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The Delphi Group and Corporate Knights have assessed Canadian Tire Corporation's (CTC) Q1 2013 Business Sustainability Performance Report to provide CTC stakeholders with an independent review. The objective of this review is to determine if the appropriate due diligence is in place for accurate public disclosures. In addition, we conducted a comparative analysis of CTC and its peers *(Home Depot, Wal-Mart, Home Hardware, MEC, Rona and Target*) based on reporting frequency (annual vs. quarterly) and forecasted vs. actual data disclosures. CTC has also included a response to the previous quarter's (Q4 2012) recommendations (Appendix A).

Overall, we found the following:

1. **Comprehensive Business Sustainability Accounting System**: CTC has the appropriate accounting system in place regarding their methodologies, assumptions, data management, and accountability in relation to their sustainability reporting metrics.

2. **Enhanced MD&A Quarterly Reporting Format:** CTC has revamped how they report within their MD&A section of their quarterly financial reporting. The new format provides rolled up summary metrics that are easier and more meaningful for stakeholders to understand. CTC has removed information regarding avoided greenhouse gas emission avoidance and we recommend that it be included moving forward as this will be increasingly important to financial reporting and key stakeholders over time.

3. **Innovative Sustainability Disclosures:** While CTC is the only company in the peer set to use both an annual/quarterly sustainability disclosure framework, and actual/forecasted sustainability performance reporting, we believe this reporting format is innovative and distinguishes CTC from its competitors. At the moment, we do not see a trend in quarterly sustainability public reporting. The main differentiation between Canadian Tire and its peers is that the majority (Home Depot, MEC, Target, and Wal-Mart) disclose performance against some or all of their targets based on annual actual data (see Table 1).

TABLE 1: COMPARATIVE ANALYSIS OF CTC'S SUSTAINABILITY DISCLOSURE

Company	Country	Disclosure Frequency		Reporting	
		Annual	Quarterly	Actual	Forecasted
Canadian Tire	Canada	x	x	x	x
Home Hardware	Canada				
Home Depot	United States	x		x	
Mountain Equipment Co-Op	Canada	x		x	
Rona	Canada				
Target	United States	x		x	
Wal-Mart	United States	x		x	

This *Letter of Review* briefly outlines CTC's data review findings, a comparative analysis of CTC's sustainability disclosures, and recommendations moving forward. For an overview of the methodology used to conduct our review please see Appendix B.

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Data Review Findings:

This quarter we reviewed two metrics from projects included in CTC's Q1 2013 Business Sustainability Performance Report: *Product & Packaging Right-Sizing and Demand Control Ventilation (DCV-new project for 2013) Retrofits*. These projects were selected because they were either new and/or had significant environmental impact reductions.

The Product and Packaging Right-Sizing project reviews products that have the ability to be more efficiently packaged and/or concentrated and thus reducing the overall packaging weight and the associated benefits from end-of-life waste avoidance. Specifically, we reviewed all the data, methodology, assumptions and calculations for waste avoidance and found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices.

The Demand Control Ventilation project involved installing new CO_2 sensors on all rooftop HVAC units which brings in fresh air when needed based on CO_2 levels—and not continuously—thus reducing the energy required to power the system. Specifically, we reviewed all the data, methodology, assumptions and calculations for greenhouse gas (GHG) emission avoidance and found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices. In addition, we also found that CTC received incentives from various utilities for installing these sensors; however, this was not represented in the cost avoidance calculation as it was an initial rebate. We recommend, if it is possible, these types of project incentives/costs be included into the overall cost avoidance calculations—which would demonstrate even higher value to CTC stakeholders. This does have implications for other projects because it demands not just forecasted cost avoidance, but a more fulsome accounting of benefits including initial investments—it would also give stakeholders a clearer understanding of why projects move forward (see recommendations, NPV/ROI).

Finally, we reviewed CTC's new MD&A quarterly financial reporting format. The new format provides rolled up summary metrics that are easier and more meaningful for stakeholders to understand. CTC has removed information regarding avoided greenhouse gas emissions and we recommend that it be included moving forward as this will be increasingly important to financial reporting[1] and key stakeholders over time.

