November 7th, 2014

The Delphi Group and Corporate Knights have assessed Canadian Tire Corporation's (CTC) Q3 2014 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 the international retail sectors' sustainability disclosures to highlight key reporting trends and priorities to CTC. CTC has also included a response to the previous quarter's (Q2 2014) 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. **Align with International Sector-Based KPI Disclosures:** Based on the international sector and regional KPI analysis it is recommended that CTC consider disclosing total waste generation and waste recycling performance metrics within a 1-2 year timeframe. Water use metrics are trending high within the Multiline Retail Sector and CTC should consider over the medium-term if this metric is material enough to disclose over time.

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 Q3 2014 Business Sustainability Performance Report: *CTR Net New Builds and CTR Roofing Retrofits*. The focus this quarter is on projects that require building construction and retrofits. The CTR Net New Builds are projects where a new store is built using the "Enhanced Performance Smart Store" standard and the benefits are calculated based on the older model that would have previously been used. This standard is more energy efficient than previous year prototype stores. The CTR Roofing Retrofit projects are ones where new more energy efficient roofs are installed replacing older roofs with lower R values (efficiency in insulation).

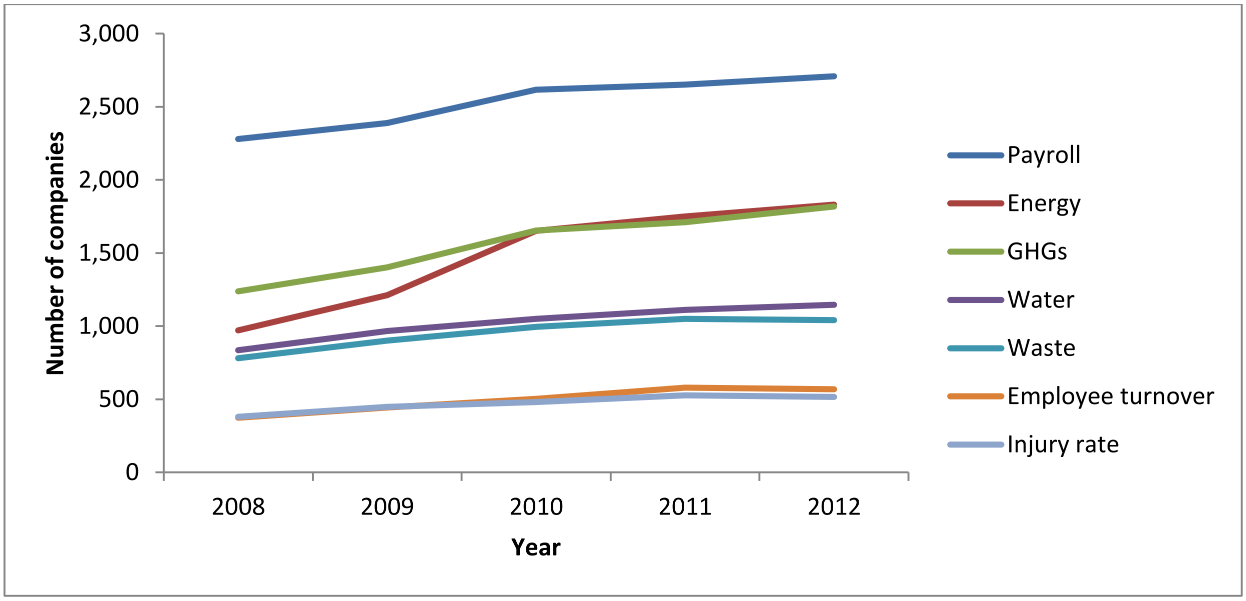
For both projects we reviewed all the data, methodology, assumptions and calculations for economic benefits and energy avoidance and found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices. We have noted one area to improve the overall auditability and referencing of external data sources and calculation factors. We recommend that CTC hyperlink its internal data sources, used within primary reporting calculations, within their databases in order to track and audit information sources and data points more easily.

Comparative Analysis of the Retail Sector's Sustainability Disclosure

Background

Corporate sustainability reporting has been rising over the past decade fuelled collectively by the desire from companies to be more transparent about their social and environmental impacts, demand from various stakeholder groups such as customers and investors, and regulatory intervention. Figure 1 below shows the trend in the disclosure of seven of the most widely reported corporate sustainability indicators[1] for the years 2008 through to 2012 across all industries.

