

February 16th, 2016

The Delphi Group and Corporate Knights have assessed two of Canadian Tire Corporation's (CTC) environmental projects active during 2015. The objective of the review is to determine if appropriate methods and due diligence are in place to ensure accurate public disclosures of environmental claims. Delphi has provided a review annually since 2012.

In past years, the annual review has focused on CTC's Environmental Footprint (Energy, Greenhouse Gas Emissions (GHGs), Water Footprint, and Waste Footprint) in order to provide CTC stakeholders with an independent review of public disclosures. CTC's 2014 Environmental Footprint received formal assurance, which is an industry leading practice (a third party assurance letter is available online). On account of this effort, this year Delphi's review focused on environmental projects and CTC's public reporting practices regarding waste and water. Reporting practices and disclosures of CTC's waste and water footprint were reviewed relative to the disclosure practices of its industry peers. Finally, CTC's 2014 greenhouse gas emissions (GHGs) and energy use was benchmarked against industry peers for an assessment of comparative performance.

Overall, we found the following:

1. **Strong Data Accounting and Management System:** CTC has the appropriate due diligence system in place regarding methodologies, data management, and assumptions for calculating and disclosing environmental benefits from selected business projects.
2. **Leadership in Product Water Footprint Reporting:** CTC's disclosure of their Product Water Footprint is an industry best practice and demonstrates leadership and transparency in corporate sustainability reporting.
3. **Below Average Disclosure for Operational Water Footprint:** CTC does not disclose a corporate water footprint or water use metrics. Most peers are providing some degree of corporate water use metrics, and this an area for suggested improvement.
4. **Average Disclosures for Waste:** Waste reporting remains an emerging area in corporate sustainability disclosures. CTC overall has disclosure practices that are generally in line with industry peers, however there is room for enhancing the extent of CTC's waste disclosures.
5. **Best Performance on Energy Intensity:** CTC has the lowest energy intensity for 2014 relative to a sample of same-industry peers (Figure 3).
6. **Increasing Energy Intensity:** CTC's energy intensity increased by approximately 3% from 2013 to 2014 which was higher than the increase from 2012 to 2013 of 2% (Figure 4).¹
7. **Best Performance on GHG Intensity:** CTC has the lowest GHG intensity for 2014 relative to a sample of same-industry peers (Figure 5).
8. **Moderate Increase in GHG Intensity:** CTC's GHG intensity increased slightly by less than 0.5% from 2013 to 2014 compared to a slight decline of 0.6% from 2012 to 2013 (Figure 6).²

This *Letter of Review* will briefly outline the Environmental Project Review Findings, CTC's Waste and Water Disclosure Performance, Benchmarking Performance, and Recommendations Moving Forward. An overview of the methodology used to conduct the review is provided in Appendix A.

¹ This trend differs from the energy intensity trends reported in CTC's Footprint Report because this report normalizes energy by square foot, whereas metrics are normalized by revenue in CTC's Footprint Report.

² See comment above.

Environmental Project Review Findings:

This year two projects were reviewed: *CTFS – Balance Transfer Project* and *Product & Packaging Right-Sizing* project, which are both included in CTC's 2015 Environmental Performance and Footprint Report. These initiatives were selected because they provide environmental benefits over a full year and represent a sample of both a simple (Balance Transfer Project) and complex (Product & Packaging Right-Sizing Project) project. Together these provide a proxy for the due diligence systems in place for CTC's environmental project accounting and associated public environmental claims.

CTFS – Balance Transfer Project:

Environmental Benefits: Waste Avoidance, 9 tonnes; Energy Avoidance, 13,700 GJ; GHG Avoidance, 477 tonnes CO₂e

This project involved sending enhanced statements by direct mail to Canadian Tire Financial Services (CTFS) customers that include a Balance Transfer promotion in addition to customers' statements for account activity that they regularly receive. The enhanced statement replaces the need for a secondary direct mailing of the promotion and therefore uses less paper. As a result, the estimated waste, embedded energy, and GHG emissions are avoided as a result of using less paper and requiring fewer mail deliveries and associated transportation fuel for the delivery of the statements.

