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Canadian Tire Corporation, Limited Annual Report 1987

Profile

Canadian Tire Corporation, Limited is one of Canada's largest retailing corporations, operating through its Dealer network 406 stores nation-wide. The Corporation's operations comprise divisions and subsidiaries involved in merchandising, real estate, petroleum marketing, remanufacturing of automotive parts, and consumer credit. Canadian Tire and its Dealers employ more than 25,000 people across Canada.

Contents

Sur simple demande, nous nous ferons un plaisir de vous faire parvenir la version française du présent rapport.

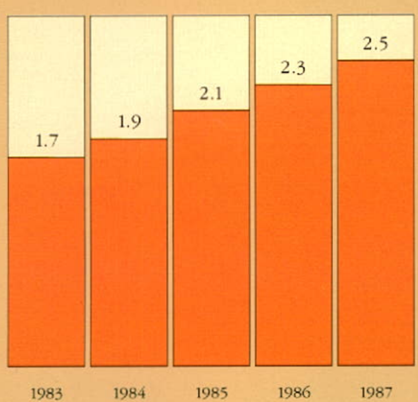
Highlights

(Dollars in thousands except per share amounts)	1987 (52 weeks)	1986 (53 weeks)	Percent Change*
Gross operating revenue	$2,483,822	$2,326,002	+ 6.8
Earnings before income taxes	199,524	172,637	+ 15.6
Income taxes	100,698	84,792	+ 18.8
Earnings before extraordinary item	98,826	87,845	+ 12.5
Extraordinary item	–	1,437	–
Net earnings	98,826	89,282	+ 10.7
Dividends paid	17,884	17,385	+ 2.9
Per share:			
Earnings before extraordinary item	$1.10	$1.01	+ 9.3
Extraordinary item	–	.02	–
Net earnings	1.10	1.03	+ 7.6
Dividends paid	.20	.20	–
Shareholders' equity at year end	7.99	6.88	+ 16.2

**Percent change calculated from unrounded amounts.*

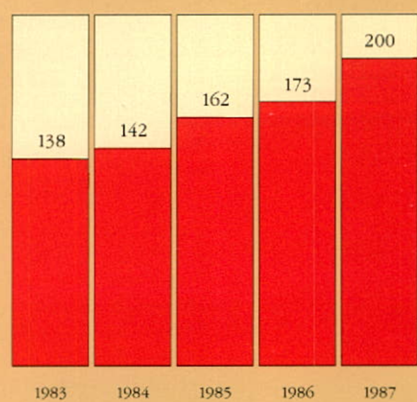
Gross Operating Revenue

(billions of dollars)



Earnings before Income Taxes

(millions of dollars)



Mission Statement

Canadian Tire is an integrated supplier of automotive products and services, and home and leisure products through a network of Associate Dealers across Canada. The Corporation provides a variety of marketing, merchandising, administrative and ancillary services to its Associate Dealers as well as financial services to both Associate Dealers and their customers.

Our mission is to use the resources and business acumen already developed to extend our existing operations to their full potential as well as become a portfolio of well positioned businesses, diversified with respect to growth and risk, but sharing a common basis in the supply of consumer goods and services in North America. These businesses will be managed in a decentralized style against aggressive profit and growth objectives.

Corporate Objectives

In pursuit of our mission, we will strive to achieve continued superior long-term growth and maximization of shareholders' value through the following objectives:

- ☐ We will strive to achieve sales growth rates in excess of market growth, thereby increasing market share.
- ☐ We will strive to achieve average long-term top quartile performance in both profit growth and return on shareholders' equity within our chosen business sectors. We will exercise good business judgment to ensure that the pursuit of these objectives, in the short term, is not at the expense of their attainment in the longer term.
- ☐ Our capital structure will be maintained so that our debt will not exceed total equity of the Corporation.
- ☐ We will grow by leveraging capabilities and strengths into related business areas.

Basic Principles

In the pursuit of our mission and objectives, we will remain steadfast in our belief in the following basic principles which have distinguished Canadian Tire as a world class business and Canadian institution:

- ☐ We will employ high quality people, who will be well compensated based on results. We are committed to the continual development of these employees, recognizing that they are our greatest resource in the pursuit of our objectives.
- ☐ We believe that the entrepreneurial spirit amongst our employees and Associate Dealers has been a major factor in our success. We further believe in the continued development of structures and policies which will encourage that spirit — striving for excellence and relating innovation and performance to reward. A mainstay of this belief is our commitment to profit sharing.
- ☐ We believe in consultative management and teamwork fostering open and frank communication at all levels throughout the organization and the Dealer network.
- ☐ Our unique two-step marketing system and its strong partnership with our Associate Dealers is recognized as a key to our success and will continue to be the preferred structure for bringing the best possible service, merchandise assortment and value to the consumer.
- ☐ We will strive for excellence, innovation and superior productivity through the continued development of all our resources including the use of leading-edge technology in our chosen businesses.
- ☐ We will conduct our businesses in a professional and ethical manner when dealing with employees, Associate Dealers, suppliers, customers, shareholders and the community-at-large.