Figure 1: Disclosure trends of selected sustainability indicators



Source: Bloomberg, Corporate Knights Capital

An examination on a sectorial[2] basis reveals variations in disclosure rates. For instance, 38% of the world's Materials[3] companies[4] disclose their waste figures for 2012 compared to only 20% for companies in the Consumer Discretionary[5] sector for the same year.

Overall, disclosure rates generally remain low; for example, only 39% of the world's publicly-listed companies[6] disclosed their GHG emissions in 2012. To a certain degree, this contrasts investors' growing interest in building sustainable investment strategies. Assets under management committed to the UN Principles for Responsible Investment (PRI) have grown to US$45 trillion; this remarkable rise in sustainability-focused investment has been made possible by the increasing availability of corporate sustainability data over the past decade. Recently, a group of investors including the Principles for

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[1] Disclosed by at least 10% of 4,609 publicly-listed companies in the world with a minimum market capitalization of US$2 billion as at June 30th, 2014.
[2] Developed by MSCI and S&P, the GICS is one of the world's most used industrial taxonomies. The GICS structure includes 10 sectors, 24 industry groups, 68 industries and 154 sub-industries. For more information, see http://www.spindices.com/documents/index-policies/methodology-gics.pdf
[3] Consists primarily of companies involved in mining, chemicals manufacturing and forestry products.
[4] Publicly-listed companies with a market capitalization of at least US$ 2 billion on June 30th, 2014.
[5] Consists primarily of consumer goods manufacturers, hotels, restaurants, media production and services, and consumer retailing and services.
[6] 4,609 publicly-listed companies in the world with a market capitalization of at least US$2 billion as at June 30th, 2014.

Responsible Investment (PRI) demanded that stock exchanges intervene to encourage more corporate sustainability disclosure; governments and regulators in Australia, the European Union, Norway and Thailand have legislated to mandate certain corporate sustainability disclosures. This adds to the already rich inventory of over 160 policies designed to encourage corporate sustainability disclosure around the world and sustainability reporting standards and frameworks such as the Global Reporting Initiative, the CDP and the Corporate Reporting Dialogue which seeks to standardize corporate sustainability reporting globally. It is expected that there will be increasing pressure on corporations to enhance the breadth and timeliness of sustainability performance disclosures.

The purpose of this analysis is to measure the disclosure rates of a select number of corporate social and environmental performance indicators by the retailing industry. The objectives of this study are to:

- Highlight strengths and weaknesses in disclosure performance by the retailing industry;
- Identify trends in disclosure and a benchmark for the retailing industry, by breaking down the retailing industry into sub-categories; and,
- Reveal any geographical differences in disclosure.

Methodology

The following nine sustainability performance indicators were selected based on the fact that they are disclosed by a material number of companies[7], which in turn is an indication of the materiality of such disclosures to users of corporate sustainability performance data. Disclosure rates in the years 2008 to 2012 inclusive were analyzed.

Short Definition	Short Definition
Energy	Total energy consumption – includes consumption of electricity and other fuels.
Employee Turnover	Number of employees that left the company within the past year expressed as a percentage of the average total number of employees.
GHG Emissions: Scopes 1 and 2	Greenhouse Gases are defined as those gases which contribute to the trapping of heat in the Earth's atmosphere and they include Carbon Dioxide (CO_2), Methane, and Nitrous Oxide.
GHG Emissions: Scope 3	Indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, waste disposal, etc.
Injury Rates	Total number of recordable incidents and lost-time injuries expressed per 200,000 work hours.
Payroll	Wages and salaries, social security, pension, profit-sharing expenses and other benefits related to personnel.
Waste	Total amount of waste the company generates, both hazardous and non-hazardous.
Waste Recycled	Total amount of waste the company recycles.
Water	Total amount of water used to support a company's operational processes.

[7] Disclosed by at least 10% of 4,609 publicly-listed companies in the world with a minimum market capitalization of US$2 billion as at June 30th, 2014.