After reviewing the methodology, assumptions, calculations, and accountability, we found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices. We found nothing in the review to indicate that the reported environmental benefits are inaccurate. It is important to note, however, that the environmental benefits associated with this project occur outside of CTC's direct operations, and are spread across the value chain (less waste is produced for customers, energy and GHG's are reduced in paper production, and fuel use and GHG are reduced in third party mailing deliveries).

Product & Packaging Right-Sizing

Environmental Benefits: Waste Avoidance, 1,582 tonnes; Energy Avoidance, 9,635 GJ; GHG Avoidance, 699 tonnes CO₂e

This project involved adjusting the volume and/or weights of products and packaging shipped from overseas manufacturing locations to CTC distribution centers and retail locations. Overall, the project improves the efficiency of product transportation by reducing the amount of cargo shipping space required and associated fuel and freight costs for an equivalent amount of merchandise. Right-Sizing initiatives may be implemented at different packing levels: (1) the consumer unit (2) the master carton (3) the container level. The estimated waste, embedded energy, and GHG emissions are avoided as a result of requiring fewer transport shipments per product unit and by reducing the amount of packaging and/or product weight, which results in lower end of life waste.

After reviewing the methodology, assumptions, calculations, and accountability, we found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices. We found nothing in the review to indicate that the reported environmental benefits are inaccurate. The environmental benefits of this project are shared between CTC's direct transport and distribution center operations and third party freight providers.

Water and Waste Disclosure Performance:

The peer review found limited uniformity regarding companies' reporting practices for waste and water. These are still emerging areas within the realm of sustainability reporting, and specific corporate metrics for these topics have yet to be standardized. Within this context, CTC's disclosure practices are in line with industry peers on average, and CTC has best in class reporting for some metrics.

Figure 1: Summary of Waste Disclosure Practices

Company	Waste Metrics				Reporting Boundary		
	Waste to Landfill	Diversion Rate	Waste Category Metrics ³	Targets	Corporate Locations	Distribution Centers	Franchises
Canadian Tire	√	√	-	-	√	√	-
Home Depot	-	-	√	-	-	-	N/A
Loblaws	-	√	√	√	√	√	-
Mountain Equipment Co-Op	-	√	-	√	√	√	N/A
Rona	√	√	√	-	√	√	-
Staples	√	-	√	√	√	√	N/A
Target	-	√	√	√	√	√	N/A
Wal-Mart	-	√	√	√	√	√	N/A

For waste disclosures (Figure 1), CTC is among only a handful of peers who report both waste to landfill metrics and waste diversion rates.⁴ This is a best practice within the peer set. However, CTC does not report metrics for specific types of waste generated or provide any waste related targets, whereas the majority of peers provide these disclosures. Setting waste related targets and/or disclosure metrics for specific waste types (such as e-waste or hazardous waste) are areas to consider for future reporting.

Regarding water disclosures (Figure 2 below), CTC is the only company in the peer set to report a product water footprint. This continues to be an industry leading practice. Water use in the sourcing and manufacturing of products is the largest source of water consumption throughout the value chain for retail companies. Reporting metrics for this impact demonstrates leadership within the sector. CTC does not, however, report total corporate wide water use, which is the most common metric reported by industry peers. Staples, Target, and Wal-Mart also report to the CDP Water, which may be an emerging best practice.

³ This refers to metrics for specific types of waste, such as hazardous waste, e-waste, construction waste, or packaging.

⁴ It is recognized that CTC does not include 100% of corporate locations in waste metrics, however the practice of disclosing information where available is still a best practice within the peer set. It is not clear from the review whether CTC's peers include 100% of corporate locations in waste metrics.

Figure 2: Summary of Water Disclosure Practices

Company	Water Metrics			Reporting Boundary & Practices			
	Total Corporate Water Use	Water Recycled / Re-Used	Targets	Corporate Facilities	Franchises	Product Water Footprint	Reports to CDP Water
Canadian Tire	-	-	-	-	-	√	-
Home Depot	-	√	-	-	N/A	-	N/A
Loblaw	-	-	-	-	-	-	-
Mountain Equipment Co-Op	√	-	-	√	N/A	-	-
Rona	-	-	-	-	-	-	-
Staples	√	-	√	√	N/A	-	√
Target	√	-	√	√	N/A	-	√
Wal-Mart	√	√	√	√	N/A	⁵	√

