August 2nd, 2013

The Delphi Group and Corporate Knights have assessed Canadian Tire Corporation's (CTC) Q2 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, Home Hardware, MEC, Rona, Target and Wal-Mart*) based on sustainability metrics, reporting domains, and targets used to drive performance. CTC has also included a response to the previous quarter's (Q1 2013) 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. Although CTC's assumptions are strong, we continue to recommend that they be reviewed, tested and revised on a regular basis.

2. **Above Average Sustainability Disclosures:** CTC is performing above average when compared to the peer set with regards to sustainability metrics disclosed and the various reporting domains used. CTC should consider expanding the scope of its sustainability reporting to include waste generation, water consumption, employee turnover, lost time injury rate, total payroll cost, and external performance targets to be more in line with the reporting leaders in the peer set (MEC, Target, Walmart).

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.

Data Review Findings:

This quarter we reviewed two metrics from projects included in CTC's Q2 2013 Business Sustainability Performance Report: Buildings and Operations *Seasonal Decor Right-Sizing and Mark's – Distribution Centre (DC) Paper Reduction (Picksheets)*.

The Seasonal Decor Right-Sizing project improves upon the signage size and weight in order to more efficiently size outdoor signage for seasonal promotions thus reducing the overall product, delivery volume/weight, and installation required. The assumptions used to calculate the cost, energy, GHG, and waste avoidances include: old vs. new cost of signage, reduction in transportation/delivery requirements for energy (fuel) and GHG emissions, and changes in end-of-life waste based on the reduced size and volume of the new signs. All the assumptions are reasonable, but we would recommend that CTC further test the installation time reductions to ensure that they are in fact reduced by half the time. Specifically, we reviewed all the data, methodology, assumptions and calculations for cost 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 Mark's DC Paper Reduction (Picksheets) project increases the number of lines per order sheet (Picksheet) thus reducing the overall paper used by almost 75%. The cost and waste avoidance calculations and assumptions are very straight forward and have been completed according to best practice. One thing that was not included in the cost avoidance assumptions was the potential for worker productivity to increase or decrease based on the new picksheet format. This may be something CTC may want to test further; however, we do not believe it to be material to the overall calculations. CTC also used the embedded GHG emissions and energy of the paper, based on a life cycle assessment (LCA), to calculate these avoidances. The assumptions used were based on US data and could possibly be updated to reflect more accurately CTC's paper sourcing; however, we believe this is a leading practice and encourage CTC's use of LCA to more accurately quantify cost and environmental impact avoidances within their supply chain. After having reviewed all the data, methodology, assumptions and calculations we found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices.

Comparative Analysis of CTC's Sustainability Disclosure

Introduction

For this quarter we compared Canadian Tire's sustainability reporting practices with those of an industry peer group consisting of Home Depot, Home Hardware, MEC, Rona, Target and Wal-Mart[1]. Three specific elements of sustainability reporting were investigated:

1. The types of metrics used to express sustainability performance;
2. The reporting domain; and,
3. The use of targets to drive sustainability performance.

Figure 1 summarizes the results of our study.

FIGURE 1: SUMMARY OF SUSTAINABILITY REPORTING PRACTICES

Company	Headquarters	Country	GICS Sector	GICS Industry Group	Retail Sales (Millions US$), 2012	Market Cap (Millions US$ as of Dec. 31, 2012)
Canadian Tire	Toronto, ON	Canada	Consumer Discretionary	Retailing	$12,853[2]	$5,720
Canadian Tire's performance, in terms of the breadth of its sustainability disclosure and reporting domain, is well above average for the peer set. The company discloses a diverse set of sustainability performance metrics and includes a substantial portion of sustainability performance data in the MD&A section of its Annual Report. Unlike some companies in the peer set, Canadian Tire does not use targets to drive environmental performance improvements, although the company does forecast the total annual cost avoidance from its sustainability initiatives.						
Home Depot	Atlanta, GA	United States	Consumer Discretionary	Retailing	$74,754	$92,476
Home Depot discloses a limited number of performance-based sustainability metrics[3]. While the company includes some sustainability disclosure in its Annual Report, actual performance-based metrics, such as its carbon footprint, are disclosed exclusively in the sustainability section of the company's website. The company reports a limited number of sustainability performance targets, including a supply chain greenhouse gas emission target.						