The GICS Industry level of classification is used as it results in narrower and hence more comparable baskets of companies; Canadian Tire is classified in the Multi-Line Retail GICS Industry category. The following GICS Industry categories are selected to their proximity to retail operations:

GICS Industry	Number of companies	Examples
Banks	365	Bank of Montreal, Bank of America, TD Bank
Distributors	10	Canon Marketing, Genuine Parts, LKQ
Food & Staples Retailing	82	Alimentation Couche-Tard, Loblaw, Wal-Mart Stores
Hotels Restaurants & Leisure	106	McDonald’s, Starbucks, Yum! Brands
Multiline Retail	38	Canadian Tire, Dollarama, Sears, Target
Specialty Retail	87	Best Buy, H&M, Home Depot,
Textiles, Apparel, Luxury Goods	54	Adidas, Nike, Prada

Source: Bloomberg, Corporate Knights Capital

Findings

Table 1 below shows the disclosure rates for the nine selected sustainability performance disclosures for the year 2012 for the seven chosen GICS Industries. Generally speaking, the Food & Staples Retailing industry and the Multiline Retail industry have the highest disclosure rates while Distributors and Specialty Retail tend to be the weakest with regards to public sustainability disclosures. Payroll was the most highly disclosed indicator among the whole sample (59%), followed by GHG emissions – scopes 1 and 2 at 35% and Energy at 34%. At the other end of the spectrum, Injury rates was the most weakly disclosed indicator with only 3% of the sample having disclosed this indicator in 2012.

It is surprising to note that Injury rates and Employee Turnover are weakly disclosed by retailing companies given that the nature of their operations requires a large number of employees generally. Banks share the same requirement due to its network of branches; 16% of the banks disclosed Employee Turnover in 2012.

Table 1: Disclosure rates, 2012
Green=Highest Rates of Disclosure, by sustainability performance indicator
Red=Lowest Rates of Disclosure, by sustainability performance indicator

GICS Industry	Employee Turnover	Energy	GHG Emissions: Scopes 1 and 2	Injury Rates	Payroll	GHG Emissions: Scope 3	Waste	Waste Recycled	Water
Banks	16%	33%	32%	2%	88%	20%	15%	10%	19%
Distributors	0%	10%	20%	0%	60%	10%	10%	0%	10%
Food & Staples Retailing	11%	45%	45%	7%	67%	26%	23%	21%	21%
Hotels Restaurants & Leisure	3%	37%	37%	1%	65%	9%	14%	12%	22%
Multiline Retail	8%	47%	47%	3%	58%	18%	26%	24%	24%
Specialty Retail	5%	21%	24%	0%	44%	15%	9%	7%	9%
Textiles, Apparel & Luxury Goods	11%	30%	30%	7%	59%	13%	15%	11%	20%
Overall	**7%**	**34%**	**35%**	**3%**	**59%**	**16%**	**16%**	**14%**	**18%**

Source: Bloomberg, Corporate Knights Capital

Table 2 below shows the annualized growth rate in disclosure over the period 2008 – 2012. The Hotels, Restaurants & Leisure industry appears to be experiencing a healthy growth in a number of indicators, with double-digits growth rates for Scope 3 GHG Emissions, Waste, Waste Recycled, GHG Emissions – Scopes 1 and 2 and Water.

While it was found that Employee Turnover and Injury Rates were found to be the most thinly disclosed indicators, it is interesting to note that their disclosure growth rate is at a notable 6% and 7% respectively; this is an indication that slowly, more and more companies are starting to report these indicators. Overall, Scope 3 GHG Emissions was found to be the indicator whose uptake in disclosure was the highest over the period. For instance, scope 3 GHG Emissions disclosure rose at an annualized rate of 39% among Food & Staples Retailing companies. Disclosure of Energy, GHG Emissions – Scopes 1 and 2, Waste, Waste Recycled and Water were also found to be increasing at a notable pace.

Table 2: Compound annual disclosure growth rates, 2008 – 2012
Green=Highest compound annual disclosure growth rate, by sustainability performance indicator
Red=Lowest compound annual disclosure growth rate, by sustainability performance indicator

GICS Industry	Employee Turnover	Energy	GHG Emissions: Scopes 1 and 2	Injury Rates	Payroll	GHG Emissions: Scope 3	Waste	Waste Recycled	Water
Banks	8%	15%	11%	4%	2%	17%	11%	10%	8%
Distributors	-	0%	0%	-	0%	0%	0%	-	0%
Food & Staples Retailing	2%	20%	7%	8%	3%	39%	6%	4%	6%
Hotels Restaurants & Leisure	8%	21%	15%	0%	3%	27%	20%	17%	10%
Multiline Retail	8%	18%	8%	0%	4%	12%	5%	8%	2%
Specialty Retail	-8%	25%	14%	-	3%	21%	0%	0%	15%
Textiles, Apparel & Luxury Goods	15%	8%	6%	15%	2%	18%	3%	8%	9%
Overall	**6%**	**16%**	**11%**	**7%**	**2%**	**20%**	**8%**	**8%**	**8%**

