Striving for Improvement

A REVIEW OF MANAGEMENT’S DISCUSSION AND ANALYSIS IN 2008 ANNUAL REPORTS

December 2009
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INTRODUCTION

The Canadian Performance Reporting Board (CPRB) is charged with providing leadership to the CICA in improving and advancing the measurement and reporting of organizational performance (other than financial statement reporting).

In support of its mandate, the CPRB has devoted much of its efforts to providing guidance about Management’s Discussion and Analysis (MD&A). The MD&A complements and supplements the financial statements and is a core element of the financial reporting package. In 2009, the CPRB revised the 2004 guide Management’s Discussion and Analysis: Guidance on Preparation and Disclosure to reflect changes in securities regulation and legislation, the economic environment, and best-practice in MD&A reporting.

Striving For Improvement supplements the above-noted guidance. It summarizes the results of applying an MD&A self-assessment checklist to a sample of 30 TSX listed companies with market capitalizations between $200 million and over $40 billion. The sample companies represent a wide range of industries, including mining, transportation, manufacturing, financial, telecommunications, retail, and real estate. The publication discusses how companies have adapted their reporting as a result of the financial crisis and illustrates some real-life examples of best-practice disclosures in these uncertain times.

This is the second report using the self-assessment checklist. Striving For Improvement compares results of the analysis of 2008 MD&As to the findings of the 2007 report Evaluating and Improving Management’s Discussion and Analysis — A Baseline Report. The CPRB expects to conduct future periodic reviews to assess how MD&A reporting is changing.
SUMMARY OF THE RESULTS

In 2008, some companies embraced reporting in the financial crisis while others were less forthcoming. Above average 2007 reporters either rose to the challenge of reporting in the financial crisis and increased their score, moving to the excellent category, or failed to adequately discuss the impact of the crisis on their performance and prospects with a consequent drop in ranking to average. Interestingly, the crisis encouraged some weak reporters to improve their reporting, so that the overall average score for 2008 was 19.1 out of 33, up slightly from the 18.1 average in 2007.

Overall Scores of Evaluated Companies

As demonstrated by the following two tables, the individual rankings of the 11 elements remained fairly consistent with the 2007 rankings. The top 3 ranked elements remained the same: 1) Accounting Disclosure; 2) Financing; and 3) Productive Capacity. The fourth and fifth ranked elements, Results & Outlook and Introduction switched positions. The Results & Outlook element had the greatest level of improvement over 2007. Only one element, Regulatory Matters, decreased its average ranking.
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2008 Rankings

2007 Rankings
REPORTING IN THE FINANCIAL CRISIS

Two CPR Alerts\(^1\) identified a number of considerations for reporting in the financial crisis. These Alerts discussed issues related to strategy and risk management, results analysis, liquidity, and critical accounting estimates. As well, they emphasized the need to focus on what changed, particularly in the areas of credit availability and cost, customer demand, currencies, commodities, and counterparties. The underlying message in these Alerts was that entities may need to reconsider the overall structure of their MD&A to ensure that it highlights the most important issues and links changes in the entity’s strategy to changes in results and financing needs.

Preparers responded to the financial crisis in a variety of ways. Some embraced reporting in this environment and provided insightful discussions of capabilities, results, and risk, while others avoided such discussions, particularly as they related to risk. Disappointingly, in the most significant financial crisis since the Great Depression, most companies used the same formula for their MD&A as in previous years, rather than reorganizing the presentation to emphasize important issues, such as the changing risk environment.

There seemed to be two camps among the preparers that embraced reporting in the crisis. One group continued to provide an Outlook discussion, presumably rationalizing that forward-looking information, though less certain than in prior years, is still valuable. The second group removed the Outlook, often stating that the uncertainties were so pervasive that such a discussion was no longer meaningful. For the purposes of this report, those that included an Outlook scored better than those that did not.

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\(^1\) MD&A Disclosures in Volatile and Uncertain Times, Volume 1 in October 2008, and Volume 2 in February 2009
Outlook

The following discussion contains numerous forward-looking statements. We have included a narrative of the underlying material factors and assumptions on which our outlook is based. While we believe that the basis for these forward looking statements is reasonable, we note that they are based on information currently available to management and, as such, actual results could differ materially from our outlook. See “Forward-Looking Statements”, on page 49, for a discussion of the factors that could cause our results or performance to differ materially from our outlook.

Industry demand in the U.S. screenprint channel during the first two months of the first quarter of fiscal 2009 has been extremely weak, mirroring the rapid and severe downturn in overall economic and stock market performance and sentiment during October and November, which has resulted in a dramatic curtailment of consumer and corporate spending. According to the S.T.A.R.S. report for the month of October, overall industry shipments from U.S. wholesale distributors to screenprinters across all product categories declined by 12.5% compared to October 2007. Although the S.T.A.R.S. report indicates that Gildan achieved significant increases in market share, our unit volume shipments to distributors in October declined from last year, due to the decline in end-use demand combined with high inventories at the distributor level in the context of the current market conditions. Although final S.T.A.R.S. data for the month of November is not yet available, market conditions in the U.S. screenprint channel have deteriorated further. Preliminary S.T.A.R.S. data for November indicate that overall industry shipments in the month declined from last year by close to 20%. Consequently, Gildan expects its sales and EPS in the first quarter of fiscal 2009 to decline materially from the first quarter of last year as a result of lower unit shipments and severe promotional discounting in the month of December, combined with significantly higher cotton costs compared with the first quarter of fiscal 2008, and the consumption of inventories produced when energy and commodity costs were at peak levels.

While the first quarter is seasonally the lowest sales quarter of the fiscal year and as such may not be indicative of full year trends, we are currently planning for the balance of fiscal 2009 on the basis of assuming a continuing negative outlook for industry demand in the U.S. screenprint channel throughout the year. Our current planning scenario for fiscal 2009 assumes that overall industry unit shipments in the U.S. screenprint channel will decline by approximately 10% compared with fiscal 2008, and that the ensuing unfavourable industry supply/demand balance will result in significant discounting of industry selling prices, which has already started to occur.

We are currently assuming an increase of approximately 8% in our activewear and underwear unit volumes compared with fiscal 2008, to approximately 48 million dozens, as we are implementing strategies to maximize our unit volume growth in our target markets, including an increasing focus on servicing our international markets, for the balance of the year. In addition, we expect EPS in fiscal 2009 to be favourably impacted by the improved performance of the Dominican Republic facility in line with our expectations, together with lower projected energy costs. However, these positive factors are now forecast to be more than offset by significant selling price discounting, which is expected to result in a reduction in average activewear selling prices of 7%-9% in fiscal 2009 compared to fiscal 2008, and by the impact of higher cotton costs, which are expected to increase by approximately 10% in fiscal 2009 compared to fiscal 2008.

We are assuming weaker market conditions in fiscal 2009 in the mass-market retail channel. However, we will continue our efforts to optimize our product-mix and cost structure for mass-market retail, and to successfully manage the transition to major new retailer private label brands, in order to be well positioned to pursue our growth strategy in retail when new production capacity comes on-stream in fiscal 2010. We expect to benefit from the impact of cost reduction initiatives arising from the consolidation of sock manufacturing and also from the assumed non-recurrence of acquisition integration issues and charges which occurred in fiscal 2008. No selling price increases in socks are assumed in fiscal 2009.
In the assumed economic environment, we will place emphasis on careful management of our capital expenditures in fiscal 2009. We intend to undertake an incremental capacity expansion of our Dominican Republic textile facility, at a low capital cost, and are also incrementally expanding our Rio Nance 1 textile facility in Honduras. These expansions of existing facilities are expected to increase annual production capacity by approximately 7-8 million dozens, and allow us to support our projected sales growth while preserving liquidity and proceeding more slowly and cautiously with our major capital investment in our new Rio Nance 5 textile facility in Honduras. However, we have not changed our plans to construct both Rio Nance 5 and our second sock facility in Honduras, Rio Nance 4, which are integral to our long-term strategic growth and cost reduction initiatives. Gildan is now projecting total capital expenditures of approximately $115.0 million in fiscal 2009, compared with our previous estimate of approximately $160.0 million.