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

[2] Total revenue for Canadian Tire in 2012 is defined as Retail Segment revenue of $12,853 (million CAD$) divided by the average 2012 CAD$/US$ exchange rate of 1.00, equaling $12,853 (million US$).

[3] Home Depot discloses a variety of other 'sustainability' metrics, such as the amount of CFL light bulbs recycled annually, but they have been excluded.

Home Hardware	St Jacobs, ON	Canada	Consumer Discretionary	Retailing	N/A	N/A
Home Hardware does not provide any discussion of its sustainability activities or performance and is therefore the weakest performer among the peer set in terms of sustainability disclosure.						
Mountain Equipment Co-Op (MEC)	Vancouver, BC	Canada	Consumer Discretionary	Consumer Durables & Apparel	$302	N/A
MEC's sustainability disclosures are very extensive and are among the most advanced within the peer group. MEC reports on a wide variety of environmental, social, economic and governance indicators. MEC's sustainability disclosures are primarily contained its Accountability Report, although several indicators are also reported in its Annual Report. MEC discloses 'actual' sustainability performance against 'targeted' performance and also reports targets for future periods.						
Rona	Boucherville, QC	Canada	Consumer Discretionary	Retailing	$4,887	$1,302
Rona's sustainability disclosure practice is primarily limited to qualitative information with detailed description of sustainability-related activities being undertaken on issues such as GHG reduction, building efficiency and waste management. Rona does not disclose any performance-based sustainability metrics, and does not appear to use targets to drive sustainability performance improvements.						
Target	Minneapolis, MN	United States	Consumer Discretionary	Retailing	$73,301	$38,508
Target's sustainability disclosure practice is above average within the peer group with detailed discussions of sustainability performance and activities both qualitatively and quantitatively. In most cases, sustainability data is reported for the past year (2012) only. Together with Wal-Mart, Target is the only company in the peer set to use the GRI index, which is an effective tool for stakeholders to quickly ascertain the scope of a company's sustainability reporting. Target's sustainability reporting is primarily contained in its corporate responsibility report, as opposed to 'regulated' documents such as a 10-K or the MD&A section of its Annual Report. Target makes extensive use of performance targets.						
Wal-Mart	Bentonville, AR	United States	Consumer Staples	Food & Staples Retailing	$469,162	$228,246
Wal-Mart's sustainability reporting practices are below average for the peer group. The company uses a limited number of quantitative performance metrics, and the bulk of its sustainability reporting is contained in its Global Responsibility report. As a best practice, Wal-Mart uses the GRI index. Moreover, Wal-Mart uses a wide-range of sustainability targets, covering areas such as greenhouse gas emissions reduction, waste reduction, fleet efficiency, energy use and social/environmental audits.						

To review individual company results for their sustainability metrics, reporting domain, and targets please see Appendix C.

Recommendations Moving Forward:

1. **Continually Test Assumptions:** Although CTC has used the most comprehensive assumptions possible at this time, we continue to advise that these assumptions be reviewed, tested, and revised on a regular basis to ensure that forecasted avoidances are as close to actual avoidances as possible.

2. **Increase Scope of Sustainability Indicators:** CTC should consider expanding the scope of its sustainability reporting to include waste generation, water consumption, employee turnover, lost time injury rate, total payroll cost, and other metrics reported by the peer set**.**

3. **Continue Increased Public Disclosures within Integrated Report:** While CTC already follows aspects of Integrated Reporting, as a best practice, the company should consider disclosing all new sustainability indicators in the MD&A section of its Annual Report or in other relevant financial statements.

4. **Use Performance Targets:** CTC should consider implementing a suite of targets to drive its sustainability performance and to report on the extent to which those performance targets have been or are being met. Preliminary targets could include greenhouse gas emission reduction targets and/or energy efficiency targets**.**

5. **Consider Using GRI Index:** CTC should consider mapping its sustainability reporting to the Global Reporting Initiative (GRI) as it is the most widely used reporting framework worldwide[4]. In addition, GRI (including the GRI Index) is useful in guiding stakeholders to the content they are most interested in. Currently, only Target is using GRI in the peer set.