Energy and GHG Emissions Benchmarking Performance:

CTC's energy and GHG emissions intensity performance was compared to a set of industry peers for the purpose of comparative assessment. Companies were included in the peer set sample on the basis of their comparability with Canadian Tire's industry classification, geographical presence and their energy and GHG reporting practices. Across North America, there are jurisdictions⁶ that have regulated energy and GHG disclosure standards and many companies choose to only report on their major facilities where regulated. CTC's energy usage and GHG emissions are not regulated and reporting is voluntary in nature, which demonstrates beyond compliance leadership. Furthermore, CTC's proactive approach offers an indication of its awareness and level of preparedness to address any risks posed should regulations become applicable to CTC in the future.

In addition, the location of a company's operations can meaningfully affect its energy and GHG profile; companies with operations in jurisdictions with relatively "clean" electricity (e.g. a low emissions factor) will be advantaged. For example, emission factors in Canada (e.g. Ontario, BC, and Quebec, with high levels of hydropower) are typically lower than those in the United States.

In all cases, data reflect a company's complete global operations (e.g. "Home Depot" includes Home Depot Canada and Home Depot International, and "Wal-Mart" includes Wal-Mart Canada and Wal-Mart International).

As a departure from prior year reviews, this benchmarking exercise will be based on intensity metrics – energy intensity and GHG intensity as opposed to productivity metrics which were based on dollar revenue. Due to an increasingly fluctuating exchange rate between the American and Canadian dollar, a shift to an intensity measure will maintain the comparability of performance between Canada-based and US-based retailers.

⁵ Wal-Mart does not disclose a product water footprint, but does discuss water saving initiatives in the supply chain, including metrics, through the company's Sustainability Index sustainability initiative.

⁶ Examples of such jurisdictions include Ontario, British Columbia, Quebec and California—but only for high emitters above a certain threshold.

Energy intensity is calculated as energy usage (gigajoules – GJ) in a given year divided by total square footage in square metres in the same year. Similarly, GHG intensity is calculated as the sum of GHG emissions (tonnes CO2e) in a given year divided by total square footage in square metres in the same year.

To allow for best comparability within the sample set, the boundary for total square footage, energy usage and GHG emissions includes corporate offices, distribution centres, corporate stores, agents, franchise and dealer stores and corporate-owned transportation fleet⁷. This analysis allows for a comparison of energy and GHG efficiency of the entity’s operations which are under its control.

Energy Intensity:

With an energy intensity of 0.89 GJ per square metre⁸ for 2014, CTC was the peer set leader below the sample average of 1.24 GJ per square metre. As shown in Figure 3 CTC’s energy intensity for 2014 is 7.9% lower than that of Rona which stood at 0.96 GJ per square metre for the same period. Loblaw’s had the highest energy intensity among the peer set at 2.12 GJ per square metre in 2014.

Mountain Equipment Co-Op did not disclose energy use for 2014.