A discussion of management’s expectations as to our outlook for fiscal 2009 is contained in our fourth quarter earnings results press release dated December 11, 2008 under the section entitled “Outlook for fiscal 2009”. The press release is available on the SEDAR website at www.sedar.com, on the EDGAR website at www.sec.gov and on our website at www.gildan.com.
CHANGEOVER TO IFRSs

Canada’s conversion to International Financial Reporting Standards (IFRSs) for 2011 adds considerable stress to finance departments at a time when they are burdened with great economic uncertainty. In May 2008, the Canadian Securities Administrators (CSA) published Staff Notice 52-320 which stated the CSA’s expectations for disclosure in the period leading up to the changeover. That notice discussed incremental reporting requirements commencing no later than in the annual report three years prior to the changeover. This was followed in October 2008 with the Canadian Performance Reporting Board publication Pre-2011 Communications about IFRS Conversion that sets out recommended best-practices and elaborates on the CSA’s expectations.

Several companies excelled in reporting progress towards IFRS conversion by discussing:

- timing for various aspects of the changeover;
- accounting issues identified and line items within the financial statements that are expected to be materially affected; and,
- the nature of the impact of the changeover on the company’s financial reporting.

At the opposite end of the spectrum, a few companies restricted their discussion to notation that IFRS conversion is approaching and that the company is addressing the issue.


To date, the IFRS conversion project team has completed the Diagnostic phase, which involved a high-level review of the major differences between Canadian GAAP and IFRS. This assessment has provided insight on the high risk and complex areas relating to the conversion. These areas include accounting for property, plant and equipment, exploration and evaluation of mineral resources, the effects of changes in foreign currency exchange rates, and alternatives available under IFRS 1—First Time Adoption of IFRS.

Please see the associated table for certain elements of the transition plan, and an assessment of progress. Note that the project team is working through a detailed project plan and that certain project activities and milestones could change.

Given the progress of the project and outcomes identified, we could change our intentions between the time of communicating these key milestones below and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or through the project could result in changes to the project activities communicated in the following chart.
### Discussion from Suncor Energy’s 2008 Annual Report — continued

<table>
<thead>
<tr>
<th><strong>Key Activity</strong></th>
<th><strong>Key Milestones</strong></th>
<th><strong>Status</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Financial Statement Preparation:</strong></td>
<td>Senior management and steering committee sign-off for all key IFRS accounting policy choices to occur during 2009. Develop draft financial statement format to occur during 2009.</td>
<td>Completed the IFRS diagnostic during 2008, which involved a high level review of the major differences between Canadian GAAP and IFRS. In-depth analysis of issues and accounting policy choices is currently underway.</td>
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<tr>
<td>- Identify differences in Canadian GAAP/IFRS accounting policies.</td>
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<td>- Select Suncor's ongoing IFRS policies.</td>
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<td>- Develop financial statement format</td>
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<td>- Quantify effects of change in initial IFRS disclosure and 2010 financial statements.</td>
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<tr>
<td><strong>Training:</strong></td>
<td>Financial reporting group and operating accounting staff training to occur during 2009 as needed. Additional training will occur throughout the project as needs are reassessed. Suncor management and Audit Committee training scheduled to occur during 2009.</td>
<td>Project team expert resources have been identified to provide insights and training. Training for project team members is occurring throughout the project.</td>
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<tr>
<td>- Define and introduce appropriate level of IFRS expertise for each of the following:</td>
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<td>- Financial reporting group and operating accounting staff.</td>
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<td>- SunRoc management.</td>
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<td>- Audit Committee.</td>
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<tr>
<td><strong>Infrastructure:</strong></td>
<td>Confirm that systems can address 2010 parallel processing requirements by 2009 and identify deficiency areas. Confirmation that business processes and systems are IFRS compliant will occur throughout the project.</td>
<td>Diagnostic analysis regarding current IT systems completed. Currently reviewing options to address business process changes and parallel processing during 2010.</td>
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<tr>
<td>- Confirm that business processes and systems are IFRS compliant, including:</td>
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<td>- Program upgrades/changes.</td>
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<td>- Gathering data for disclosures.</td>
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<tr>
<td><strong>Control Environment:</strong></td>
<td>All key control and design effectiveness implications are being assessed as part of the key IFRS differences and accounting policy choices through 2009.</td>
<td>Analysis of control issues is underway in conjunction with review of accounting issues and policies.</td>
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<tr>
<td>- For all accounting policy changes identified, assess control design and effectiveness implications.</td>
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<tr>
<td>- Implement appropriate changes.</td>
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<tr>
<td><strong>External Communications:</strong></td>
<td>Analyze and publish the effect of IFRS on the financial statements throughout the project.</td>
<td>IFRS disclosure in the MD&amp;A will be updated throughout the project. Vice President, Investor Relations is part of the IFRS Conversion Steering Committee.</td>
</tr>
<tr>
<td>- Assess the effects of key IFRS related accounting policy and financial statement changes on external communications. In particular:</td>
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<td>- Confirm 2011 investor communications are IFRS compliant regarding guidance and expected earnings.</td>
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<tr>
<td>- Monitor and update MD&amp;A communications package.</td>
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<tr>
<td>- Confirm investor relations process can respond to IFRS-related queries.</td>
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HIGHLIGHTS BY MD&A ELEMENT

INTRODUCTION

Good reporters seem to be devoting more attention to the Executive Summary or Introduction, as evidenced by a slight improvement in 2008 scores. As the first point of contact with the reader, the Introduction or Executive Summary plays a key role in informing the reader about the company and its performance over the year. It may be the only part of the MD&A that some readers consult; thus, the introduction should include: 1) an overview of the company, the industry, and what makes the company unique or distinct; 2) an identification of key segments and assets; and 3) a summary of results and key events for the year. By and large, those companies that had strong introductions, including a discussion of the impact of the economy on the company, performed well overall as the informative introduction set the stage and provided a focus for the remainder of the MD&A.

KEY COMPONENTS

• Provide a road map for the rest of the MD&A
• Highlight key matters so that the Introduction can “stand alone”

WHAT TO STRIVE FOR: Extract from Section 1 “Overview and Highlights” of Catalyst’s 2008 annual report

1. Overview and highlights

Overview of the business
Catalyst is a leading producer of specialty printing papers and newsprint in North America. The Company also produces market pulp and owns Western Canada’s largest paper recycling facility, with five mills, including its paper recycling facility, located within a 160-kilometre radius on the south coast of British Columbia ("B.C."). and one mill located in Snowflake, Arizona. Catalyst has a combined annual capacity of 2,491,000 tonnes of product. The Company is headquartered in Richmond, B.C.

The Company is the largest producer of specialty printing papers and newsprint in Western North America. Catalyst’s specialty printing papers include lightweight coated, uncoated mechanical papers, and directory paper. The Company is one of the largest producers of directory paper in the world and the only producer of lightweight coated paper in Western North America.

The Company’s products are sold through the Company’s sales and marketing personnel in North America and through distributors and agents in other geographic markets. These products are shipped by a combination of rail, truck and barge for North American customers and by break-bulk and container deep-sea vessels for overseas customers.

The Company’s business is comprised of three business segments: specialty printing papers, newsprint, and pulp. The split of production capacity between the three business segments as of December 31, 2008 is as follows.

Business segments (% tonnes)

- Speciality printing papers 46%
- Newsprint 38%
- Pulp 16%
Extract from Catalyst’s 2008 annual report — continued

2008 annual overview

General overview

2008 saw improved operating results during the course of the year as prices for the Company’s paper products recovered strongly from their low levels in 2007, and as capacity contracted in most of the paper grades the Company competes in. Improved pricing, the acquisition of Snowflake in April 2008, and a continued focus on cost reduction, particularly through more efficient workforce levels, enabled the Company to more than offset a number of negative factors in the year. The impact of exchange rates, higher costs of distribution, chemicals and fuel (driven by high energy prices), and significant curtailment as a result of both market demand and fibre supply, all represented significant challenges. Despite the positive trend in earnings during 2008, the acceleration of the global economic downturn in the latter part of the year led to a rapid decline in print advertising and significantly weaker demand for the Company’s products, leading to increased curtailment as the year progressed.

