcG-15 requires companies to include certain variable interest entities in their annual or interim consolidated financial statements beginning on or after November 1, 2004.

In the fourth quarter of 2004, we made structural changes to the arrangements involving the independent trusts described in sections 8.1, 8.2 and 8.3 of the MD&A contained in our 2006 Financial Report. Consequently, we were not required to include the financial results of the trusts in our Consolidated Financial Statements for the period ended June 30, 2007.

A number of the corporations owned and operated by independent Associate Dealers and by Mark's and PartSource franchisees are variable interest entities. Although a few of these corporations required some subordinated financial support from us during the year, none of these corporations have been included in our Consolidated Financial Statements as the impact of consolidating these corporations was not material.

10.2 Financial instruments, comprehensive income, hedging and equity

As part of Canada's move toward harmonization with International Accounting Standards (currently expected to be completed by 2011), the CICA issued five new accounting standards that applied to the Company as of the first day of our 2007 fiscal year. These were: a) CICA Handbook Section 3855 – Financial Instruments, Recognition and Measurement b) CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation c) CICA Handbook Section 3865 – Hedges d) CICA Handbook Section 3251 - Equity and e) CICA Handbook Section 1530 – Comprehensive Income.

Financial instruments

The standards related to financial instruments required us to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include: a) Held for Trading; b) Held to Maturity; c) Available for Sale and d) Loans and Receivables. Classification choices for financial liabilities include: a) Held for Trading and b) Other. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification.

Comprehensive income

Under the new comprehensive income standard, we are required to report in a new financial statement entitled "Statement of Comprehensive Income" changes in the fair value of certain of these financial assets and liabilities (e.g. the effective portion of changes in the fair value of a derivative designated in a cash flow hedging relationship). The "Accumulated Other Comprehensive Income" (i.e. the portion of comprehensive income not already included in net earnings) is being presented as a separate line in shareholders' equity.

Hedging

With respect to the new standard related to hedging, the Company enters into various cash flow hedges, including foreign currency contracts and equity derivatives (used to hedge employee stock-based compensation plans). In cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. The Company also enters into various fair value hedges, including interest rate swaps. In fair value hedges the change in fair value of both the hedged item attributable to the risk being hedged and the entire hedging item are recorded in the net earnings on a quarterly basis.

The maximum length of time over which the Company is hedging its exposure to future cash flow variability for anticipated transactions is 10 years.

Equity

This new CICA Handbook section describes standards for the presentation of equity and changes in equity in the period, with specific reference to the new Comprehensive Income standard.

For a detailed description of the new accounting standards and their impact on the opening balances of Retained Earnings, Accumulated Comprehensive Income and other Balance Sheet Components please see Note 2 to the Consolidated Financial Statements for the period ended June 30, 2007.

The impact of adopting the new standards on the 2007 second quarter net earnings was not significant.

While the new standards have resulted in changes to our financial results, revised accounting procedures and additional disclosures, they are not expected to have a material impact on the Company's cash flows, business strategy or risk management processes in the foreseeable future.

11.0 Non-GAAP measures

The following 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 and amortization) and minority interest
- adjusted earnings, adjusted EPS basic, adjusted EPS net, EBITDA - adjusted
- same store sales
- comparable sales for Petroleum sites

For further information on our non-GAAP measures, please refer to Management's Discussion and Analysis in the MD&A contained in our 2006 Financial Report.

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 success for many businesses.

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

($ in millions)	Q2 2007	Q2 2006	YTD 2007	YTD 2006
EBITDA and minority interest				
CTR	$ 150.5	$ 161.4	$ 249.5	$ 258.9
Financial Services	76.2	54.0	128.4	89.6
Petroleum	10.5	2.5	17.0	7.8
Mark's	29.7	25.0	45.7	37.8
Eliminations	(12.1)	(13.1)	(22.2)	(20.6)
Total EBITDA and minority interest	$ 254.8	$ 229.8	$ 418.4	$ 373.5
Less: Depreciation and amortization expense				
CTR	$ 38.6	$ 36.6	$ 75.4	$ 72.5
Financial Services	3.0	3.1	6.3	6.3
Petroleum	4.1	3.7	8.1	7.3
Mark's	4.5	3.8	8.8	7.7
Total depreciation and amortization expense	$ 50.2	$ 47.2	$ 98.6	$ 93.8
Interest expense				
CTR	$ 23.2	$ 26.9	$ 45.4	$ 50.0
Financial Services	4.6	6.4	8.1	9.4
Mark's	0.7	0.9	1.1	1.4
Eliminations	(12.1)	(13.1)	(22.2)	(20.6)
Total interest expense	$ 16.4	$ 21.1	$ 32.4	$ 40.2
Earnings before income taxes and minority interest				
CTR	$ 88.7	$ 97.9	$ 128.7	$ 136.4
Financial Services	68.6	44.5	114.0	73.9
Petroleum	6.4	(1.2)	8.9	0.5
Mark's	24.5	20.3	35.8	28.7
Total earnings before income taxes and minority interest	$ 188.2	$ 161.5	$ 287.4	$ 239.5