6. **Supplier Audits:** CTC's annual report mentions a "Supplier Code of Conduct" that "is in place to ensure that (CTC's) suppliers and vendors abide by CTC's high standards of ethical business conduct". CTC should consider reporting on the extent to which its suppliers are complying with the code and actions taken by CTC, if any.

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.

Bruce Dudley
Senior VP, The Delphi Group

Doug Morrow
VP, Research Corporate Knights

[4] 2012, 58% of S&P500 using GRI Framework (GRI), 80% of Global 250 companies are GRI reporters (KPMG), more than 1,900 organizations in the world use GRI (Bloomberg), and all rankings and research indices consider if a GRI report is present.

Appendix A: Canadian Tire Response to Q1 2013 Recommendations

#	Delphi/Corporate Knights Q1 2013 Recommendations	Canadian Tire Response
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.	As Delphi and Corporate Knights past independent reviews have indicated, CTC is one of the few companies to disclose its energy use, Scope 1, 2 and 3 greenhouse gas (GHG) emissions, segmented by value chain. In the Q1 MD&A, we chose to disclose energy improvement vs. GHG avoidance (one is an aspect of the other) as the more relevant metric for financial documents and the investor community. We continue to disclose GHG avoidance numbers in our quarterly online reports.
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[5].	Detailed economic calculations are considered confidential and are not disclosed externally.

[5] 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.

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[6]. For the purposes of this assessment the following metrics were reviewed:
   - **Q2 Business Sustainability Performance Report**:
     - **Cost Avoidance:** $127,150, Buildings and Operations CTR - Seasonal Decor Right-Sizing, 2 Projects
     - **GHG Emissions Avoidance:** 245 (GJ), Buildings and Operations Mark's - DC Paper Reduction (Picksheets), YTD 2 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
   - **Comparators**: Review and compare use of metrics, reporting domains, and targets
6. **Recommendations:** Make recommendations to CTC in terms of disclosure and reporting.

[6] 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.

Appendix C:

Individual Company Results:

Canadian Tire

Sustainability Metrics

Canadian Tire discloses the following sustainability metrics:

1. “Greenhouse gas emissions (tCO_2e)”, segmented into 3 categories:
   a. Product, sub-segmented into
      i. CTR & PS products;
      ii. FGL sports; and
      iii. CTP fuels.
   b. Product Transport, sub-segmented into
      i. CTR Product transport;
      ii. Canadian Tire fleet;
      iii. 3rd party road, rail, ocean and air;
      iv. CTP fuel transport (3rd party)
      v. Partsource Commercial delivery
   c. Buildings & Operations, sub-segmented into:
      i. Offices (for all SBUs);
      ii. Distribution Centers (for all SBUs);
      iii. Corporate vehicles;
      iv. CTR dealer stores;
      v. Mark’s;
      vi. FGL Sports;
      vii. Partsource;
      viii. CTP agents;
      ix. CTREL investment properties; and
      x. Emissions related to electricity.
2. “Greenhouse gas emissions (tCO2e)”, segmented by Scope 1, 2 and 3 under the GHG Protocol
3. “Energy use (GJ)”, using the same framework as Greenhouse gas emissions under point #1 above
4. “Avoided cost of sustainability initiatives ($)” segmented by:
   a. Products and Packaging;
   b. Product Transport; and
   c. Buildings and Operations.
5. “Sales/Revenue Generated ($)”, segmented by
   a. Products and Packaging;
   b. Product Transport; and
   c. Buildings and Operations
6. “Avoided energy use of sustainability initiatives (GJ)”, segmented by:
   a. Products and Packaging;
   b. Product Transport; and
   c. Buildings and Operations.
7. “Avoided GHG emissions of sustainability initiatives (tCO_2e)”, segmented by:
   a. Products and Packaging;
   b. Product Transport; and
   c. Buildings and Operations.
8. “Avoided waste of sustainability initiatives (tonnes)”, segmented by:

    a. Products and Packaging;
    b. Product Transport; and
    c. Buildings and Operations.
9. "Revenue generated by low carbon energy generation projects ($)"
10. "Cost avoidance of low carbon energy generation projects ($)"
11. "Energy generated by low carbon energy generation projects (GJ)"
12. "GHG emissions avoided by low carbon energy generation projects(tCO_2e)"