Comparative Analysis of CTC's Sustainability Disclosure

Introduction

For the Q1 2013 review, the sustainability reporting of seven companies, consisting of Canadian Tire and six peer companies (as listed below) was reviewed. The specific intent of the inquiry was two-fold. First, we sought to determine whether companies in the peer set use an annual or quarterly reporting framework, or some combination thereof. Second, we analyzed reporting practices in the peer set to see which companies disclose forecasted sustainability performance data in addition to, or instead of, actual sustainability performance data. The peer set for the study is summarized below (Table 2)[2].

[1] *Canadian Securities Administrators (CSA) Staff Notice 51-333 -Environmental Reporting Guidance. October 2010.* which recommends disclosure on, including, but not limited to: materiality, disclosure of environmental risks (including litigation, regulatory, physical, reputational), disclosure of environmental trends and uncertainties, disclosure of environmental liabilities, and the most relevant, disclosure of financial and operational effects of environmental protection requirements (i.e. quantification of costs for items such as control of atmospheric emissions, where material, and possible and anticipated trends in these costs).

[2] In the cases of Home Depot, Target and Wal-Mart, the parent company's reporting practices were analyzed.

TABLE 2: COMPARISON PEER SET

Company	Country	GICS Sector	Public/Private
Canadian Tire	Canada	Consumer Discretionary	Public
Home Hardware	Canada	Consumer Discretionary	Private
Home Depot	United States	Consumer Discretionary	Public
Mountain Equipment Co-Op (MEC)	Canada	Consumer Discretionary	Private
Rona	Canada	Consumer Discretionary	Public
Target	United States	Consumer Discretionary	Public
Wal-Mart	United States	Consumer Staples	Public

Annual vs. Quarterly Reporting

Our analysis revealed that Canadian Tire is the only company in the peer set to use both an annual and quarterly disclosure framework (Table 1). Home Depot, MEC, Target and Wal-Mart all use an annual reporting framework to support their sustainability disclosure, although the actual metrics being reported vary from company to company. Home Hardware and Rona were found to have no public sustainability disclosures.

Canadian Tire

Canadian Tire is the only company in the peer set to use both an annual and quarterly sustainability disclosure framework. Each quarter, Canadian Tire publishes a 'Business Sustainability Performance Report' that includes the forecasted economic and environmental benefits of the company's various sustainability projects and initiatives. The following metrics are reported for each project: Cost Avoidance ($), Energy Use Avoidance (GJ), GHG Avoidance (t/CO_2e) and Waste Avoidance (t). The projects are segmented into three categories: Products & Packaging, Product Transport and Buildings & Operations. Examples of sustainability projects include HVAC upgrades, damage reduction projects and roofing retrofits.

Each year, Canadian Tire also publishes a 'Corporate and Supply Chain Environmental Footprint Report' that includes actual, annual performance data on two metrics: i) Scope 1, 2 and 3 greenhouse gas emissions (t/CO_2e); and ii) Energy Use (GJ).

Home Hardware

There is no evidence that the Home Hardware publishes a corporate sustainability report or that the company discloses sustainability performance data, such as greenhouse gas emissions, through other channels. Private companies such as Home Hardware do not tend to face the same regulatory or stakeholder-based pressures (or incentives) to engage in corporate sustainability reporting as public companies, although many private enterprises, including MEC, offer extensive sustainability reporting.

Home Depot (Global)

Home Depot uses an annual reporting framework to disclose its corporate sustainability performance data. The company discloses a very limited range of metrics, including Scope 1 and 2 greenhouse gas emissions (t/CO_2e), energy use (GJ), the energy intensity of its US stores (kwh/sq ft) and several waste-related metrics, including the amount of recycled cardboard (tons). All of these data points are tracked and updated annually. There is no evidence that Home Depot uses a quarterly reporting framework to convey sustainability performance.

MEC
MEC uses an annual reporting framework to disclose an extensive range of corporate sustainability performance data, including Scope 1, 2 and 3 GHG emissions (t/CO_2e), energy use (GJ), waste diversion rate (%), lost time injury rate, total payroll cost and employee turnover (%). Like Home Depot, MEC updates its sustainability performance data on an annual basis. There is no evidence that MEC measures or discloses its sustainability performance on a quarterly basis.