[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 certain items. Historically, non-operating items have included gains and losses on the sales of loans receivable and dispositions of surplus property and equipment. Occasionally, other items such as the retirement obligations of our former CEO are also included. The timing and amount of gains and losses from these items are 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.

12.0 Controls and procedures

Disclosure controls and procedures

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

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

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design of our disclosure controls and procedures was conducted, under the supervision of management, including the CEO and CFO, as of June 30, 2007. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design of the system of disclosure controls and procedures remained effective as of June 30, 2007.

Internal control over financial reporting

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

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

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the design of our internal controls over financial reporting was conducted, under the supervision of management, including the CEO and CFO, as of June 30, 2007. Based on that evaluation, the CEO and the CFO have concluded that the design of internal controls over financial reporting continued to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP as of June 30, 2007.

Management has evaluated whether there were changes in our internal controls over financial reporting during the interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Management has determined that no material changes occurred in the second quarter of 2007.

Commitment to disclosure and investor communication

Canadian Tire strives to maintain a high standard of disclosure and investor communication. Reflecting our commitment to full and transparent disclosure, the Investor Relations section of the Company's web site includes the following documents and information of interest to investors:

- Annual Information Form
- Management Information Circular
- Quarterly reports
- Quarterly fact sheets
- Conference call webcasts (archived for one year)

The Company's Annual Information Form, Management Information Circular and quarterly reports are also available on the SEDAR (System for Electronic Disclosure and Retrieval) web site at www.sedar.com.

If you would like to contact the Investor Relations department directly, call Karen Meagher (416) 480-8058 or email investor.relations@cantire.com.

Consolidated Statements of Earnings (Unaudited)

(Dollars in millions except per share amounts)	13 weeks ended, June 30, 2007	July 1, 2006	26 weeks ended, June 30, 2007	July 1, 2006
Gross operating revenue	**$ 2,316.7**	$ 2,247.6	**$ 4,060.1**	$ 3,819.7
Operating expenses				
Cost of merchandise sold and all other operating expenses except for the undernoted items	**2,052.7**	2,008.5	**3,626.7**	3,433.0
Interest				
Long-term debt	**14.3**	19.5	**30.0**	38.2
Short-term debt	**2.1**	1.6	**2.4**	2.0
Depreciation and amortization	**50.2**	47.2	**98.6**	93.8
Employee Profit Sharing Plan	**9.2**	9.3	**15.0**	13.2
Total operating expenses	**2,128.5**	2,086.1	**3,772.7**	3,580.2
Earnings before income taxes and minority interest	**188.2**	161.5	**287.4**	239.5
Income taxes	**65.9**	58.1	**100.6**	86.2
Net earnings before minority interest	**122.3**	103.4	**186.8**	153.3
Minority interest (Note 7)	**-**	0.1	**-**	2.4
Net earnings	**$ 122.3**	$ 103.3	**$ 186.8**	$ 150.9
Basic earnings per share	**$ 1.50**	$ 1.27	**$ 2.29**	$ 1.85
Diluted earnings per share (Note 5)	**$ 1.50**	$ 1.25	**$ 2.29**	$ 1.83
Weighted average number of Common and Class A Non-Voting Shares outstanding (Note 5)	**81,485,464**	81,588,883	**81,494,477**	81,536,377