Reporting Domain
The MD&A section of the company's 2012 Annual Report includes a section on "Business Sustainability" where the company's total 2011 greenhouse gas emissions and energy use are disclosed, with a segmentation offered by value-chain. Details about the cost avoidance, energy use avoidance, GHG emissions avoidance and waste avoidance from the company's various sustainability initiatives are also offered in the MD&A. All remaining indicators are disclosed in the "Our Performance Reports" section of the company's website.[7]

Use of Targets
Canadian Tire uses a target for 'total annual cost avoidance' from its pipeline of sustainability initiatives. The company does not disclose any targets to drive performance on specific environmental metrics, such as greenhouse gas reduction targets.

Home Depot

Sustainability Metrics
Home Depot reports two sustainability performance metrics.

1. "Carbon footprint (tCO_2e)"
2. "Energy use of US stores (kwh/sq ft)"

Reporting Domain
The two indicators disclosed on the Sustainability section of the company's website. While the company discloses efforts to reduce both its carbon footprint and energy use in its 2012 Annual Report,[8] it stops short of disclosing actual sustainability performance metrics.

Use of Targets
Home Depot has set both energy use and greenhouse gas emissions reduction targets. The targets are used to drive performance gains by 2015, with a specific goal of achieving a 20% reduction in kWh per square foot (U.S. stores only) against a 2004 baseline and a 20% reduction in domestic supply chain greenhouse gas emissions against a 2008 baseline.

[7] http://corp.canadiantire.ca/EN/MAD/BUSINESSSUSTAINABILITY/Pages/OurProgressReports.aspx
[8] See pg. 6 of the company's 2012 Annual Report. http://phx.corporate-ir.net/phoenix.zhtml?c=63646&p=irol-reportsannual

Home Hardware

Sustainability Metrics
Home Hardware does not use any metrics to disclose its sustainability performance.

Reporting Domain
As above, Home Hardware does not appear to have developed a sustainability reporting strategy.

Use of Targets
Home Hardware does not disclose any sustainability performance targets.

Mountain Equipment Co-op (MEC)

Sustainability Metrics
MEC publicly reports the following sustainability metrics:

1. Materials used in MEC-brand apparel from facilities are Bluesign ® system partners and have an environmental management system (%)
2. Products with environmentally-preferred materials (#)
3. Factories that were audited(#)
4. Factory audit results broken down by:
   a. Degree of compliance (%, #)
   b. Updated list of factories
5. Total GHG emissions (tCO2e) broken down by:
   a. Facilities
   b. Product transportation, further broken down for inbound and outbound activities
   c. Employee commute, further broken down by mode of transportation
   d. Paper use, further broken down by type
   e. Business flights
   f. Direct-to-member shipments
6. Buildings energy use segmented by source of energy (GJ, %)
7. Waste diversion rate (%, tonnes)
8. Waste by disposal method (%)
9. Employee engagement measured through an Overall Score Hewitt Employee Opinion Survey (%)
10. Member satisfaction (%)
11. Members segmented by geographical location (%, #)
12. Voter participation rate (%)
13. Member trust in MEC making decisions in their best interest (%)
14. Active members, defined as those who made a purchase at MEC over the past year (%)
15. In-stock rating (%)
16. Number of employees broken down by city across Canada and by status (#)
17. Employees segmented by age range (%)
18. Community contributions ($ million)
19. Contributions by priority areas (%)
20. Employee diversity (%)
21. Employee turnover rates, segmented for:
    a. Head office (%)
    b. Stores (%)
    c. Distribution centres (%)

22. Total payroll cost ($)
23. Entry-level retail wage rate, broken down by city ($)
24. Lost-time days due to injuries (days)
25. Worker Compensation Board workplace accidents (#)
26. Number of accidents per 1,000 MEC employees (#)

Reporting Domain
MEC's sustainability disclosures are contained in several publications, including its annual report but mainly through an accountability report which consists of five sub-sections:

a. Summary report, which contains the highlights for the past year
b. Disclosure on management approach, which contains MEC's management approach to sustainability in alignment with the GRI's standard disclosure requirements
c. Stakeholder report, which contains feedback from MEC's Stakeholder Review Panel
d. Methodology used by MEC to assess its environmental, social and economic performance; and
e. Materiality matrix