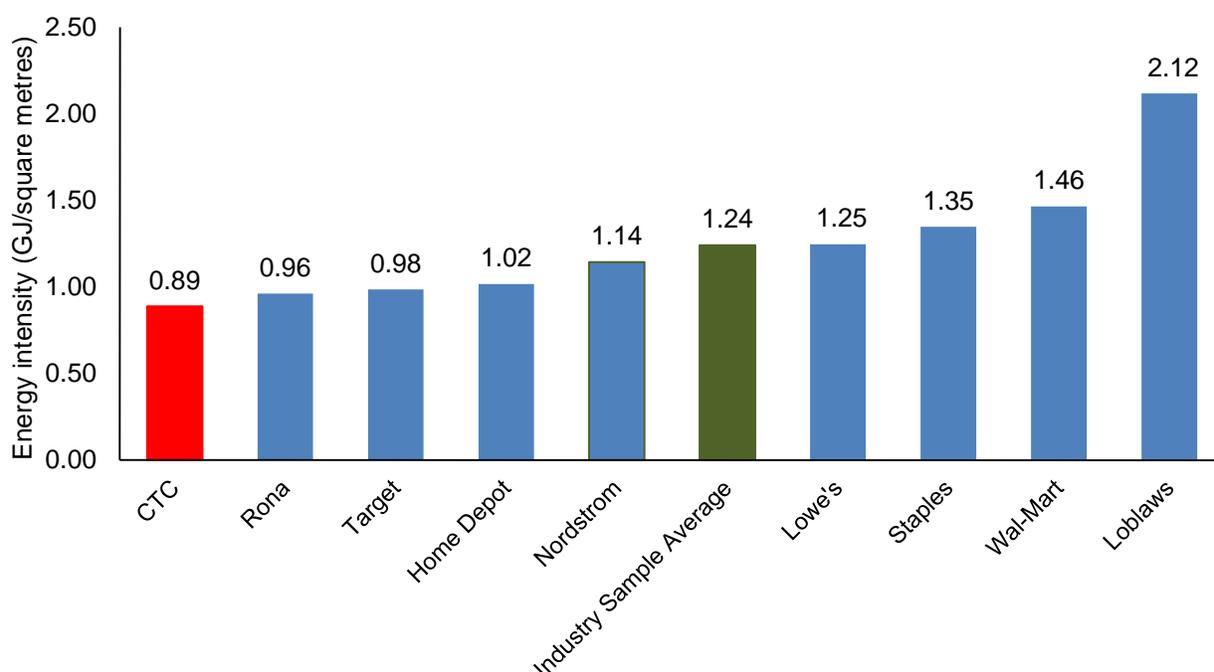


Figure 3: Energy Intensity from Buildings and Corporate-owned Fleet (2014)

This year the benchmarking analysis also considered the change in energy and GHG intensity over time to provide insight into the energy performance over a three-year period. While CTC’s energy intensity increased in both periods (2012 to 2013 and 2013 to 2014), the rate of increase was higher for the period 2013 to 2014 (3.03%) compared to the period 2012 to 2013 where

⁷ Energy use and GHG emissions for Loblaw’s franchise stores was not available.

⁸ Calculated as the sum of energy used by CTC’s buildings and operation of 4,943,943 GJ, CTC’s fleet of 145,624 GJ and PartSource Commercial Delivery of 43,951 GJ divided by total square footage of 5.77 millions square metres.

energy intensity increased by only 2.32%⁹ as shown in Figure 4 and Table 1. Staples experienced the steepest increase in energy intensity over the period 2013-2014 of 10.05%¹⁰. On the other hand, it was found that Wal-Mart reduced its energy intensity in both periods; by 0.8% over the period 2012 to 2013 and by a higher rate of 4.41% over the period 2013 to 2014¹¹. Home Depot was also found to have reduced its energy intensity by 2.25% over the period 2013 to 2014¹².