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in millions)	13 weeks ended, June 30, 2007	13 weeks ended, July 1, 2006	26 weeks ended, June 30, 2007	26 weeks ended, July 1, 2006
Cash generated from (used for):				
Operating activities				
Net earnings	**$ 122.3**	$ 103.3	**$ 186.8**	$ 150.9
Items not affecting cash				
Net provision for loans receivable	**51.6**	51.5	**101.9**	100.9
Depreciation and amortization of property and equipment	**49.7**	46.6	**97.4**	92.5
Employee future benefits expense (Note 4)	**1.6**	1.8	**3.3**	3.6
Fair market value adjustment and impairments on property and equipment	**2.4**	-	**2.4**	-
Other	**2.3**	(1.3)	**1.8**	(2.4)
Amortization of other assets	**0.5**	1.9	**1.3**	3.2
Loss (gain) on sales of loans receivable (Note 3)	**(5.5)**	3.4	**(2.5)**	16.1
Gain on disposals of property and equipment	**(4.7)**	(0.9)	**(4.1)**	(4.0)
Gain on disposals/redemptions of shares	**(18.4)**	(6.9)	**(18.4)**	(6.9)
	201.8	199.4	**369.9**	353.9
Changes in other working capital components	**98.3**	269.9	**(793.9)**	(424.1)
Cash generated from (used for) operating activities	**300.1**	469.3	**(424.0)**	(70.2)
Investing activities				
Additions to property and equipment	**(138.5)**	(77.0)	**(264.1)**	(160.6)
Investment in loans receivable	**(282.7)**	(185.7)	**(179.5)**	(135.8)
Purchases of stores	**(1.0)**	(2.4)	**(4.2)**	(3.3)
Employee future benefits	**(0.5)**	(0.5)	**(0.9)**	(0.9)
Asset retirement obligations	**(0.6)**	0.9	**(0.8)**	0.7
Proceeds on disposition of property and equipment	**7.9**	6.2	**8.5**	243.5
Long-term receivables and other assets	**(1.3)**	2.6	**16.3**	(2.7)
Proceeds on disposals/redemptions of shares	**18.4**	6.9	**18.4**	6.9
Securitization of loans receivable	**139.9**	(68.2)	**103.6**	(90.0)
Cash used for investing activities	**(258.4)**	(317.2)	**(302.7)**	(142.2)
Financing activities				
Dividends	**(15.0)**	(13.5)	**(28.5)**	(25.3)
Repayment of long-term debt	**(0.6)**	(1.2)	**(1.4)**	(202.7)
Class A Non-Voting Share transactions	**(1.6)**	(0.9)	**(1.6)**	(5.6)
Commercial paper	**(21.5)**	-	**-**	-
Issuance of long-term debt	**-**	0.9	**-**	0.9
Repayment of limited partnership interest (Note 7)	**-**	(300.0)	**-**	(300.0)
Cash used for financing activities	**(38.7)**	(314.7)	**(31.5)**	(532.7)
Cash generated (used) in the period	**3.0**	(162.6)	**(758.2)**	(745.1)
Cash and cash equivalents, beginning of period	**(19.9)**	255.5	**741.3**	838.0
Cash and cash equivalents, end of period (Note 9)	**$ (16.9)**	$ 92.9	**$ (16.9)**	$ 92.9

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in millions)		13 weeks ended, June 30, 2007	26 weeks ended, June 30, 2007
Net earnings	**$**	**122.3**	**186.8**
Other comprehensive income (loss), net of taxes			
Losses on derivatives designated as cash flow hedges (net of tax of $21.2 and $23.0)		**(38.9)**	**(42.3)**
Reclassification to non-financial asset of (gain) loss on derivatives designated as cash flow hedges (net of tax of $0.8 and $4.0)		**1.5**	**(7.5)**
Reclassification to earnings of gains on derivatives designated as cash flow hedges (net of tax of $0.9 and $1.6)		**(1.6)**	**(3.0)**
Other comprehensive income (loss)		**(39.0)**	**(52.8)**
Comprehensive income	**$**	**83.3**	**134.0**

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(Dollars in millions)		26 weeks ended, June 30, 2007		July 1, 2006
Share capital				
Balance, beginning of period	**$**	**702.7**	$	702.7
Transactions, net		**(1.5)**		6.6
Balance, end of period	**$**	**701.2**	$	709.3
Contributed surplus				
Balance, beginning of period	**$**	**0.1**	$	1.5
Transactions, net		**1.2**		(0.1)
Balance, end of period	**$**	**1.3**	$	1.4
Foreign currency translation adjustment				
Balance, beginning of period as previously reported	**$**	**(5.7)**	$	(5.7)
Reclassification to accumulated other comprehensive income		**5.7**		5.7
Balance, beginning of period as restated and end of period	**$**	**-**	$	-
Retained earnings				
Balance, beginning of period as previously reported	**$**	**2,088.1**	$	1,812.6
Transitional adjustment on adoption of new accounting policies (Note 2)		**(4.4)**		-
Balance, beginning of period as restated		**2,083.7**		1,812.6
Net earnings for the period		**186.8**		150.9
Dividends		**(30.2)**		(26.9)
Repurchase of Class A Non-Voting Shares		-		(12.2)
Balance, end of period	**$**	**2,240.3**	$	1,924.4
Accumulated other comprehensive income (loss)				
Balance, beginning of period as previously reported	**$**	**-**	$	-
Reclassification from foreign currency translation adjustment		**(5.7)**		(5.7)
Balance, beginning of period as restated		**(5.7)**		(5.7)
Transitional adjustment on adoption of new accounting policies (Note 2)		**14.3**		-
Other comprehensive income (loss) for the period		**(52.8)**		-
Balance, end of period	**$**	**(44.2)**	$	(5.7)