Financial performance

The Company recorded a net loss of $221.1 million and a net loss before specific items of $280.0 million in 2008, compared to a net loss of $316.6 million and a net loss before specific items of $89.3 million in 2007. The net loss for 2008 included an after-tax impairment charge of $111.0 million, $101.0 million of which was related to the Company’s sawdust pulp and white top linerboard operation at Elk Falls, and an after-tax foreign exchange loss of $69.4 million on the translation of U.S. dollar denominated long-term debt. EBITDA for 2008 was $159.4 million compared to $27.0 million in 2007. The Company’s 2008 EBITDA included restructuring costs of $30.1 million, compared to restructuring, change of control, and United Steelworkers (“USW”) strike-related costs of $89.7 million in 2007. EBITDA before these specific items was $189.5 million, compared to $116.7 million in 2007.

Snowflake mill acquisition

On April 10, 2008, the Company completed the acquisition of the Snowflake recycled newsprint mill in Arizona for a total cost of $169.8 million, including working capital adjustments and transaction costs. The acquisition was financed through a combination of net proceeds of an equity rights offering of $121.1 million and a draw on the Company’s credit facility.

The Snowflake mill is a low-cost newsprint operation which provides geographic, fibre and currency diversification. The mill has a total annual production capacity of 347,000 tonnes of newsprint and contributed 215,200 tonnes to the Company’s 2008 newsprint production. The Company generated annualized synergies of US$9.2 million in 2008 through a number of optimization initiatives, including a reduced workforce and improved production efficiencies.

Production curtailment

As a result of reduced demand, the Company took market related curtailment at its paper operations and Crofton long fibre pulp operation during the year in order to adjust production to customer orders and manage inventory to an appropriate level. In addition, the deterioration in the United States housing market and poor lumber market conditions in 2008 resulted in the curtailment or permanent closure of a number of sawmills during the year. This resulted in ongoing fibre shortages, particularly for sawdust, and the Company took periodic curtailment throughout the year at its Elk Falls sawdust pulp and white top linerboard operation before its permanent closure in November 2008 due to unavailability of sawdust fibre.
Extract from Catalyst’s 2008 annual report — continued

2008 key events
- Completed the acquisition of the 347,000 tonne Snowflake recycled newsprint mill in April 2008 for a total cost of $169.8 million.
- Realized additional labour cost savings of approximately $48 million over 2007 due to the full year impact of efficiency initiatives implemented in 2007 and a further reduction in the workforce of 14% in 2008.
- Reached agreement with the CEP and FPWC on the renewal of the collective agreements for Crofton, Elk Falls, and Powell River that included a commitment to complete plans to achieve an $80 per tonne labour cost target at each mill.
- Signed new labour agreements at the Port Alberni mill incorporating an $80 per tonne labour structure resulting in a commitment of a $12 million capital upgrade on the TMP facility, a $14 million early retirement and severance program, and the restart of A4 in early May 2008.
- Announced indefinite curtailment of E1 at Elk Falls in April 2008.
- Permanently closed the Elk Falls sawdust pulp and white top linerboard operation in November 2008 due to unavailability of sawdust fibre.
- Refinanced the Company’s $350 million revolving operating facility, maturing July 2009, with a new $330 million ABL Facility maturing August 2013.
- Received recognition for environmental performance and corporate social responsibility including:
  - Named a Climate Disclosure Leader in the Carbon Disclosure Project, acknowledging superior and financially relevant climate risk transparency.
  - Recognized for energy management and conservation efforts through BC Hydro’s Power Smart Excellence Awards.
  - Continued inclusion in Jantzi Social Index, consisting of 60 Canadian companies that pass a set of broad-based environmental, social and governance screens.
  - Included in Corporate Knights magazine’s list of Best 50 Canadian Corporate Citizens.

Further details with respect to recognition and initiatives related to environmental performance and corporate social responsibility are provided in the Company’s 2008 Sustainability Report, produced concurrently with the Company’s 2008 Annual Report.
- Received third consecutive award of excellence for financial reporting and corporate reporting in the forest products industry category from the Canadian Institute of Chartered Accountants.
STRATEGY

Best-practice reporters updated their Strategy discussions to address the uncertainty and volatility caused by the financial crisis. In order for investors to make informed decisions about a company, a good understanding of the company’s strategy is essential, including its rationale, context and other factors considered in its development. Strategy should not be discussed in isolation, but rather should be linked to other elements of the MD&A. For example, a discussion of how key performance drivers relate to the corporate strategy, and the role of financing and capital plans in executing that strategy provide readers with a more comprehensive understanding of the company’s outlook. The same is true for results. Linking the discussion of actual and targeted results with the company’s strategy facilitates readers’ understanding of the company’s performance in the context of its strategy. Connecting the strategy to the other elements of the MD&A will also increase readers’ understanding of how strategy influences management decision making and actions. Thus, a strong strategy discussion typically leads to a strong MD&A.

KEY COMPONENTS

- Link all elements of the MD&A to the strategy
- Disclose key assumptions and sensitivities
- Consider and discuss both internal and external factors
Business Strategy

We are a global asset management company focused on property, renewable power and infrastructure assets. Our goal is to establish Brookfield as a global asset manager of choice for investment clients who wish to benefit from the ownership of these types of assets. We have spent many years building high quality operating platforms that enable us to acquire, finance and optimize the value of assets for our own benefit, and for our clients whose capital we manage.

We believe that the best way to create long-term shareholder value is to generate increasing operating cash flows, measured on a per share basis, over a very long period of time. Accordingly, we concentrate on high quality long-life assets that generate sustainable cash flows, require minimal sustaining capital expenditures and tend to appreciate in value over time. Often these assets will benefit from some form of barrier to entry due to regulatory, physical or cost structure factors. While high quality assets may initially generate lower returns on capital, we believe that the sustainability and future growth of their cash flows are more assured over the long term, and as a result, warrant higher valuation levels. We also believe that the high quality of our asset base protects the company against future uncertainty and enables us to invest with confidence when opportunities arise.

Consistent with this focus, we own and operate large portfolios of core office properties, hydroelectric power generating stations, private timberlands and regulated transmission systems that, in our opinion, share these common characteristics. These assets represent important components of the infrastructure that supports the global economy.

We believe the demand from institutional investors to own assets of this nature is increasing as they seek to earn increasing yields to meet their investment objectives. These assets, in our view, represent attractive alternatives to traditional fixed income investments, providing in many cases a “real return” that increases over time, relatively low volatility and strong capital protection. There is a substantial supply of investment opportunities in the form of existing assets as well as the need for continued development in an ever expanding global economy. At the same time there are relatively few global organizations focused on managing assets of this nature as a primary component of their strategy.

Accordingly, an important component of our long-term strategy for growth is centred around expanding our assets under management, which should lead to increased fee revenues and long-term opportunities to earn performance returns. We plan to achieve this within our existing operating platforms, through geographic expansion beyond our current focus in North America, South America, Europe and Australia, and by developing and acquiring platforms to operate new asset classes that demonstrate characteristics that are similar to our existing assets. We also plan to achieve growth by expanding our distribution capabilities to access a broader range of investment partners, thereby increasing our access to capital. This increased capital, when coupled with new investment opportunities, should increase our assets under management and the associated income as well as direct investment returns, thereby increasing shareholder value.

More Strategy discussion is included on pages 56-58 and throughout the MD&A.
KEY PERFORMANCE DRIVERS

Key Performance Drivers disclosure suffered somewhat as a result of the economic downturn. While some preparers continue to neglect discussing Key Performance Drivers year-over-year, a few made a conscious decision to remove this aspect of reporting from the prior year’s template, citing economic uncertainty as the reason. This section should identify and explain the significance of the performance drivers used by the company. In addition, the MD&A should identify the related key performance indicators and explain how management uses these indicators to monitor progress. The Results & Outlook section of the MD&A should discuss and analyse key performance indicators in terms of actual results and review how anticipated changes in drivers could affect key performance indicators in the future. The primary weakness in this area is a failure to identify drivers explicitly, leaving readers to speculate about the drivers based on the reported performance indicators. The discussion of key performance drivers, how they are measured, and how they impact company performance provides essential insights for the readers of MD&As.