Source: Bloomberg, Corporate Knights Capital

Table 3 and 4 below shows disclosure rates by country/region and by GICS Industry for the year 2012. In Canada, Banks were the best disclosers in general with disclosure rates above 50% in four of the nine indicators: Payroll, Energy, GHG Emissions – Scopes 1 and 2, and Scope 3 GHG Emissions; Employee Turnover was also disclosed at a remarkable 29% of the seven banks surveyed. The analysis also indicates that the Canadian Textiles, Apparel & Luxury Goods companies achieved high disclosure rates. However, it must be noted that the sample was of only two companies. Generally speaking, European companies were found to have the best disclosure rates across all nine indicators for all seven GICS Industries. This finding does not come as a surprise due to the existence of numerous policies aimed at encouraging corporate sustainability disclosure enacted both by the European Union and by the individual states.

Table 3: Disclosure rates by country/region and GICS Industries, 2012

Country / region	GICS Industry	# of Companies	Employee Turnover	Energy	GHG Emissions: Scopes 1 and 2	Injury Rates	Payroll	GHG Emissions: Scope 3	Waste	Waste Recycled	Water
Canada	Banks	7	29%	86%	86%	0%	100%	71%	14%	14%	0%
	Food & Staples Retailing	6	0%	67%	67%	0%	0%	0%	17%	17%	0%
	Hotels Restaurants & Leisure	2	0%	50%	50%	0%	0%	50%	0%	0%	50%
	Multiline Retail	3	0%	33%	33%	0%	33%	33%	0%	0%	0%
	Textiles, Apparel & Luxury Goods	2	0%	100%	100%	50%	0%	0%	50%	50%	50%
Europe	Banks	72	40%	65%	63%	0%	97%	49%	39%	26%	46%
	Distributors	3	0%	0%	0%	0%	67%	0%	0%	0%	0%
	Food & Staples Retailing	18	28%	67%	67%	17%	94%	56%	50%	39%	44%
	Hotels Restaurants & Leisure	20	5%	65%	70%	0%	95%	20%	20%	20%	30%
	Multiline Retail	3	0%	67%	67%	0%	100%	67%	67%	67%	33%
	Specialty Retail	15	7%	27%	40%	0%	93%	27%	33%	27%	20%
	Textiles, Apparel & Luxury Goods	18	33%	44%	44%	11%	89%	33%	33%	22%	44%
United States	Banks	54	4%	20%	20%	2%	100%	15%	11%	11%	11%
	Distributors	3	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Food & Staples Retailing	14	0%	57%	50%	0%	0%	14%	7%	7%	14%
	Hotels Restaurants & Leisure	40	0%	38%	40%	0%	28%	10%	18%	13%	23%
	Multiline Retail	12	0%	50%	50%	0%	0%	17%	17%	17%	17%
	Specialty Retail	46	0%	22%	22%	0%	0%	13%	2%	2%	7%
	Textiles, Apparel & Luxury Goods	16	0%	19%	19%	6%	6%	6%	6%	6%	6%
Rest of the world	Banks	232	11%	25%	23%	2%	86%	11%	8%	5%	13%
	Distributors	4	0%	25%	50%	0%	100%	25%	25%	0%	25%
	Food & Staples Retailing	44	9%	30%	32%	7%	86%	20%	18%	18%	16%
	Hotels Restaurants & Leisure	44	5%	23%	19%	2%	88%	2%	9%	9%	16%
	Multiline Retail	20	15%	45%	45%	5%	95%	15%	30%	25%	30%
	Specialty Retail	26	12%	15%	19%	0%	92%	12%	8%	4%	8%
	Textiles, Apparel & Luxury Goods	18	0%	17%	17%	0%	83%	0%	0%	0%	6%

Table 4: Disclosure rates by country/region, 2012
Green=Highest Rates of Disclosure, by sustainability performance indicator
Red=Lowest Rates of Disclosure, by sustainability performance indicator