Consolidated Balance Sheets (Unaudited)

(Dollars in millions)

As at	June 30, 2007	July 1, 2006	December 30, 2006
ASSETS			
Current assets			
Cash and cash equivalents (Note 9)	**$ -**	$ 92.9	$ 741.3
Accounts receivable	**363.8**	382.1	340.5
Loans receivable (Note 3)	**683.3**	781.7	694.2
Merchandise inventories	**810.7**	817.4	667.3
Income taxes recoverable	**103.6**	-	-
Prepaid expenses and deposits	**59.6**	58.8	46.2
Future income taxes	**41.8**	43.6	51.5
Total current assets	**2,062.8**	2,176.5	2,541.0
Long-term receivables and other assets (Note 3)	**258.7**	185.0	283.5
Goodwill	**49.8**	46.2	46.4
Intangible assets	**52.4**	52.4	52.4
Property and equipment	**3,009.9**	2,596.6	2,881.3
Total assets	**$ 5,433.6**	$ 5,056.7	$ 5,804.6
LIABILITIES			
Current liabilities			
Bank indebtedness (Note 9)	**$ 16.9**	$ -	$ -
Accounts payable and other	**1,155.9**	1,025.7	1,579.5
Income taxes payable	**-**	28.2	81.1
Current portion of long-term debt	**153.2**	3.7	3.0
Total current liabilities	**1,326.0**	1,057.6	1,663.6
Long-term debt	**1,013.2**	1,170.1	1,168.4
Future income taxes	**70.6**	89.0	75.0
Other long-term liabilities	**125.2**	110.6	112.4
Total liabilities	**2,535.0**	2,427.3	3,019.4
SHAREHOLDERS' EQUITY			
Share capital (Note 6)	**701.2**	709.3	702.7
Contributed surplus	**1.3**	1.4	0.1
Accumulated other comprehensive loss	**(44.2)**	(5.7)	(5.7)
Retained earnings	**2,240.3**	1,924.4	2,088.1
Total shareholders' equity	**2,898.6**	2,629.4	2,785.2
Total liabilities and shareholders' equity	**$ 5,433.6**	$ 5,056.7	$ 5,804.6

Notes to the Consolidated Financial Statements (Unaudited)

1. Basis of presentation

   These unaudited interim consolidated financial statements (the "financial statements") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Canadian Tire Corporation, Limited and its subsidiaries and partnership (up until April 3, 2006 – see Note 7), collectively referred to as the "Company". These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the 52 weeks ended December 30, 2006 contained in our 2006 Financial Report.

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

2. Accounting policies

   These financial statements follow the same accounting policies and methods of their application as the most recently prepared annual financial statements for the 52 weeks ended December 30, 2006, except as noted below.

   Financial Instruments/Comprehensive Income/Hedges

   The Canadian Institute of Chartered Accountants (CICA) issued the following new accounting standards that apply to the Company as of the first day of the Company's 2007 fiscal year: a) CICA Handbook Section 3855 "Financial Instruments, Recognition and Measurement"; b) CICA Handbook Section 3861 "Financial Instruments – Disclosure and Presentation"; c) CICA Handbook Section 3865 "Hedges"; d) CICA Handbook Section 1530 "Comprehensive Income"; and e) CICA Handbook Section 3251 "Equity".

   Financial instruments

   This new standard requires the Company to revalue certain of its financial assets and liabilities, including derivatives designated in qualifying hedging relationships and embedded derivatives in certain contracts, at fair value on the initial date of implementation and at each subsequent financial reporting date.

   This standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale - measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings and b) other - measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is derecognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Long-term receivables and other assets	Loans and receivables	Amortized cost
Bank indebtedness	Held for trading	Fair value
Commercial paper	Other liabilities	Amortized cost
Accounts payable and other	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Other long-term liabilities	Other liabilities	Amortized cost

Included in the above financial statement captions are the following:

- interest-only strip related to the sale of loans receivable, which is included in long-term receivables and other assets, has been classified as held for trading and measured at fair value; and
- an equity investment included in long-term receivables and other assets, has been classified as available for sale and measured at cost (nominal value) because this equity investment does not have a quoted price in an active market.

Other balance sheet accounts, such as merchandise inventories, prepaid expenses, current and future income taxes, goodwill, intangible assets and property and equipment are not within the scope of the new accounting standards as they are not financial instruments.