KEY COMPONENTS

- Explicitly outline the Key Performance Drivers, explain why they are important to the company and its strategy, and link to Key Performance Indicators
- Provide evaluations and explanations of results against the strategy and targets/expectations
WHAT TO STRIVE FOR: Excerpt from Cameco 2008 Annual Report

3.0 OUR KEY PERFORMANCE DRIVERS, BUSINESS STRATEGIES AND CAPABILITIES TO DELIVER RESULTS

OUR URANIUM BUSINESS

Key Performance Drivers
The major factors that drive Cameco’s uranium business results are:

- prices — spot and long-term,
- volume — sales, production and purchases,
- costs — production and purchases, and
- the exchange rate between the US and Canadian dollars.

Prices — Spot/Long-Term

Background

While Cameco has historically not sold significant quantities in the spot market, Cameco occasionally buys and sells spot material to take advantage of trading opportunities.

Cameco generally targets a 60/40 mix of market-related and base (or fixed-price) escalated pricing. Recent contracting activity has resulted in a higher ratio of market-related contracts and currently our portfolio is 65/35 market-related and base escalated pricing. Uranium market price indicators are quoted by the industry in US dollars per pound U3O8.

Uranium contract terms generally reflect market conditions at the time the contract is negotiated. Historically, after a contract negotiation was completed, deliveries under that contract typically did not begin for two to four years. For example, a contract that was signed in 2003, when the spot price averaged less than $12.00 (US), could have started deliveries in 2005 and have deliveries through 2010. Typically these older contracts would protect the buyer with a price ceiling. Many of the contracts in our current portfolio reflect market conditions when uranium prices were significantly lower.

As a result, Cameco’s average realized price for uranium sales in 2008 was $39.52 (US) per pound of uranium compared to an average spot price of $61.58 (US) and average long-term price of $82.50 (US). Our average realized selling price rose by 5% over 2007.

For more information on Cameco’s contracting strategy, see the section titled “Uranium Strategies” in this MD&A.

More Key Performance Drivers discussion can be found on pages 18-44 of the Cameco 2008 Annual Report.
The analysis of the Capability to Deliver Results section was broken down into i) Financing (Including Liquidity), ii) Productive Capacity — Financial Condition, and iii) Leadership — Key People. Each of these elements was evaluated individually.

- **Financing** remained the second highest ranked element of the MD&A, with only one company receiving a less than “good” evaluation. The CPR Alerts issued in October 2008 and February 2009 provide specific guidance for MD&A reporters on how to discuss financing and liquidity in volatile and uncertain times, including matters to consider in addressing a company’s cash generating potential, cash utilization requirements, and the impact of working capital requirements on cash needs. Companies that excelled in this area dealt directly with the impact of the economy on their financing needs and explained in detail how the economic downturn had impacted their financing plans, as well as their liquidity position.

- While **Productive Capacity** received the third highest ranking overall, there is still room for improvement. Productive capacity relates to a company’s accumulated capital investments and periodic changes therein, which is expressed in terms of the company’s ability to convert inputs into outputs of goods and services that can be sold. For example, the MD&A may discuss changes in property, plant and equipment, technologies, permits and patents, and systems and processes, and outline how these changes contribute to decreasing, maintaining or growing the entity’s productive capacity. How productive capacity is expected to be affected by future plans should also be discussed. Most companies touched on each of these aspects of productive capacity, although the discussion was often very general. Companies receiving an excellent ranking tended to include a detailed capital asset expenditure plan, an analysis of results against the plan, and plans or targets for the next year. These reporters provided significant insights by discussing the impact of the financial crisis on existing and planned productive capacity, including the reasons for continuing with or altering plans.

- As in 2007, there was limited discussion of the **leadership** of the company in the evaluated MD&As. A couple of companies mentioned the importance of key personnel to the strategy and success of the company, but discussion of this capability was not developed, for example by addressing the role that key leaders play in the company’s success. Given the importance of a company’s intellectual capabilities, more effort should be given to explaining its leadership, training programs, and succession planning.

### KEY COMPONENTS

- Outline cash generating potential, cash utilization requirements and working capital requirements
- Discuss historical analysis as well as future expectations for liquidity and productive capacity
- Discuss and explain leadership, training and succession planning
WHAT TO STRIVE FOR: Extract from Section 7 “Liquidity and Capital Resources “ of Telus’ 2008 Annual Report

The Company’s capital management strategies and financing plans results and expectations are described in Section 4.0. In the normal course, the Company has generated annual cash flow from operations exceeding annual capital investment needed to support business growth and re-investment in technology. In 2008, cash provided by operating activities was supplemented by financing activities as the Company made two strategic acquisitions in January (Emberg and Fastube) and acquired 58 spectrum licences in the AWS auction, which ended in July.

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2008 ($ millions)</th>
<th>2007 ($ millions)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided by operating activities</td>
<td>2,816</td>
<td>3,172</td>
<td>(11%)</td>
</tr>
<tr>
<td>Cash provided by investing activities</td>
<td>(3,433)</td>
<td>(1,772)</td>
<td>(94%)</td>
</tr>
<tr>
<td>Cash provided (used) by financing activities</td>
<td>598</td>
<td>(1,369)</td>
<td>nm.</td>
</tr>
<tr>
<td>Decrease in cash and temporary investments, net</td>
<td>11</td>
<td>31</td>
<td>-</td>
</tr>
<tr>
<td>Cash and temporary investments, net, beginning of period</td>
<td>30</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>Cash and temporary investments, net, end of period</td>
<td>4</td>
<td>20</td>
<td>(75%)</td>
</tr>
</tbody>
</table>

7.2 Cash provided by operating activities
Cash provided by operating activities decreased by $353 million in 2008 when compared to 2007. Changes in 2008 include the following:
- Changes in proceeds from securitized accounts receivable (which are included in non-cash working capital changes) contributed a $300 million reduction in cash flow for the full year. Specifically, proceeds were reduced by $200 million in 2008, as compared to no change in 2007. Utilized proceeds from securitized accounts receivable were lower in 2008 as other sources of funding were used. See Section 7.6 Accounts receivable.
- EBITDA increased by $100 million as described in Section 5: Results from operations.

7.2 Cash used by investing activities
Cash used by investing activities increased by $1,068 million in 2008 when compared to 2007. The increase was due to the $882 million payment for AWS spectrum licences, acquisitions totaling $596 million net of acquired cash, and increased capital expenditures.

Assets under construction were $602 million at December 31, 2008, up by $103 million from December 31, 2007, primarily reflecting a $110 million increase in property, plant and equipment under construction, including construction of the wireless BSRP network. Software intangible assets under construction increased by $13 million over the year, as expenditures in 2008 for the billing platform and other systems exceeded the transfer of $17 million to software subject to amortization resulting from implementation of the British Columbia phase of the converged billing and client care platform in July.

Capital expenditures excluding AWS spectrum licences

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2008 ($ millions)</th>
<th>2007 ($ millions)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireline segment</td>
<td>1,311</td>
<td>1,219</td>
<td>7.5%</td>
</tr>
<tr>
<td>Wireless segment</td>
<td>548</td>
<td>551</td>
<td>(0.5%)</td>
</tr>
<tr>
<td>TELUS consolidated</td>
<td>1,859</td>
<td>1,770</td>
<td>5.0%</td>
</tr>
<tr>
<td>EBITDA as adjusted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>less capital expenditures(1)</td>
<td>1,220</td>
<td>1,688</td>
<td>(34.0%)</td>
</tr>
</tbody>
</table>

(1) See Section 7.1 EBITDA for the calculation and description.
Extract from Telus 2008 Annual Report — continued

Capital expenditures in 2008 increased by $69 million when compared to 2007, and were in line with targeted annual expenditures of approximately $1.9 billion.

- Wireless segment capital expenditures increased by $92 million in 2008 when compared to 2007. The increase included investment to support high bandwidth services for business and residential customers, investment in health-care and financial services solutions, and upstream expenditures to support new enterprise customers, partly offset by lower demand in 2008 for wireless access builds resulting from more moderate residential construction activity in B.C. and Alberta. Wireless cash flow (EBITDA as adjusted less capital expenditures) was $1463 million in 2008, a decrease of 24% when compared to 2007. The decrease reflects higher capital expenditure levels and lower EBITDA (as adjusted).