Rona
Like Home Hardware, Rona does not appear to disclose sustainability data; there is no evidence that the company publishes a corporate sustainability report or that the company discloses sustainability performance data, such as greenhouse gas emissions, through other channels. The company may track this information internally but there is no evidence of public disclosure.

Target (Global)
Target uses an annual reporting framework to support its sustainability reporting. The company discloses a limited range of sustainability metrics, including Scope 1 and 2 greenhouse gas emissions (t/CO_2e), energy use (GJ) and water use (US gallons). The company also tracks a variety of other 'sustainability' indicators, such as the proportion of its workforce that has undergone biometric health screening. All metrics appear to be updated annually.

Wal-Mart (Global)
Wal-Mart uses an annual reporting framework to support its sustainability reporting. Like Home Depot and Target, Wal-Mart discloses a limited range of recognized sustainability data points. The company discloses its Scope 1, 2 and 3 greenhouse gas emissions (t/CO_2e), energy use (GJ) and lost time injury rate, and a variety of company-specific indicators, such as the amount of produce sourced from small and medium sized farms. All indicators appear to be updated annually.

Forecasted vs. Actual Benefits

Our analysis indicates that Canadian Tire is the only company in the peer set to report both actual and forecasted sustainability performance data. Home Depot, MEC, Target and Wal-Mart concentrate on disclosing actual data, although some companies also report the extent to which they are meeting future performance targets, such as a GHG reduction target. Home Hardware and Rona were found to have no sustainability disclosures.

Canadian Tire
As mentioned above, Canadian Tire uses both an annual and quarterly sustainability disclosure framework, and offers both actual and forecasted sustainability performance reporting.

Home Hardware
As mentioned above, Home Hardware does not appear to publicly disclose any sustainability performance data. An analysis of forecasted vs. actual performance reporting is therefore rendered moot.

Home Depot (Global)
Home Depot reports actual sustainability performance data. For instance, in its most recently reporting cycle, the company disclosed its actual 2011 Scope 1 and 2 GHG emissions (t/CO_2e). The company does not offer any performance forecasts, including emissions forecasts, although it reports that it is "on track" to meet a 20% reduction in store energy use by 2015 (from a 2004 baseline). Moreover, through the company's Sustainability Integration System, senior leaders present progress against targets at quarterly Environmental Council meetings. In general terms, Home Depot does not appear to use a

reporting system akin to Canadian Tire's that focuses on *forecasted* economic or environmental benefits generated from sustainability initiatives.

MEC

MEC's sustainability reporting consists of actual data but the company makes extensive use of targets to drive future performance. Still, MEC stops short of offering forecasted GHG emissions (t/CO_2e), energy use (GJ), employee turnover rates (%), or forecasts of other sustainability metrics that it tracks.

Rona

As mentioned above, Rona does not appear to publicly disclose any sustainability performance data. An analysis of forecasted vs. actual performance reporting is therefore rendered moot.

Target (Global)

Target's approach to sustainability reporting is similar to MEC's in the sense that it consists largely of actual data and future performance targets. For instance the company disclosed absolute water use in 2011 of 3.45 billion gallons, constituting a 0.3% reduction in water use per square foot of retail space against a 2009 baseline. The company reports that it is not currently on track to meets its goal of reducing water use per square foot of retail space by 10% against a 2009 baseline by 2015. While Target's sustainability reporting carries a forward looking element, it should not be confused with Canadian Tire's approach of providing forecasted project-specific economic and environmental benefits.

Wal-Mart (Global)

Like other companies in the peer set, Wal-Mart reports actual sustainability performance, and there is no evidence that the company discloses sustainability performance forecasts. Like Home Depot, MEC and Target, Wal-Mart also makes extensive use of performance targets and each year the company discloses progress against each target.

Recommendations Moving Forward:

1. **MD&A Quarterly Reporting Format**: Consider the inclusion of greenhouse gas emission information into the new MD&A quarterly reporting format which is becoming increasingly important for financial reporting (see CSA Staff Notice 51-333 -Environmental Reporting Guidance) and stakeholders.

2. **Consider Alternate Representations of Economic Data:** The current cost avoidance calculations provide a very useful understanding of the accrued forecasted financial benefits of an approved project, but it gives stakeholders little understanding of the required investment and overall project value. A more fulsome approach would be to integrate a project's projected environmental and economic benefits and costs into the project's determination framework (e.g. NPV/ ROI calculation) prior to it reaching a go/no-go decision[3].