Transaction costs related to all financial instruments are now expensed as incurred. Upon transition to the new standards on December 31, 2006, the Company elected to charge the remaining unamortized transaction costs related to debt financing in the amount of $2.9 million (net of tax) to retained earnings.

Credit card balance transfer promotions offered by the Company at rates not equal to market value are now measured at fair value at date of acquisition and then subsequently accounted for at amortized cost using the effective interest method. The difference between the promotional rates offered and market rates are recorded as an expense under the new standards. This resulted in a $3.7 million decrease in loans receivable and $2.4 million decrease (net of tax) to opening retained earnings on transition.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to December 28, 2002 and determined that the Company does not currently have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

Comprehensive income

In accordance with the new comprehensive income standard, the Company has chosen to report a new financial statement entitled "Consolidated Statements of Comprehensive Income" for changes in the fair value of certain of these financial assets and liabilities (e.g. the effective portion of changes in the fair value of a derivative designated in a cash flow hedging relationship). The "accumulated other comprehensive income" (i.e. the portion of comprehensive income not already included in net earnings) is being presented as a separate line in shareholders' equity.

In accordance with the new standards, management has estimated the net amount of gains and losses reported in accumulated other comprehensive income, which are currently expected to be reclassified to net earnings within the next 12 months, as a loss of approximately $34.6 million (net of tax).

Hedges

With respect to the new standard related to hedging, the Company enters into various cash flow hedges. The Company enters into foreign exchange contracts to hedge the exposure to foreign currency risk on the future payment of foreign currency denominated inventory purchases. The fair value of these contracts is included in accounts receivable. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. Once the inventory has been recognized, the Company has elected to reclassify the related accumulated other comprehensive income amount to merchandise inventories. Subsequent changes in the fair value of the foreign exchange contracts are recorded in net earnings for the period. The

Company enters into equity derivative contracts to hedge certain future stock-based compensation expenses. The fair value of these contracts is included in accounts receivable and long-term receivables and other assets depending on the derivative's maturity. The changes in fair value of these contracts is included in other comprehensive income to the extent the hedges continue to be effective. The related other comprehensive income amounts are reclassified to net earnings based on vesting of the respective stock-based share units. The Company also enters into certain interest rate swap contracts to manage its exposure to interest rate risks. The fair value of these contracts is included in other long-term liabilities. The changes in fair value of these contracts is included in other comprehensive income to the extent the hedges continue to be effective. The related other comprehensive income amounts are allocated to net earnings in the same period in which the hedged item affects net earnings. For all cash flow hedges, to the extent the change in fair value of the derivative is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings.

The Company also enters into fair value hedges, including certain interest rate swap contracts. The fair value of these hedges is included in other long-term liabilities. In fair value hedges the change in fair value of both the hedged item attributable to the risk being hedged and the entire hedging item are recorded in the net earnings for the respective period.

The maximum length of time over which the Company is hedging its exposure to future cash flow variability for anticipated transactions is ten years.

Equity

Handbook Section 3251 describes standards for the presentation of equity and changes in equity during the period with reference to the new comprehensive income standard.

The new standards were applied retrospectively without restatement of prior periods on December 31, 2006 (the first day of the Company's 2007 fiscal year), and thus prior periods presented have not been restated with the exception of accumulated foreign currency translation adjustment. The opening balance of retained earnings, net of income taxes, has been adjusted by the following:

- the difference between the previous carrying amount and the fair value of financial assets and liabilities designated as held for trading;
- the cumulative ineffective portion of the gain or loss on the hedging items in designated cash flow hedging relationships and the total gain or loss on the hedging items in designated fair value hedging relationships; and
- unamortized deferred debt issue expenses.

The opening balance of accumulated other comprehensive income, net of income taxes, has been similarly adjusted by the following:

- the cumulative effective portion of the gain or loss on the hedging items that are included in designated cash flow hedging relationships; and
- restatement of current and prior periods to reflect the accumulated foreign currency translation adjustment on the translation of certain subsidiaries from a separate category of shareholders' equity.