- Wireless segment capital expenditures decreased by $3 million in 2008 when compared to 2007. Expenditures in 2008 were relatively flat compared to 2007, as new spending on the HSPA network build in 2008 was offset by lower expenditures for the CDMA wireless network (including the EVDO RevA data network roll-out). Wireless cash flow (EBITDA as adjusted less capital expenditures) was $1,457 million in 2008, an increase of 6% when compared to 2007.

**Payment for AWS spectrum licences**

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditure for AWS spectrum licences</td>
<td>$892</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>EBITDA as adjusted less capital expenditures and payment for AWS spectrum licences(^{(1)})</td>
<td>$1,038</td>
<td>$986</td>
<td>(4.8)%</td>
</tr>
</tbody>
</table>

\(^{(1)}\) See Section 11. EBITDA for the calculation and description.

The Company acquired 58 licences in Industry Canada's AWS spectrum auction that concluded in July for $380 million plus auction process charges of $2 million. The amount of successful bids was paid through a combination of drawing on credit facilities and utilization of cash on hand. Industry Canada advised the Company that it had not yet submitted under the AWS spectrum licences effective December 31, 2008. The licences are now classified as intangible assets with indefinite lives.

In 2008, EBITDA (as adjusted) less capital expenditures and payment for the AWS spectrum licences decreased by $550 million. Wireless cash flow in 2008, including payment for AWS spectrum, was $575 million, down 58% from 2007.

**Capital intensity\(^{(2)}\)**

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditure intensity</td>
<td>19%</td>
<td>20%</td>
<td>(1)%</td>
</tr>
<tr>
<td>Capital expenditure intensity, including payment for AWS spectrum licences in 2008</td>
<td>28%</td>
<td>28%</td>
<td>0%</td>
</tr>
</tbody>
</table>

\(^{(2)}\) Capital intensity is the measure of capital expenditures divided by operating revenues. This measure provides a basis for comparing the level of capital expenditures to other companies of varying size within the same industry.

**TELUS’s capital expenditure intensity ratio** in 2008, excluding payment for spectrum licences, reflects intensity levels of 25% for wireless and 12% for wired, consistent with intensity levels of 25% and 13%, respectively, in 2007. Payment for AWS spectrum licences in 2008 temporarily increased TELUS's overall capital intensity ratio to 28% and the wireless capital intensity ratio to 31%.

**73 Cash provided used by financing activities**

Net cash provided by financing activities was $690 million in 2008. This compares to net cash used by financing activities of $1,069 million in 2007.

- Cash dividends paid to shareholders in 2008 were $432 million in 2008 as compared to $21 million in 2007. The decrease in dividend payments resulted from different remittance dates for dividends declared in the fourth quarter of 2007 and 2008. The fourth quarter dividend for 2008 was remitted on the January 2, 2009 payment date, while the fourth quarter dividend for 2007 was remitted on December 31, 2007 for the January 1, 2008 payment date. Otherwise, dividend payments in 2008 reflected higher quarterly declared dividend rates (see Section 5.2 Quarterly results summary), partly offset by lower shares outstanding from NCIB share repurchase programs.

- The Company purchased 3% of the maximum 20 million shares authorized under the fourth NCIB program that ended December 19, 2008. Purchases of shares under NCIB programs decreased by $170 million in 2008 when compared to 2007, as fewer shares were repurchased at a lower average price.

The Company renewed its NCIB program, which has been in place since December 2004. The renewed program (Program 5) came into effect on December 23, 2008 and is set to expire on December 22, 2009. The maximum number of shares that may be purchased under Program 5 is four million Common Shares and four million Non-Voting Shares. Daily purchases under Program 5 may not exceed 462,444 Common Shares and 254,762 Non-Voting Shares until March 31, 2009, and thereafter may not exceed 231,222 Common Shares and 127,381 Non-Voting Shares. The shares are to be purchased on the Toronto Stock Exchange (TSX) and all repurchased shares will be cancelled. Investors may obtain a copy of the notice filed with the TSX without charge by contacting TELUS Investor Relations.
Extract from Telus 2008 Annual Report — continued

Shares repurchased for cancellation under normal course issuer bid programs

<table>
<thead>
<tr>
<th>Shares repurchased</th>
<th>Purchase cost ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares repurchased</td>
</tr>
<tr>
<td></td>
<td>Common Shares</td>
</tr>
<tr>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>Program 3 — ended December 19</td>
<td>2,904,800</td>
</tr>
<tr>
<td>Program 4 — beginning December 20</td>
<td>2,904,800</td>
</tr>
<tr>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>Program 4 — ended December 19</td>
<td>959,300</td>
</tr>
<tr>
<td>Program 5 — beginning December 23</td>
<td>959,300</td>
</tr>
</tbody>
</table>

(1) Represents the book value of shares repurchased.
(2) Represents the cost in excess of the book value of shares repurchased.

Long-term debt issues net of redemptions and repayments were $1,316 million in 2008, resulting from the following:

- In April 2008, the Company publicly issued $500 million 5.95%, Series CE Notes at a price of $996.97 per $1,000 of principal. The Notes mature in April 2015. The net proceeds of the offering were used for general corporate purposes, including repayment of amounts under the 2012 revolving credit facility, and to refinance short-term financing sources, which had been utilized in January for purchase of the then issued and outstanding Emeris common shares for $743 million. The Series CE Notes require that the Company make an offer to repurchase the Notes at a price equal to 101% of their principal plus accrued and unpaid interest to the date of repurchase upon the occurrence of a change in control triggering event, as defined in the supplemental trust indenture.

- On August 6, 2008, the Board of Directors approved an increase in the authorized commercial paper program from $800 million to $1.2 billion.

- Amounts drawn on the 2012 bank facility increased to $980 million at December 31, 2008 from $918 million one year earlier, while commercial paper issues decreased by $165 million during the year.

  During the first quarter of 2008, the Company increased utilization of the 2012 bank facility from $918 million to $213 million for general corporate purposes, including acquisitions in January. During the second quarter of 2008, the Company reduced the amount drawn on the 2012 bank facility to $162 million. Utilized bank facilities increased to $430 million during the third quarter to help pay for the AWS spectrum licenses. In the fourth quarter, amounts drawn on the 2012 facility increased by $550 million, offsetting a reduction in outstanding commercial paper. Commercial paper outstanding was $432 million at December 31, 2008, as compared to $968 million at September 30, $860 million at June 30 and March 31, and $587 million at December 31, 2007.

In comparison, debt financing activities in 2007 included the March issuance of Series CC and CD Notes totalling $1 billion, establishment of a commercial paper program in May, and repayment of approximately $1.5 billion of matured Notes in June. These activities contributed to a lower effective interest rate in subsequent periods.

For the anticipated requirements to meet long-term debt repayments, see TELUS’ 2009 financing and capital structure management plan in Section 4.5, as well as the Contractual obligations table in Section 7.2 – Commitments and contingent liabilities.
ACCOUNTING DISCLOSURES

Accounting Disclosures continued to receive the highest element score overall, with no company scoring below 2, and a full two-thirds receiving a 3 (excellent) ranking. The straightforward nature of the material presented, the regulatory requirements, and the tight linkages with the financial statements are the likely explanations for this high evaluation. Companies that stood out in this element analysed the impact of changes to critical accounting estimates or accounting policies on the company’s financial reporting. In addition, they explained their plan to convert to International Financial Reporting Standards, providing information about progress towards plan deadlines, and discussing identified accounting issues. Several companies applied the Canadian Performance Reporting Board’s guidance, Pre-2011 Communications about IFRS Conversion, issued in October 2008. This includes a suggested format for summarizing progress on different aspects of the changeover from Canadian GAAP to IFRSs, including key activities, their status, and milestones/deadlines.

KEY COMPONENTS

- Focus on the impact of changes in accounting policies and estimates
- Discuss progress of the changeover to IFRS and its impact
WHAT TO STRIVE FOR: Extract from Thomson Reuters’ 2008 annual report

ACCOUNTING POLICIES

Changes in Accounting Policies

INCOME TAXES

Effective January 1, 2007, we voluntarily adopted a new accounting policy for uncertain income tax positions. As a result of this change in accounting policy, we recorded a non-cash charge of $33 million to our opening retained earnings as of January 1, 2007 with an offsetting increase to non-current liabilities.

Under our previous policy, we would reserve for tax positions if it was probable that an uncertain position would not be upheld. Under our new policy, we evaluate a tax position using a two-step process:

- First, we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more likely than not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information.