To our Owners and Fellow Employees:

People tend to measure their progress and accomplishments in units of time. What did we do today, this week, this month, this quarter, this year? In fact, of course, time flows continuously. Our lives, while composed of periods of time, move steadily ahead with no real effect from clocks or calendars.

Corporations are much the same.

We measure performance in periods, but we must plan and invest today for what we want to be and to achieve in the immediate and more distant future. Our corporate life does not really finish at the end of December and begin anew every January.

These are just calendar periods, milestones in our history, points at which we can measure our progress.

Looking back over 1987, our 65th year in business, Canadian Tire, its Associate Dealers and employees can take considerable pride in three important accomplishments in particular.

First, thanks to the efforts and dedication of everyone throughout the Corporation and consumers' continuing acceptance of our marketing strategies, we put together four solid quarterly performances to again set new financial records for a year. It was an excellent year in all respects.

Second, after considerable self-examination and study, we defined on paper what Canadian Tire Corporation is all about today and what it will be in the future. The Board of Directors approved a formal Mission Statement, including long-term Corporate Objectives and an iteration of the Basic Principles that have been the foundation upon which our success has been, and will be, built. These principles emphasize our commitment to people and to continuing to foster a strong entrepreneurial spirit.

Parts of the Mission Statement are cited throughout this report and it is printed in full on page 2.

Two key points are apparent from the Mission Statement. They confirm Canadian Tire's commitment to its core business and our intent to maintain our position as one of Canada's leading retail organizations. Our studies indicate that 90 percent of all adults in Canada shop at Canadian Tire stores. They also indicate that Canadian Tire has the ability to build on the strength of its core business to expand into related areas that will assist us in achieving superior long-term growth and profitability, thereby maximizing shareholders' value. The Statement begins:

> "Canadian Tire is an integrated supplier of automotive products and services, and home and leisure products through a network of Associate Dealers across Canada. Our mission is to use the resources and business acumen already developed to extend our existing operations to their full potential as well as become a portfolio of well-positioned businesses, diversified with respect to growth and risk, but sharing a common basis in the supply of consumer goods and services in North America. These businesses will be managed in a decentralized style against aggressive profit and growth objectives."

Third, after developing the Mission Statement employees from all areas of the Corporation participated in formulating a long-term strategic plan for the growth and prosperity of Canadian Tire.

This work included an analysis of our strengths, our customers and markets, our competitors and broad trends and changes in retailing, population and the economy.

We are now beginning to implement this plan toward building the Canadian Tire of the 1990s.

Record Financial Results

The year 1987 was not without its challenges. Following the global crash of financial markets on October 19, concerns arose about the economic outlook and the willingness of consumers to continue spending at a rate that would sustain growth, albeit at more moderate levels.

Also, issues surrounding control of the major blocks of Common Voting Shares continued to be the focus of much attention. Two special meetings of Shareholders have been held during the past twelve months to consider proposals intended to settle the issue. At this time the matter remains unresolved.

To their credit, the spirit and determination of the more than 25,000 employees of Canadian Tire and its Dealers remained high throughout the year. This enabled the Corporation to report a 6.8 percent growth in gross operating revenues to $2.48 billion for the year ended January 2, 1988 (a 52-week period), compared with $2.33 billion for the year ended January 3, 1987 (53 weeks).

Earnings before income taxes and extraordinary item rose 15.6 percent to $199.5 million in 1987 compared with $172.6 million in 1986. Net earnings for the year were $98.8 million ($1.10 per share) up a solid 10.7 percent over $89.3 million ($1.03 per share) recorded in 1986. This performance may be considered still more impressive given the extra week in the 1986 fiscal year, the higher 1987 tax rate and the fact that the 1986 net earnings include an extraordinary gain of $1.4 million ($0.02 per share) from the recovery of income taxes paid in the U.S..

Dealers' retail sales grew a healthy 9.8 percent through the first nine months of 1987, but were up only marginally in the final quarter. This was attributable to a more sluggish retail environment in the fourth quarter and the fact that the selling period was a week shorter than in 1986. The overall growth in Dealers' sales was 7.1 percent for the year. More effective management of Dealer inventories constrained the growth of our Merchandising Division's operating revenues to a 6.3 percent increase during 1987. However, operating earnings grew at a faster rate.

More detailed discussions of our performance are provided in the Operations and Financial Reviews beginning on pages 8 and 18, respectively.

Capital Investment Doubles

Consistent with our Mission Statement's commitment to our core business, Canadian Tire is investing substantially more capital than ever in its history.

Total capital expenditures amounted to $90.5 million in 1987, or more than double the 1986 level. We plan to invest about another $100 million in 1988. Last year we completed 18 projects and we expect to finish another 19 in 1988, for a total of 37 over the two-year period. These include 10 stores in new locations and 27 store replacements or expansions, giving us an increase of about one-half million square feet of retail selling space.