The transitional impact of the new standards on relevant items in the Company's opening Balance Sheet for 2007 is summarized as follows:

1. Accounts receivable (derivative assets) – increase of $37.0 million
2. Loans receivable – decrease of $3.7 million
3. Long-term receivables and other assets (debt issue expenses net of derivative assets) – decrease of $0.9 million
4. Future income taxes (current asset) – decrease of $9.7 million
5. Future income taxes (long-term liability) – decrease of $4.4 million
6. Accounts payable – increase of $6.8 million
7. Other long-term liabilities (derivative liabilities) – increase of $12.9 million
8. Long-term debt – decrease of $2.5 million
9. Opening retained earnings – decrease of $4.4 million
10. Accumulated other comprehensive income – increase of $14.3 million

3. Loans Receivable

The Company sells pools of loans receivable ("the Loans") to third party trusts ("the Trusts") in transactions known as securitizations. Loans include both credit card and personal loans receivable. The transactions are accounted for as sales in accordance with Accounting Guideline 12, "Transfers of Receivables" ("AcG-12"), and the Loans are removed from the Consolidated Balance Sheets. The Company retains the interest-only strip, and for the personal loan securitization, a subordinated interest in the loans sold (the "seller's interest") and cash deposited with one of the Trusts (the "securitization reserve"), all of which are retained interests. The seller's interest and securitization reserve provide that Trust with a source of funds in the event that the interest and principal collected on the Loans is not sufficient to pay the Trust's creditors. The Trusts' recourse to the Company is limited to the retained interests. The Company also assumes responsibility for servicing the Loans, for which it does not receive any direct compensation.

The proceeds of the sale are deemed to be the cash received, interest-only strip and securitization reserve, less any servicing obligation assumed. The proceeds are allocated between the Loans, interest-only strip, seller's interest and securitization reserve based on their relative fair value at the date of sale, with any excess or deficiency recorded as a gain or loss on sale respectively. The Company estimates fair values by discounting future cash flows or comparing the appropriate yield curves to matching maturity terms. Retained interests are measured at fair value and are reviewed for impairment on a quarterly basis. For the 13 weeks ended June 30, 2007, the Company recognized a pre-tax gain of $5.5 million (2006 - $3.4 million pre-tax loss) on the securitization of the Loans. For the 26 weeks ended June 30, 2007, the Company recognized a pre-tax gain of $2.5 million (2006 - $16.1 million pre-tax loss).

As the Company does not control the Trusts, they have not been consolidated in these financial statements.

Quantitative information about loans managed and securitized by the Company is as follows:

(Dollars in millions)	**Total principal amount of receivables as at [1]**			**Average balances for the 26 weeks ended**	
	June 30, 2007	July 1, 2006	December 30, 2006	**June 30, 2007**	July 1, 2006
Total net managed credit card loans	**$ 3,484.8**	$ 3,133.2	$ 3,372.3	**$ 3,318.9**	$ 3,048.8
Credit card loans sold	**(2,828.3)**	(2,376.5)	(2,702.9)	**(2,697.5)**	(2,366.5)
Credit card loans held	**656.5**	756.7	669.4	**621.4**	682.3
Net managed personal and mortgage loans [2]	**187.1**	260.1	226.9	**206.1**	259.7
Loans sold	**(88.1)**	(163.8)	(124.5)	**(106.0)**	(185.3)
Loans held	**99.0**	96.3	102.4	**100.1**	74.4
Total loans receivable	**755.5**	853.0	771.8	**$ 721.5**	$ 756.7
Less: long-term portion [3]	**72.2**	71.3	77.6		
Current portion of loans receivable	**$ 683.3**	$ 781.7	$ 694.2		

[1] Amounts shown are net of allowance for credit losses.

[2] Personal loans are unsecured loans that are provided to qualified existing credit cardholders for terms of three to five years. Personal loans have fixed monthly payments of principal and interest; however, the personal loans can be repaid at any time without penalty. Mortgage loans are issued for terms of up to ten years, have fixed or variable interest rates and are secured.

[3] The long-term portion of loans is included in "Long-term receivables and other assets".

Net credit losses for the 13 weeks ended June 30, 2007 were $51.8 million (2006 - $50.5 million). Net credit losses for the 26 weeks ended June 30, 2007 were $104.0 million (2006 - $101.7 million). Net credit losses are charge-offs net of recoveries and are based on the total managed portfolio of loans receivable.

4. Employee Future Benefits

The net employee future benefit expense for the 13 weeks and 26 weeks ended June 30, 2007 was $1.6 million (2006 - $1.8 million) and $3.3 million (2006 - $3.6 million), respectively.

5. Diluted Earnings Per Share

The reconciliation of the number of shares used in the diluted earnings per share calculation is as follows:

	13 weeks ended June 30, 2007	13 weeks ended July 1, 2006	**26 weeks ended June 30, 2007**	26 weeks ended July 1, 2006
Average number of shares for basic earnings per share calculations	**81,485,464**	81,588,883	**81,494,477**	81,536,377
Dilutive options	**-**	759,574	**-**	834,223
Average number of shares for dilutive earnings per share calculations	**81,485,464**	82,348,457	**81,494,477**	82,370,600

Effective November 2006, all outstanding stock options have a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised. Accordingly, outstanding stock options have no dilutive impact on the average number of shares outstanding. For further details of the terms of the stock option plans prior to amendment, please refer to Note 10 to the most recently prepared annual financial statements for the 52 weeks ended December 30, 2006.