Country/ Region	Number of companies	Employee Turnover	Energy	GHG Emissions - Scopes 1 and 2	Injury Rates	Payroll	Scope 3 GHG Emissions	Waste	Waste Recycled	Water
Canada	20	10%	70%	70%	5%	35%	35%	15%	15%	10%
Europe	149	28%	58%	58%	3%	95%	41%	36%	27%	40%
United States	185	1%	29%	29%	1%	36%	12%	10%	9%	12%
Rest of the world	388	10%	25%	24%	3%	87%	11%	10%	7%	14%

Conclusion

With mounting investor demands for consistent, broad and timely sustainability performance disclosures, corporations are expected to face increasing pressures to deliver more of such disclosures to the market. This is compounded by the renewed focus by policy-makers, of all forms, to intervene with regulations that encourage corporate sustainability disclosure.

Companies that have yet to report on their periodic sustainability performance are urged to follow the lead of their industry peers, failing which they will be part of an increasingly smaller segment of companies that are not responding to investor demands for more information. Companies that are already reporting some of the indicators studied in this report may have a head start but are nevertheless encouraged to closely monitor emerging disclosure trends in both their industry and other comparable industries.

Recommendations Moving Forward:

1. **Ensure Easy Data Traceability**: We recommend that CTC hyperlink data sources, used within primary calculations, within and external to their databases in order to track information sources and data points more easily.

2. **Consider Disclosing Additional Performance Metrics In-Line with International Sector Based Disclosures**: Based on the sector and regional analysis it is recommended that CTC:
   a. Implements the necessary systems to publicly disclose its total waste generation and waste recycling performance metrics within a 1-2 year timeframe. Water use metrics are trending high within Multiline Retail Sector and CTC should consider over the medium-term if this metric is material enough to disclose over time.
   b. Consider disclosing employee turnover rate and employee injury rate within a 2-3 year timeframe to demonstrate leadership within the Multiline Retail Sector.

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. It will be important for Canadian Tire to continue to monitor sector-based and international sustainability disclosures trends in order to ensure that reporting expectations are maintained.

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Appendix A: Canadian Tire Response to Q2 2014 Recommendations

#	Delphi/Corporate Knights Q2 2014 Recommendations	Canadian Tire Response
1	**Consistent Reporting of Internal Multi-Year Benefits**: Ensure that internal reporting of multi-year benefits are reported in a consistent manner across projects and that assumptions are clearly substantiated within the overview section of the standalone quantification reports.	Canadian Tire endeavors to ensure that its reporting is consistent across projects and that assumptions used are documented, reasonable and also consistently applied across projects.
2	**Develop Overarching Sustainability Objective:** Canadian Tire should consider setting a singular, overarching sustainability objective, similar to King Fisher's "Net Positive" program or Marks & Spencer's "Plan A 2020". Sustainability targets, once developed (see Recommendation # 3), and related projects could then be linked to a single sustainability vision.	CTC recognizes the value of sustainability objectives and will evaluate as part of the Business Sustainability strategy
3	**Publicly Available Targets:** CTC should set, and publicly disclose, sustainability performance targets related to greenhouse gas emissions and energy use, as these indicators are currently tracked by CTC in the company's Corporate and Supply Chain Environmental Footprint report. Targets covering other indicators (i.e. waste and water use) can potentially be added as Canadian Tire's reporting practices expand in line with industry norms.	CTC recognizes the value of target setting to drive performance; internal performance targets are set annually and a measurement of performance against targets is performed quarterly. CTC recognizes the value of externally disclosed sustainability targets and will evaluate as part of the Business Sustainability strategy.

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[8]. For the purposes of this assessment the following metrics were reviewed:
   - **Q3 2014 Business Sustainability Performance Report**:
     - **Economic Benefits:** YTD $10,468, CTR Net New Builds, 1 Store
     - **Energy Avoidance:** Current Quarter 2,056 GJ, CTR Roofing Retrofits, 8 Stores
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 Retail Sector's Sustainability Disclosures**: The purpose of this analysis is to measure the disclosure rates of a select number of corporate social and environmental performance indicators by the retailing industry. The objectives of this study are to:
   - Highlight strengths and weaknesses in disclosure performance by the retailing industry;
   - By breaking down the retailing industry into sub-categories, identify trends in disclosure and a benchmark for the retailing industry; and
   - Reveal any geographical differences in disclosure.
6. **Recommendations:** Make recommendations to CTC in terms of disclosure and reporting.

[8] 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.