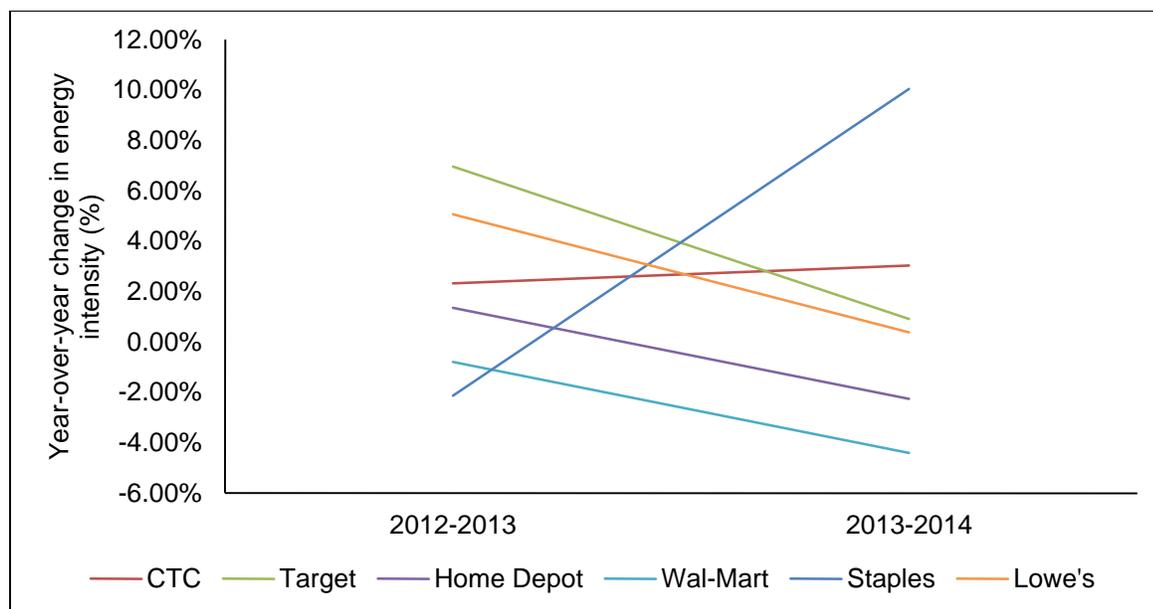


Figure 4: Change in energy Intensity year-over-year (%)

Table 1: Change in energy Intensity year-over-year (%)

Peer company	2012-2013	2013-2014
Staples	-2.14%	10.05%
CTC	2.32%	3.03%
Target ¹³	6.97%	0.92%
Lowe's ¹⁴	5.07%	0.39%
Home Depot	1.36%	-2.25%
Wal-Mart	-0.80%	-4.41%

⁹ The increased energy intensity was mainly due to higher energy usage for heating due to increased heating degree days (HDD).

¹⁰ Staples reported a decrease in the purchase of renewable energy certificates from 2013 to 2014.

¹¹ Wal-Mart reported that this decrease is attributed to various emission reduction initiatives including refrigerant management optimization and low GWP conversion, low carbon energy installations and purchases, in-store efficiency improvements (e.g. LED on sales floors, HE refrigerated cases) and a distribution fleet that continues to increase its efficiency every year.

¹² Due principally to emission reduction activities such as awareness and facility upgrades including building automation system, interior re-lamp, and variable frequency.

¹³ For Target, the reduction in the rate of increase in energy intensity and hence in GHG intensity were the result of changes to low-energy and emissions lighting and equipment, energy-efficient cooling and HVAC control changes.

¹⁴ For Lowe's, the lower rate of increase in energy intensity and the related improvement in GHG intensity over the period 2013 – 2014 were mainly due to increase retail floor space but a less-than-proportionate increase in energy consumption due to several energy savings initiatives and changes to lower-emissions equipment/lighting related to buildings and transportation fleet.

GHG Intensity:

As shown in Figure 5, CTC was found to have the lowest GHG intensity among the peer set in 2014 at 0.05¹⁵ tonnes of CO₂e per square metre. This compares favourably to the industry sample average of 0.13 tonnes of CO₂e per square metre for the same year.

Wal-Mart, with 0.21 tonnes of CO₂e per square metre had the highest GHG intensity for 2014 among the peer set.

Mountain Equipment Co-Op did not disclose a break-down of its 2014 GHG emission by scope and was thus excluded from the analysis.