- Second, a tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. If the tax position does not meet the more likely than not recognition threshold, no benefit from the tax position is recorded.

We were not able to retroactively apply this new policy as the data to determine the amounts and probabilities of the possible outcomes of the various tax positions that could be realized upon ultimate settlement was not collected in prior periods. Further, significant judgments are involved in assessing these tax positions and we concluded that it is not possible to estimate the effects of adopting the policy at an earlier date.

FINANCIAL INSTRUMENTS AND COMPREHENSIVE INCOME


Effective January 1, 2006, we adopted CICA Handbook Section 13.30, Comprehensive Income, CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement and CICA Handbook Section 3865, Hedges. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 13.30 also introduces a new component of equity referred to as accumulated other comprehensive income.

Under those new standards, all financial instruments, including derivatives, are included on our consolidated balance sheet and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. Derivatives that qualify as hedging instruments must be designated as either a “cash flow hedge”, when the hedged item is a future cash flow, or a “fair value hedge”, when the hedged item is the fair value of a recognized asset or liability. The effective portion of unrealized gains and losses related to a cash flow hedge are included in other comprehensive income. For a fair value hedge, both the derivative and the hedged item are recorded at fair value in our consolidated balance sheet and the unrealized gains and losses from both items are included in earnings. For derivatives that do not qualify as hedging instruments, unrealized gains and losses are reported in earnings.

In accordance with the provisions of these new standards, we reflected the following adjustments as of January 1, 2006:

- an increase of $53 million to “Other non-current assets” and “Accumulated other comprehensive income” in the consolidated balance sheet relates to derivative instruments that consisted primarily of interest rate contracts, which convert floating rate debt to fixed rate debt and qualify as cash flow hedges;

- a reclassification of $5 million from “Other current assets” and $3 million from “Other current liabilities” to “Accumulated other comprehensive income” in the consolidated balance sheet related primarily to previously deferred gains and losses on settled cash flow hedges;

- an increase of $16 million to “Other non-current assets” and “Long-term debt” in the consolidated balance sheet related to derivative instruments and their related hedged items. These derivative instruments consist primarily of interest rate contracts to convert fixed rate debt to floating and qualify as fair value hedges; and

- a presentation reclassification of amounts previously recorded in “Cumulative translation adjustment” to “Accumulated other comprehensive income.”

The adoption of these new standards had no material impact on our consolidated statement of earnings. The unrealized gains and losses included in “Accumulated other comprehensive income” were recorded net of taxes, which were nil.
RESULTS & OUTLOOK

The Results & Outlook element should be an insightful explanation of the company’s performance against its strategy and goals, focusing on changes in financial and non-financial key performance indicators, including a realistic discussion of the company’s future prospects.

The Results aspect of this element improved slightly over 2007, due to those companies that provided a transparent explanation of the impact of the financial crisis on results. Notably, poor performers were more forthcoming in their results discussions than in 2007. In many situations, this involved explaining results by quarter rather than for the year as a whole. The weakest area of the Results section continues to be the lack of adequate explanations for actual results’ variance from targets.

Some companies continued to provide an Outlook section with quantified targets while others eliminated these discussions, explaining that the economic uncertainty precluded a reliable outlook. A third group continues to avoid an outlook discussion, without explanation.

KEY COMPONENTS

- Include an informative outlook section with meaningful forward-looking information
- Discuss and explain why actual results have differed from targets
- Provide management’s insights about the company’s performance
- Ensure non-GAAP measures are accompanied by a clear reconciliation to the GAAP number, an explanation of their purpose, and the reason for adjustments from the GAAP measure
WHAT TO STRIVE FOR: Extract from Sections 5.2 “Business unit performance review” and 5.3 “Business segment performance” of Canadian Tire’s 2008 annual report

5.2 Business unit 2008 performance overview

<table>
<thead>
<tr>
<th>Canadian Tire Retail</th>
<th>Mark’s WorkWearhouse</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2008 Performance highlights</strong></td>
<td><strong>2008 Performance highlights</strong></td>
</tr>
<tr>
<td>&gt; grew network to 475 stores;</td>
<td>&gt; grew network to 372 locations and increased total retail space by 6.4 per cent;</td>
</tr>
<tr>
<td>&gt; increased total retail space by 5.9 per cent; and</td>
<td>&gt; increased total retail sales by 3.5 per cent over the previous year; and</td>
</tr>
<tr>
<td>&gt; continued development of new store formats by opening four Small Market stores and two Smart stores in pilot phase.</td>
<td>&gt; continued to grow Mark’s sales in two of its three key product categories.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PartsSource 2008 performance highlights</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; grew network to 86 stores including five new hub stores; and</td>
<td></td>
</tr>
<tr>
<td>&gt; grew sales through strong commercial sales.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Canadian Tire Financial Services</th>
<th>Petroleum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2008 Performance highlights</strong></td>
<td><strong>2008 Performance highlights</strong></td>
</tr>
<tr>
<td>&gt; completed the Options MasterCard relaunch;</td>
<td>&gt; grew network to 273 gas bars and 266 convenience stores;</td>
</tr>
<tr>
<td>&gt; continued testing the retail banking initiative with a dramatic increase in broker deposits; and</td>
<td>&gt; refurbished 21 gas bars as part of the initiative to improve the overall customer experience at Petroleum’s sites;</td>
</tr>
<tr>
<td>&gt; increased total managed portfolio of loans receivable to $4.1 billion, up 4.3 per cent from 2007.</td>
<td>&gt; rebuilt these gas bars; and</td>
</tr>
<tr>
<td></td>
<td>&gt; improved earnings over the prior year, reflecting higher gasoline prices and stabilized margins during 2008 as well as effective expense management.</td>
</tr>
</tbody>
</table>

The following sections outlining the Company’s business segment performance highlight the respective segments’ achievements to date against key initiatives identified in the 2013 Strategic Plan. The initiatives have been divided into those contributing to growth and those contributing to productivity enhancement at Canadian Tire.

In this context, “growth” is intended to convey the objective of achieving increased sales and market share primarily through network growth, new stores and new products. “Productivity” is intended to convey the objective of improved productivity, cost-effectiveness, service levels and rates of return.
5.3.1.2 Key performance indicators

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

- total same store sales growth;
- average retail sales per store; and
- average sales per square foot of retail space.

**CTR total retail and same store sales**

<table>
<thead>
<tr>
<th></th>
<th>04 2008 14 weeks compared to 13 weeks</th>
<th>04 2008 13 weeks compared to 13 weeks</th>
<th>04 2007 13 weeks compared to 13 weeks</th>
<th>08 2008 52 weeks compared to 52 weeks</th>
<th>08 2007 52 weeks compared to 52 weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total retail sales1</td>
<td>9.1%</td>
<td>4.0%</td>
<td>0.4%</td>
<td>3.8%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Same store sales2</td>
<td>7.3%</td>
<td>2.2%</td>
<td>(1.8)%</td>
<td>1.8%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

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

2 Only includes stores that had been open for a minimum of two years as at the end of the quarter.

**CTR’s retail sales**

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

**CTR’s same store sales**

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

**Average retail sales per Canadian Tire store**

<table>
<thead>
<tr>
<th></th>
<th>2008 ($)</th>
<th>2007 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard stores</td>
<td>15.5</td>
<td>15.6</td>
</tr>
<tr>
<td>Traditional stores</td>
<td>7.9</td>
<td>8.0</td>
</tr>
</tbody>
</table>

1 Retail sales are shown on a 52-week basis in each year and exclude sales from PartSource stores, CTR’s online web store and the labour portion of CTR’s auto service sales.

2 Only includes stores that had been open for a minimum of two years as at the end of the quarter.

3 For store definitions, see section 5.3.1.3.

**Average sales per square foot of Canadian Tire retail space**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail square footage1 (millions of square feet)</td>
<td>18.7</td>
<td>17.7</td>
</tr>
<tr>
<td>New-format stores1,2</td>
<td>$392</td>
<td>$394</td>
</tr>
<tr>
<td>Traditional stores1</td>
<td>$490</td>
<td>$497</td>
</tr>
</tbody>
</table>

1 Retail square footage is based on the total retail square footage including stores that had not been open for a minimum of two years as at the end of the quarters.