6. Share Capital

(Dollars in millions)	**June 30, 2007**	July 1, 2006	December 30, 2006
Authorized			
3,423,366 Common Shares			
100,000,000 Class A Non-Voting Shares			
Issued			
3,423,366 Common Shares (July 1, 2006 – 3,423,366)	**$ 0.2**	$ 0.2	$ 0.2
78,051,027 Class A Non-Voting Shares (July 1, 2006 – 78,117,571)	**701.0**	709.1	702.5
	$ 701.2	$ 709.3	$ 702.7

The Company issues and repurchases Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, to the extent of any previous net excess from the issue of share with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares:

(Dollars in millions)	**26 weeks ended June 30, 2007**		26 weeks ended July 1, 2006	
	Number	**$**	Number	$
Shares outstanding at the beginning of the period	**78,047,456**	**702.5**	78,032,724	702.5
Issued	**290,571**	**22.0**	678,247	33.4
Repurchased	**(287,000)**	**(22.3)**	(593,400)	(39.0)
Excess of repurchase price over issue price (issue price over repurchase price)	**-**	**(1.2)**	-	12.2
Shares outstanding at the end of the period	**78,051,027**	**701.0**	78,117,571	709.1

7. Minority Interest

The Company was the general partner in a limited partnership for purposes of raising $300 million of capital in relation to a portfolio of its retail properties. The partnership invested in the retail properties by way of a note and equity in an entity that owns the portfolio of properties. The partnership had an indefinite life, but could be liquidated in certain circumstances. The assets and liabilities, results of operations and cash flows of the partnership were included in the financial statements of the Company. The preferred interest was treated as minority interest on the Consolidated Balance Sheets and in the Consolidated Statements of Earnings.

On April 3, 2006, the $300 million note was repaid and the equity was redeemed. The limited partnership repaid the limited partners. Accordingly, the minority interest ceased to be reflected on the Consolidated Balance Sheets after April 3, 2006, and no further charge has been reflected in the Consolidated Statements of Earnings after April 3, 2006.

8. Segmented Information –Statement of Earnings

(Dollars in millions)	**13 weeks ended June 30, 2007**	13 weeks ended July 1, 2006	**26 weeks ended June 30, 2007**	26 weeks ended July 1, 2006
Gross operating revenue[1]				
CTR	**$ 1,517.5**	$ 1,518.8	**$ 2,592.2**	$ 2,488.0
Financial Services	**197.5**	179.6	**379.8**	341.3
Petroleum	**445.6**	408.1	**808.4**	743.2
Mark's	**187.2**	170.1	**339.3**	298.8
Eliminations	**(31.1)**	(29.0)	**(59.6)**	(51.6)
Total gross operating revenue	**$ 2,316.7**	$ 2,247.6	**$ 4,060.1**	$ 3,819.7
Earnings (loss) before income taxes and minority interest				
CTR	**$ 88.7**	$ 97.9	**$ 128.7**	$ 136.4
Financial Services	**68.6**	44.5	**114.0**	73.9
Petroleum	**6.4**	(1.2)	**8.9**	0.5
Mark's	**24.5**	20.3	**35.8**	28.7
Total earnings before income taxes and minority interest	**$ 188.2**	$ 161.5	**$ 287.4**	$ 239.5
Income taxes	**65.9**	58.1	**100.6**	86.2
Minority interest	**-**	0.1	**-**	2.4
Net earnings	**$ 122.3**	$ 103.3	**$ 186.8**	$ 150.9
Interest expense				
CTR	**$ 23.2**	$ 26.9	**$ 45.4**	$ 50.0
Financial Services	**4.6**	6.4	**8.1**	9.4
Petroleum	**-**	-	**-**	-
Mark's	**0.7**	0.9	**1.1**	1.4
Eliminations	**(12.1)**	(13.1)	**(22.2)**	(20.6)
Total interest expense	**$ 16.4**	$ 21.1	**$ 32.4**	$ 40.2
Depreciation and amortization expense				
CTR	**$ 38.6**	$ 36.6	**$ 75.4**	$ 72.5
Financial Services	**3.0**	3.1	**6.3**	6.3
Petroleum	**4.1**	3.7	**8.1**	7.3
Mark's	**4.5**	3.8	**8.8**	7.7
Total depreciation and amortization expense	**$ 50.2**	$ 47.2	**$ 98.6**	$ 93.8

[1] Gross operating revenue includes dividend and interest income.