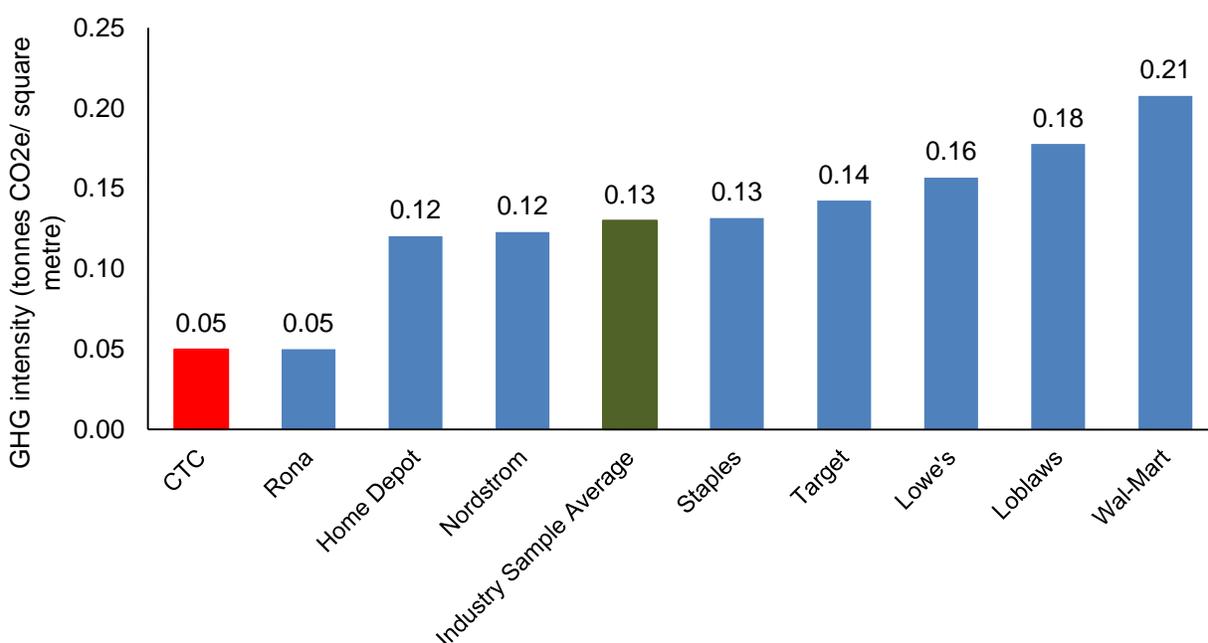


Figure 5: GHG Intensity from Buildings and Corporate-owned Fleet (2014)

CTC's GHG intensity increased modestly by 0.13% over the period 2013 to 2014 after experiencing a decline in GHG intensity of 0.63% in the previous period (2012 to 2013). Peer company performance differs for GHG intensity compared to energy intensity because energy and GHG emissions do not follow a 1:1 ratio. GHG intensity is influenced by the carbon intensity of regional electricity grids, which is based on the fuels used to produce electricity in each jurisdiction (coal, natural gas, nuclear, hydroelectricity, wind, solar, etc.)

In line with the finding made earlier about Staples's sharp increase in energy intensity for the period of 2013 to 2014, its year-over-year change in GHG intensity for 2013 to 2014 was also found to be the highest among the peer set at 9.64%. Similarly, as shown in Figure 6 and Table 2, both Home Depot and Wal-Mart were found to have experienced a decrease in GHG intensity over both periods (2012 to 2013 and 2013 to 2014) although it was noticed that the rate of decrease was lower in the more recent period. Interestingly, Lowe's was able to reduce their

¹⁵ Calculated as the sum of GHG emissions by CTC's buildings and operation of 273,406 tonnes CO₂e, CTC's fleet of 10,206 tonnes CO₂e and PartSource Commercial Delivery of 3,124 tonnes CO₂e divided by total square footage of 5.77 millions square metres.

GHG intensity over the period 2013 – 2014 by 1.25% after experiencing a 1.99% increase in the previous period (2012 – 2013).