2 Retail sales are shown on a 52-week basis in each year for those stores that had been open for a minimum of two years as at the end of the current quarter. Sales from PartSource stores, CTR’s online web store and the labour portion of CTR’s auto service sales are excluded.

The two tables above show comparable year-over-year results in retail sales per store and a slight decline in retail sales per square foot. The result is due to the large number of store projects we have built over the past couple of years, which are excluded from the calculation as they have not been open, in that format, for a period of two years. Once the stores have been open for two years, they are included once again in the average sales metrics.

Average sales per square foot of retail space in the larger store formats are lower than in traditional stores because the additional space is utilized to display more merchandise, accommodate wider aisles, include more appealing product displays and provide a more compelling shopping experience overall.
Extract from Canadian Tire’s 2008 annual report — continued

Retail sales by product division\(^1,^2\)

\[
\begin{array}{|c|c|c|}
\hline
\text{Product Division} & \text{2008} & \text{2007} \\
\hline
\text{Home} & $3,169.7 & $3,085.2 \\
\text{Leisure} & 2,074.9 & 2,076.5 \\
\text{Automotive} & 1,930.2 & 1,859.4 \\
\hline
\text{Total} & $7,174.8 & $7,021.1 \\
\hline
\end{array}
\]

\(^1\) Retail sales are shown on a 52-week basis in both years and include sales from Canadian Tire and PartSource stores, and exclude sales from CTR’s online web store and the labour portion of CTR’s auto service sales.

\(^2\) Certain of the prior year’s figures have been restated to conform to the current year’s product groupings.

Sales in our major product divisions of home and automotive demonstrated strong growth in 2008 driven by sales in kitchen, better living, home organization and tires categories.

CTR retail sales

Fourth quarter

Total retail sales for CTR for the 14-week fourth quarter of 2008 increased 9.1 per cent compared to the 13-week fourth quarter of 2007, while same store sales increased 7.3 per cent. On a more comparable 13-week basis, total retail sales were up 4.0 per cent and same store sales increased 2.2 per cent. CTR’s increased retail sales reflect an increase in winter-related merchandise sales during the quarter led by an increase in automotive tire sales due, in part, to new legislation in Quebec that made snow tires mandatory for all vehicles, and due to winter weather experienced across the country towards the end of the quarter.

PartSource achieved moderate sales growth in the fourth quarter of 2008, driven by the continued expansion of the network through acquisitions and growth in the commercial customer segment.

Full year 2008

On an annual basis, total retail sales for CTR for the 53 weeks of 2008 increased 3.8 per cent compared to the 52-week period of 2007. On a more comparable 52-week basis, total retail sales were up 2.3 per cent over 2007 sales levels. Retail sales were strongest in the kitchen, tires and better living categories in 2008 and weakest in home electronics. Total retail sales were affected by weaker seasonal and weather-related sales in the spring and summer due to unseasonal weather experienced across the country and softness in the tools category during the first half of the year. In addition, a challenging economic environment prevailed throughout 2008 and affected retailers across Canada.
RISK

*Risk,* while an extremely important element, continues to be one of the weakest areas of the MD&A. One would have expected risks to receive greater attention in 2008 in view of the financial crisis, including commentary on matters such as liquidity concerns, uncertainties about the entity’s ability to continue as a going concern, customer demand, and supply chain relationships. In most instances, however, the risk discussion was virtually unchanged from 2007. The few companies that focused the discussion on their principal risks, how they had changed, and their management of the risks presented a more comprehensive picture to the reader, and consequently received a higher rating. The continuance of the boilerplate discussion from prior years without adaptation to the economic uncertainty in 2008 was both surprising and disappointing. This is an area in need of improvement as it continues to fail to meet the needs of MD&A readers.

**KEY COMPONENTS**

- Identify, explain and quantify risks such that the reader understands why it is a risk for that company
- Discuss risk management strategies
- Highlight risks that are specific to the company’s business
- Evaluate risks and present them in accordance with their importance
WHAT TO STRIVE FOR: Extract from the Risk Management, Risk Controls and Risk Factors sections of TransAlta’s 2008 annual report

Risk Management

Our business activities expose us to a wide variety of risks. Our goal in managing these risks is to protect the Corporation from an unacceptable level of earnings or financial exposure while still enabling business processes and opportunities. We use a multi-level risk management oversight structure to manage these objectives by ensuring that the risks arising from our business activities, the markets in which we operate, and the political environments in which we operate is mitigated. As evidence of our dedication to excellent risk management and corporate governance, we were awarded the Private Sector Conference Board of Canada/Spencer Stuart 2009 National Award in Governance on Feb. 10, 2009.

Risk Controls

Our management of these risks is also described in the respective sections. Our risk controls have several key components:

Enterprise Tone

Our corporate values are clearly articulated throughout the organization. Employees sign agreements outlining their commitment to our corporate code of conduct.

Policies

We maintain a set of enterprise-wide policies that have been established to address key risks. These policies establish delegated authorities and limits for business transactions, as well as allow for an exceptional approval process. We perform periodic reviews and audits to ensure compliance with these policies.

Reporting

We regularly report risk exposures to key decision makers including the Board of Directors, senior management, and the EMC. This reporting includes analysis of risks being assumed, existing risk exposures, and recommendations for any suggested course of action. This frequent reporting provides for effective and timely risk management and oversight.

Whistleblower System

We have a system in place where employees may report any potential ethical concerns. These concerns are directed to the Vice-President Internal Audit who engages Corporate Security, Legal and Human Resources in determining the appropriate course of action. These concerns and any actions taken are discussed with the Audit and Risk Committee.

Value at Risk and Trading Positions

VaR is the most commonly used metric employed to track the risk of trading positions. A VaR measure gives, for a specific confidence level, an estimated maximum loss over a specified period of time.

VaR is the primary measure used to manage COD’s exposure to market risk resulting from trading activities. VaR is monitored on a daily basis, and is used to determine the potential change in the value of our marketing portfolio over a three-day period within a 95 per cent confidence level resulting from normal market fluctuations. Stress tests are performed weekly on both earnings and VaR to measure the potential effects of various market events that could impact financial results, including fluctuations in market prices, volatilities of those prices and the relationships between those prices. The 3-day average VaR for the year ending Dec. 31, 2006 was $8 million compared to $4 million for the same period in 2007.

We estimate VaR using the historical variance/covariance approach. Currently, there is no uniform energy industry methodology for estimating VaR. An inherent limitation of historical variance/covariance VaR is that historical information used in the estimate may not be indicative of future market risk. See additional discussion under commodity price risk in the Risk Management section.
Risk Factors

Risk is inherent in all business activities and cannot be entirely eliminated. However, shareholder value can be maintained and enhanced by identifying, mitigating, and where possible, insuring against these risks. The following section addresses some, but not all, risk factors that could affect our future results and our activities in mitigating those risks. These risks do not occur in isolation, but must be considered in conjunction with each other.

Certain sections will show the after-tax effect on net earnings and/or cash flows of changes in certain key variables. The analysis is based on business conditions and production volumes in 2008. Each item in the sensitivity analysis assumes all other potential variables are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances, or for a greater magnitude of changes.

Volume Risk

Volume risk relates to the variances from our expected production. Where we are unable to produce sufficient quantities of output in relation to contractually specified volumes, we may be required to pay penalties or purchase replacement power in the market.

Our hydro operations’ financial performance is partially dependent upon the availability of water in a given year. The availability of water is difficult to forecast as it is primarily driven by weather. Such water availability introduces a degree of volatility in revenues earned by our hydro operations from year to year. This risk is complicated by obligations imposed within the PPA applicable to our Alberta hydro facilities. A monthly financial obligation must be paid to the PPA Buyer, based on a predetermined quantity of energy and ancillary services at market prices, regardless of our ability to generate such quantities. We carefully balance all of these factors together to achieve optimal productivity with the water resources available.

Our wind and geothermal operations are dependent upon the availability of wind and geothermal resources.