Overall, Canadian Tire has a very strong due diligence process in place regarding their Business Sustainability Performance accounting methodologies, assumptions, data management, and accountability structure. While Canadian Tire is the only company in our comparison to report on a

[3] For instance, the avoidance of energy use or waste against a business as usual scenario would presumably lead to cost reductions that could, from a holistic standpoint, flow into a project's NPV calculation. While some environmental benefits – notably the avoidance of GHG emissions- are not easily monetized in the current regulatory environment, the process of including environmental benefits in an NPV calculation is a leading edge management practice.

quarterly basis using forecasted business sustainability performance, we believe this is an innovative reporting approach—one that differentiates CTC from its competitors and peers. It also serves as a demonstration of best practice for sustainability disclosures.

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Appendix A: Canadian Tire Response to Q4 2012 Recommendations

#	Delphi/Corporate Knights Q4 2012 Recommendations	Canadian Tire Response
1	**CTC Press Release and Environmental Footprint Discussion:** There is minimal discussion of CTC's 2011 Environmental Footprint within the Q4/Year-End Press Release. As the 2011 Environmental Footprint is released with the 2012 Q4 Business Sustainability Performance Report, it will be important for stakeholders to have a sense on how CTC is performing year-over-year with regards to its overall GHG emissions and energy usage calculated within the footprint.	In Q4 CTC did not publish a press release but posted an online Business Sustainability report instead. CTC's 2012 Corporate & Supply Chain Environmental Footprint Report can be found here: http://corp.canadiantire.ca/EN/MAD/BUSINESSSUSTAINABILITY/Pages/OurProgressReports.aspx. The report details results with various breakdowns (scope, business segments, etc) and key highlights as well as reporting frameworks used.
2	**Publicly Available Targets**: While CTC has best-in-class business sustainability and environmental footprint disclosures, it still lacks publicly available GHG, energy, and waste reduction targets. Many companies still struggle with target setting; however, CTC has internal targets on its quarterly performance reporting. Publicly available targets help stakeholders ascertain how well a company is managing and mitigating their environmental impacts and we recommend that CTC consider this for future reporting cycles.	CTC understands the value of externally reported targets. We currently set internal targets and we are reviewing the possibility of including external targets in our reporting framework moving forward.

Appendix B:

Overview of Methodology:

1. **Document Review**: Review all internal and external documentation provided.
2. **Metric Selection**: Independently select a sample of two metrics within the data sets provided to the public in order to review the methodologies, data management/calculations, assumptions, and accountability system. Only a sample of the data was reviewed as a proxy for the entire data set[4]. For the purposes of this assessment the following metrics were reviewed:
    - **Q1 Business Sustainability Performance Report**:
        - **Waste Avoidance:** 1282 (t), CTR - Product & Packaging Right-Sizing, 49 Projects
        - **GHG Emissions Avoidance:** 5211 (tCO2e), CTR - Demand Control Ventilation (DCV) Retrofits (new in 2013!), 129 Projects
3. **Interviews and Supporting Documentation:** Interviews were conducted with key CTC staff in charge of the data and supporting documentation was requested in order to verify the accuracy of statements.
4. **Findings:** A final statement on each area discussing due diligence in methodology, data management and calculations, assumptions, and accountability will be written based on the results of the review.
5. **Comparative Analysis of CTC's Sustainability Disclosure**:
    - **Peer Set Used**: Home Depot, Wal-Mart, Home Hardware, MEC, Rona and Target
    - **Reporting Frequency**: Review and compare use of annual vs. quarterly reporting
    - **Forecasted vs. Actual Data Disclosures**: Review and compare use of forecasted vs. actual environmental/ economic benefits associated with sustainability initiatives.
6. **Recommendations:** Make recommendations to CTC in terms of disclosure and reporting.

[4] If the random sample data set has no major issues then we are reasonably confident that the organization has the appropriate due diligence in place for the rest of its metrics. However, we must note that a complete audit of the data was beyond the scope of this review and we cannot comment on accuracy beyond the data in which we reviewed directly.