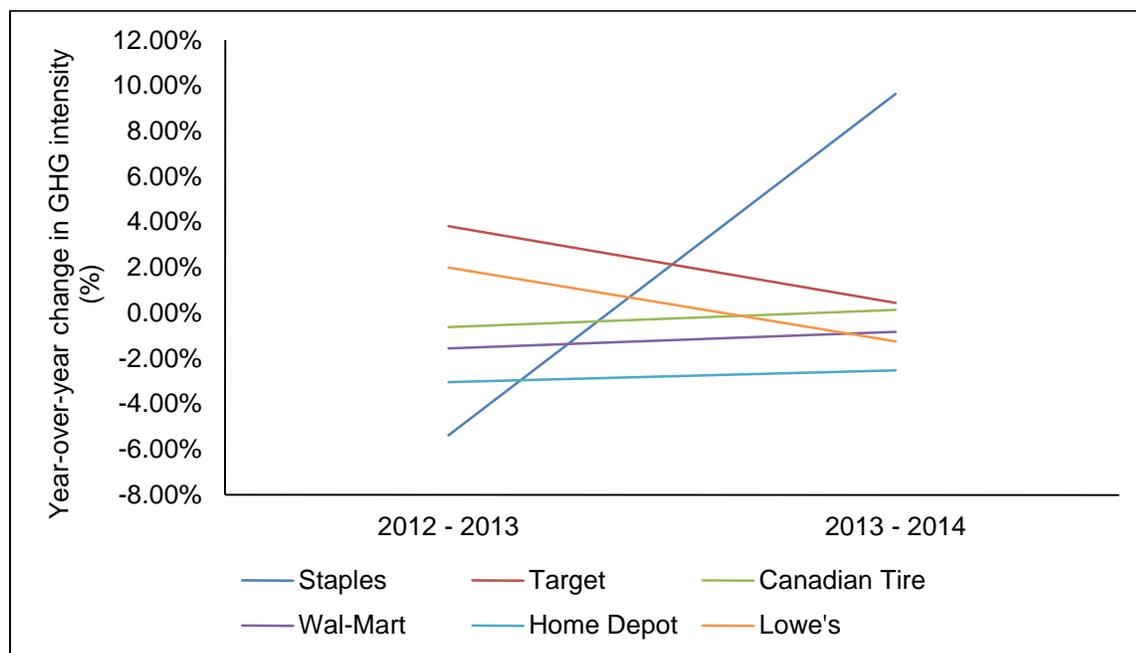


Figure 6: Change in GHG Intensity year-over-year (%)¹⁶

Table 2: Change in GHG Intensity year-over-year (%)

Peer company	2012-2013	2013-2014
Staples	-5.38%	9.64%
Target	3.82%	0.45%
CTC	-0.63%	0.13%
Wal-Mart	-1.55%	-0.84%
Lowe's	1.99%	-1.25%
Home Depot	-3.04%	-2.53%

¹⁶ While GHG emissions data is available for Loblaws for the year 2012 and 2013, square footage data broken down into corporate-owned stores and franchised stores was not available.

Recommendations Moving Forward:

1. Waste and Water Reporting Recommendations:

- a. Disclose metrics for specific waste types (such as e-waste or hazardous waste) to enhance waste reporting metrics.
- b. Consider setting waste related targets and disclosing these publically.
- c. Examine the feasibility of calculating and disclosing corporate water consumption, in the interest of providing water disclosures consistent with industry peer norms.

2. Energy and GHG Performance Benchmarking: Continue to explore methods to reduce energy and GHG intensity over time to counteract the increasing industry trend in these metrics found in the benchmarking study.

Overall, Canadian Tire has demonstrated very strong due diligence with regards to their data accounting and management system and has continued to demonstrate very progressive reporting.



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Appendix A:

Overview of Methodology:

1. **Document Review:** Review all internal and external documentation provided.
2. **Metric Selection:** Independently select a sample of metrics within the data sets and projects 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 set¹⁷. For the purposes of this assessment the following metrics were reviewed:
 - **2014 CTFS Balance Transfer Project and Product & Packaging Right-Sizing Project**
 - **Reported waste avoidance**
 - **Reported energy use avoidance**
 - **Reported GHG emissions avoidance**
 - **Economic benefit / cost avoidance**
3. **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. General recommendations for improvement are also provided as necessary.
4. **Sustainability Reporting Practices Review:** CTC's reporting practices of waste and water metrics and related disclosures was reviewed against a set of industry peers. Peer data was gathered through publicly available information (sustainability reports, websites). The disclosure metrics and practices used for the comparison were selected independently and are based on Delphi's knowledge of best practice in corporate sustainability reporting and typical disclosures practices of selected peers.
5. **Benchmarking:** CTC's performance in terms of energy intensity and greenhouse gases (GHG) intensity for the year 2014 was compared to the performance of a basket of same-sector Canadian and international peers. CTC's disclosure practices were also compared with those of its industry group peers. Data and disclosure practices are based on publicly available sources such as annual reports and sustainability reports. Numbers are adjusted in cases where they are reported for less than 100% of the company's operations. In the case of CTC, we have also relied on non-publicly available data provided to us for the purpose of this report. Definitions are as follows:

Energy intensity: Energy intensity is calculated as energy usage (gigajoules – GJ) in a given year divided by total square footage in square metres in the same year.

GHG Intensity: GHG intensity is calculated as the sum of GHG emissions (tonnes CO₂e) in a given year divided by total square footage in square metres in the same year.

The same metrics were calculated for 2012 and 2013 and year-over-year changes were calculated in percentage terms to arrive at energy intensity and GHG intensity year-over-year changes for 2012 – 2013 and 2013 – 2014.
6. **Recommendations:** Make recommendations to CTC in terms of disclosure and reporting.

¹⁷ 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.