We manage these risks by:

- actively managing our assets and their condition through the Generation and Generation Technology groups in order to be proactive in plant maintenance;
- monitoring water resources throughout Alberta to the best of our ability and optimizing this resource against real-time electricity market opportunities;
- placing our wind and geothermal facilities in locations that we believe to have sufficient resources in order for us to be able to generate sufficient electricity to meet the requirements of contracts. However, we cannot guarantee that these resources will be available when we need them or in the quantities that we require, and
- monitoring market volumes and liquidity to ensure sufficient volumes are available to fulfill proprietary trading requirements.

The sensitivities of volumes to our net income are described below:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Increase or Decrease</th>
<th>Approximate Impact on Earnings and Cash Flow (after-tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability/production</td>
<td>1%</td>
<td>$21</td>
</tr>
</tbody>
</table>

Generation Equipment and Technology Risk

Our plants are exposed to operational risks such as fatigue cracks in boilers, corrosion in boiler tubing, turbine failures, and other issues that can lead to outages and increased volume risk. If plants do not meet availability or production targets specified in their PPAs or other long-term contracts, we must either compensate the purchaser for the loss in the availability of production or record reduced electrical or capacity payments. For merchant facilities, an outage can result in lost merchant opportunities. Therefore, an extended outage could have a material adverse effect on our business, financial condition, results of operations, or our cash flows.

As well, we are exposed to procurement risk for specialized parts that may have long lead times. If we are unable to procure these parts when they are needed for maintenance activities, we could face an extended period with our equipment unavailable to produce electricity.

We manage our generation equipment and technology risk by:

- operating our generating facilities within defined and proven operating standards that are designed to maximize the output of our generating facilities for the longest period of time;
- performing preventative maintenance on a regular basis;
- adhering to a comprehensive plant maintenance program and regular turnaround schedules;
- having sufficient business interruption insurance in place in the event of an extended outage;
- having force majeure clauses in the PPAs and other long-term contracts;
- using technology in our generating facilities that is selected and maintained with the goal of maximizing the return on those assets;
- monitoring technological advances and evaluating their impact upon our existing generating fleet and related maintenance programs;
- negotiating strategic supply agreements with selected vendors to ensure key components are available in the event of a significant outage, and
- developing a long-term asset management strategy with the objective of maximizing the life cycles of our existing facilities and/or replacement of selected generating assets.
CLIMATE CHANGE & OTHER ENVIRONMENTAL ISSUES

The MD&A reporting of *Climate Change and Other Environmental Issues* improved slightly over 2007. Those excelling in this area tended to be in high-impact industries, such as the resources sector. Here, the best MD&A reporters discussed how they plan to reduce greenhouse gas emissions; how they are monitoring environmental regulations and laws and what the potential capital costs might be to adhere to these regulations and laws; and how they monitor for potential contamination and remediation costs. Despite these pockets of improvement, the majority of the companies failed to effectively discuss environmental and/or climate change issues. Limited attention to the risks, opportunities, and strategic implications was surprising, particularly in light of recent initiatives to advance this aspect of reporting, including the Canadian Performance Reporting Board publication *Building A Better MD&A — Climate Change Disclosures*.

REGULATORY MATTERS

Though the scores for the discussion of *Regulatory Matters* are quite positive overall, this was the only area to suffer a marginal decline in average ranking versus last year. The high quality of this area is likely due to the high level of repetition of the material within other parts of the annual report, for example, the notes to financial statements. Although this repetitive information is required by regulation, it is questionable whether duplicating information presented elsewhere improves the overall quality of financial reporting. The MD&A should focus on providing information, through management’s eyes, which is supplementary and complementary to information that is presented in the financial statements.
The review was conducted against a comprehensive MD&A self-assessment checklist that details what a company should do to produce a high quality MD&A. The checklist draws on the CPRB guidance and securities regulatory requirements and should enable preparers to evaluate and determine those areas of their MD&A in need of improvement. The checklist is available at CICA’s Performance Reporting Resource Centre at www.cica.ca/cpr.

The checklist is closely related to CICA’s recently revised Management’s Discussion and Analysis: Guidance on Preparation and Disclosure. The MD&A Self-Assessment Checklist is comprised of two components:

PART 1 — Overall Evaluation based on the 6 General Disclosure Principles set out in the CPRB’s MD&A guidance and

PART 2 — A Qualitative Evaluation of each of the MD&A elements

<table>
<thead>
<tr>
<th>Part 1: Six General Disclosure Principles</th>
<th>This section allows for an overall evaluation of the application of the 6 guiding principles for an MD&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part 2: Qualitative Evaluation of MD&amp;A Elements</td>
<td>The evaluation includes a determination as to whether the element is included and the quality of its discussion</td>
</tr>
<tr>
<td>A. Introduction</td>
<td>Does the MD&amp;A provide an executive summary of the company and its industry; outline key segments, assets; describe the uniqueness of the company; and highlight results and activities for the year?</td>
</tr>
<tr>
<td>B. Strategy</td>
<td>Does the MD&amp;A clearly communicate the strategy for the company and/or segments, including a discussion of the rationale and context for the strategy?</td>
</tr>
<tr>
<td>C. Key Performance Drivers</td>
<td>Does the MD&amp;A clearly outline the key performance drivers for the company/segment, including a discussion of the significance of the driver to the strategy and a measure of the company’s performance in relation to the driver?</td>
</tr>
</tbody>
</table>
### D. Capability to Deliver Results

Does the MD&A discuss and analyse the company’s financing strategy and liquidity, including a discussion of the need for financing and how it will be repaid?

Does the MD&A discuss and analyse the company’s productive capacity – financial condition (e.g., tangible and intangible capital assets, acquisitions and disposals, financial and other instruments), including clear communication of the changes in capital assets, the capital asset expenditure plan, performance against the plan, and future capital asset expenditures?

Does the MD&A discuss and analyse the key leadership and people for the company?

### E. Accounting Disclosures

Does the MD&A identify and discuss significant accounting policies, and critical accounting estimates, and changes therein?

### F. Results & Outlook

Does the MD&A discuss and analyse both historical results and expected future performance for the company and/or segments, by providing information that is incremental to the financial statements? In this discussion, does the MD&A analyse results against goals, objectives and targets? If non-GAAP measures are used, are appropriate explanations and reconciliations provided?

### G. Risk

Does the MD&A clearly disclose the company’s principal risks and how the company evaluates, manages and/or mitigates these risks?

### H. Climate Change and Other Environmental Issues

Does the MD&A clearly discuss the current and potential climate change and environmental issues facing the company?

### I. Regulatory Matters

Does the MD&A comply with regulatory requirements?

Each company’s compliance with the individual elements of the checklist was evaluated, taking into account both the application of the 6 principles and the specific content for the element, and awarded a score of 0 to 3 where 0 = not discussed, 1 = satisfactory, 2 = good, and 3 = excellent. A ranking of “satisfactory” implies the content element was discussed in general terms. A ranking of “good” implies the content was discussed with additional qualitative and/or quantitative information. A ranking of “excellent” implies the content was discussed as in the “good ranking”, but that also the discussion and analysis provide further information, such as including implications for the company.

Overall, a company could receive a ranking as high as 33 as 11 elements were analysed. The overall scores of the 30 companies ranged from 8 to 28. A company with an overall score of 23 or above was given an excellent ranking; a score of 19-22 was given an above average ranking; a score of 14-18 was given an average ranking; a score of 10-13 was given a below average ranking; and a score 9 and below was given a poor ranking.
RECENT CICA MD&A GUIDANCE

*Management’s Discussion and Analysis: Guidance on Preparation and Disclosure* (July 2009)

*IFRS Related Disclosures in December 31, 2008 MD&A of Canadian Companies* (March 2009)

*CPR Alert — MD&A Disclosures in Volatile and Uncertain Times — Volume 2* (February 2009)

*Pre-2011 Communications about IFRS Conversion* (October 2008)

*CPR Alert — MD&A Disclosures in Volatile and Uncertain Times — Volume 1* (October 2008)

*Improved Communication with Non-GAAP Financial Measures* (October 2008)

*Building a Better MD&A — Climate Change Disclosures* (October 2008)

*Evaluating and Improving Management’s Discussion & Analysis — A Baseline Report* (October 2008)

*MD&A Self-Assessment Checklist* (October 2008)

*CFO Beyond-GAAP Briefing — Forward-Looking Information* (May 2008)

*Building a Better MD&A — Risk Disclosure* (March 2008)