Segmented Information – Total Assets

(Dollars in millions)	**As at June 30, 2007**	As at July 1,2006	As at December 30, 2006
CTR	**$ 4,442.6**	$ 3,896.8	$ 4,502.5
Financial Services	**1,306.5**	1,472.9	1,476.0
Petroleum	**256.8**	239.2	477.9
Mark's	**444.6**	367.4	406.7
Eliminations	**(1,016.9)**	(919.6)	(1,058.5)
Total	**$ 5,433.6**	$ 5,056.7	$ 5,804.6

9. Cash and Cash Equivalents (Bank Indebtedness)

The components of cash and cash equivalents are:

(Dollars in millions)	**June 30, 2007**	July 1, 2006	December 30, 2006
Cash	**$ (146.7)**	$ (142.0)	$ (47.4)
Short-term investments	**129.8**	234.9	788.7
Cash and cash equivalents (bank indebtedness)	**$ (16.9)**	$ 92.9	$ 741.3

As at June 30, 2007, the balance of $(16.9) million has been classified as bank indebtedness. The negative cash balance is due to outstanding cheques, not bank borrowings.

10. Supplementary Cash Flow Information

The Company paid income taxes during the 13 weeks ended June 30, 2007, amounting to $150.8 million (2006 - $51.3 million) and made interest payments of $28.5 million (2006 - $27.4 million). For the 26 weeks ended June 30, 2007, the Company paid income taxes amounting to $256.2 million (2006 - $127.8 million) and made interest payments of $43.3 million (2006 - $47.8 million).

During the 13 weeks ended June 30, 2007, property and equipment were acquired at an aggregate cost of $167.7 million (2006 - $84.1 million), of which $28.8 million (2006 - $7.1 million) was included in accounts payable and other. During the 26 weeks ended June 30, 2007, property and equipment were acquired at an aggregate cost of $293.3 million (2006 - $167.7 million), of which $28.8 million (2006 - $7.1 million) was included in accounts payable and other.

11. Tax Matters

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

The Canada Revenue Agency (CRA) has reassessed and is expected to issue further reassessments regarding the tax treatments of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 onwards), and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities are expected to reassess for the corresponding periods. The Company does not have a significant exposure on these matters subsequent to the 2003 taxation year. The reassessment and expected reassessments in these matters are based on multiple grounds, some of which are highly unusual and the Company will appeal these reassessments as and when they are received.

If the CRA (and applicable provincial tax authorities) were entirely successful in their reassessments - an outcome that the Company and its tax advisors believe to be very unlikely - it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately $263 million. Although the Company will appeal these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately $163 million, of which $157 million had been remitted by the end of the quarter. In the event that the Company is successful in its appeal, in whole or in part, some, or all of the funds remitted to the various tax authorities will be refunded to the Company.

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

12. Comparative Figures

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

Interest Coverage Exhibit to the Consolidated Financial Statements

The Company's long-term interest requirements for the 52 weeks ended June 30, 2007, after annualizing interest on long-term debt issued and retired during this period, amounted to $75.7 million. The Company's earnings before interest on long-term debt, income taxes and minority interest for the 52 weeks then ended were $668.3 million, which is 8.8 times the Company's long-term interest requirements for this period.

Shareholder and Corporate Information

Home Office

Canadian Tire Corporation, Limited
2180 Yonge Street
P.O. Box 770, Station K
Toronto, Ontario
M4P 2V8
Tel (416) 480-3000
Fax (416) 544-7715
Website: www.canadiantire.ca

Registrar and Transfer Agent

Computershare Trust Company of Canada
Head Office
100 University Avenue
Toronto, Ontario
M5J 2Y1
Tel (416) 263-9524
Toll free 1 (800) 564-6253
Fax 1-866-249-7775

Email: service@computershare.com

Exchange Listings

The Toronto Stock Exchange:
Common Shares (CTC)
Class A Non-Voting Shares (CTC.a)

Corporate and Shareholder Information

Karen Meagher
Manager,
Investor Relations
Tel (416) 480-8058

Email:
karen.meagher@cantire.com

Shareholder services provided by the transfer agent:

- Change of address
- Eliminate multiple mailings
- Transfer Canadian Tire shares
- Inquire about Dividend Reinvestment Program
- Obtain a copy of the most recent annual report
- Other shareholder account inquiries

Please contact the principal offices of Computershare Investor Services in Halifax, Montreal, Toronto, Winnipeg, Calgary or Vancouver.