MEC's sustainability performance reporting are complemented by extensive disclosures available on the sustainability section of the company's website (http://www.mec.ca/AST/Navigation/MEC_Global/Sustainability.jsp)

Use of Targets
MEC's disclosures contain extensive discussions of the targets for most of the indicators listed above. MEC comments on the status of its targets for the past year along with the achieved performance – whether the target was met or missed. MEC also provides its targets (in quantitative terms, where applicable) for the following period as well as targets that span multiple periods .In most cases, a list of action items to achieved each of those targets is provided.

Rona

Sustainability Metrics
Rona does not disclose any performance-based sustainability metrics.

Reporting Domain
Rona's discussion of its sustainability-related activities is mainly found on the dedicated section of its website http://www.rona.ca/corporate/social-engagement#.

Use of Targets
Rona does not disclose any targets to drive its sustainability performance.

Target

Sustainability Metrics

1. Selection of sustainable seafood products (% of all seafood products)
2. Increase in organic food offering (%)
3. Number of sustainability-improved packaging defined as any one of a 10% improvement in overall material used, including more recycled or renewable content, or reducing product waste (#)
4. Energy consumption (GJ, Mwh) broken down by source (natural gas, propane, diesel, electricity, steam, chilled water, solar)
5. Energy saved by conservation initiatives(GJ, Mwh)
6. Total GHG emissions (tCO2e) broken down by source (natural gas, propane, diesel, refrigerants, electricity, steam, chilled water)
7. GHG emissions reduction by initiatives(tCO2e)
8. U.S. Target buildings Energy Star-certified (%)
9. Reduction in waste sent to landfills (%)
10. Total water use (gallons)
11. Reduction in water use per square foot (%)
12. Number of registered factories per region (#)
13. Number of unannounced facilities audits (#)
14. Denied audits, defined as one where the audit has not been allowed to commence 20 minutes after arrival of the auditor (%)
15. Results of facilities audits broken down by:
    a. Compliance category (%)
    b. Issues found (%)
16. Number of independent third-party product tests and inspections (#)
17. Employees enrolled in health screenings (%)
18. Total workforce, executive committee and board of directors broken down by gender and ethnic diversity (%)
19. Community and political contributions ($)
20. Employees volunteer hours (hours)
21. Total payroll

Reporting Domain

Target's sustainability discussion is primarily contained in an annual corporate responsibility report. This report also contains a GRI index which makes reference to the company's annual report where applicable. Target's sustainability reporting is also complemented by additional qualitative information that can be found on the dedicated section of the company's website https://corporate.target.com/discover/corporate-responsibility

Use of Targets

For a majority of the sustainability indicators reported by Target (as listed above), a discussion of actual performance against targeted performance for the past period (2012) is provided. Quantitative targets for the future periods for most of the sustainability indicators are also disclosed.

Wal-Mart

Sustainability Metrics

1. "Energy saved due to conservation and efficiency improvements (GJ)"
2. "Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives (GJ"
3. "Initiatives to reduce indirect energy consumption and reductions achieved, (GJ)"
4. "Carbon footprint, tCO_2e"
5. "Initiatives to reduce greenhouse gas emissions and reductions achieved (tCO_2e)"
6. "Total workforce by employment type, employment contract, and region (#)"
7. "Total number and rate of employee turnover by age group, gender, and region (%)"
8. "Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region"
9. "Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations ($)"
10. "Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region (#)."
11. Amount of waste eliminated from landfills and associated CO2 emissions prevention
12. Operational Waste Diversion rates from specific operations (China and Brazil)

Reporting Domain

Virtually all of Wal-Mart's sustainability disclosures are made in the company's "Global Responsibility Report". Only indicators 6 and 9 reported in financial disclosures (the company's 10-K form).

Use of Targets

Wal-Mart makes extensive use of targets to drive its sustainability performance. The company has targets in place for greenhouse gas emissions reduction, waste reduction, fleet efficiency, energy use and social/environmental audits.