Despite these increased investments, our balance sheet continues to grow stronger. We expect to be able to finance these activities with

Hugh L. Macaulay, Chairman of the Board (Left)
Dean Groussman, President and Chief Executive Officer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MOTOMASTER
60
Maintenance Free / Sans entretien

internally generated funds in 1988 and future years. The only external financing likely for current operations would be Canadian Tire Acceptance's replacement of maturing issues and financing of receivables growth.

Earlier this year we announced plans to reduce or eliminate further dilution in 1988 of our Class A Non-Voting Shares by purchasing shares on the open market to meet the requirements of our profit sharing, stock dividend, dividend reinvestment and stock purchase plans.

A Strategic Plan for Growth

The strategic plan that the Corporation developed in 1987 provides a revitalized vision for our future and identifies what is needed to get us there. It is a dynamic document that will evolve and be modified as circumstances and our judgment dictate.

Our Corporate objectives, approved in 1987, state that:

- "We will strive to achieve sales growth rates in excess of market growth, thereby increasing market share.
- We will strive to achieve average long-term, top-quartile performance in both profit growth and return on shareholders' equity within our chosen business sectors.
- Our capital structure will be maintained so that our debt will not exceed total equity of the Corporation.
- We will grow by leveraging capabilities and strengths into related business areas."

The strategic plan identifies a number of areas into which we may expand, using the expertise we have gained in our current business operations.

In particular, these areas include automotive parts and service businesses in Canada and the massive U.S. market.

Much work remains to be done to further develop these concepts. We intend to be aggressive but careful and calculated in our approach. We are confident that the opportunities are exciting and attainable.

Board of Directors and Management

At the 1987 Annual Meeting, Shareholders elected Ronald Y. Oberlander, Executive Vice-President, Diversified Group Abitibi Price Inc., to the Board of Directors.

Immediately following the Annual Meeting in June, the Board was pleased to appoint Dean Groussman, formerly President and Chief Operating Officer, to succeed Hugh Macaulay as Chief Executive Officer. Mr. Macaulay continued as Chairman of the Board.

We make special note of the retirement at year end of Bruce R. Wilson as President of Canadian Tire Acceptance Limited (CTAL). We regret his leaving, but we wish him well and are very pleased that he has agreed to continue serving as a Director of CTAL.

CTAL's roots go back to 1961, when Mr. Wilson formed a credit company in Welland, Ontario to handle accounts for local merchants. By 1966, his efforts had resulted in the Company providing credit services to some 25 Canadian Tire Associate Dealers' stores in Ontario. That year, Canadian Tire purchased a majority interest in CTAL. In 1968 it became a subsidiary. Under Mr. Wilson's leadership, Canadian Tire Acceptance became a highly significant contributor to our financial performance, achieving impressive growth in revenues and earnings. In recent years, Mr. Wilson led its expansion into related areas, establishing a path for its continuing growth. In January 1988, Jos Wintermans joined Canadian Tire Acceptance succeeding Mr. Wilson as President. Mr. Wintermans has extensive experience in consumer marketing and the Canadian financial services industry.

In October 1987, Barry Setnor relinquished his position as Executive Vice-President, Marketing, Real Estate/Construction and Distribution to pursue other career interests. Mr. Setnor made a significant contribution to the Corporation and we wish him well in his new endeavours.

Growth Should Continue in 1988

The turbulence in global financial markets is cause for some caution. Nevertheless, we agree with the economist of a Canadian investment dealer who, early in the new year, wrote that he was left "with the inescapable conclusion that 1988 will turn out to be a pretty good year, despite all its bad advance publicity."

We expect Canada's economy will continue to achieve real growth in 1988, although at a more moderate pace of around three percent. We also foresee a similar gain in consumer spending fueled by steady employment growth and gains in disposable income as the effect of reduced personal income tax rates is realized.

Should the economic picture worsen, we believe we are well positioned to respond to changing conditions and continue to provide consumers with competitive prices, quality and value.

We have established an aggressive plan for 1988 and, with the continued support and drive of Canadian Tire people across Canada, we are confident that our objectives will be met.

On behalf of the Board,

H L Macaulay

Hugh L. Macaulay
Chairman of the Board

Dean Groussman

Dean Groussman
President and Chief Executive Officer

March 18, 1988

Operations Review

Canadian Tire's marketing professionals are responsible for providing high-quality product selection, dealing with more than 4000 Canadian and international suppliers. Other responsibilities include developing strategies to expand our Motomaster and Mastercraft product lines. Left to right: Bert Heeringa, Judy Bryan, Ruby Rana, Carey Browning.

Merchandising Division

While consumer spending in Canada is estimated to have risen just over four percent in 1987, Canadian Tire's Associate Dealers and their employees achieved a 7.1 percent increase in retail sales. Ontario (particularly the Metropolitan Toronto area) and British Columbia were the strongest areas of the country, while performance in the Prairie Provinces lagged.

In 1987, the Merchandising Division's shipments to Dealers were up 6.3 percent and did not keep pace with the growth in store retail sales as our Dealers decreased their inventories to achieve greater cost efficiencies and improved inventory management. The Division's operating earnings grew at a substantially higher rate than shipments as a result of improved profit margins.

The strong Dealer retail performance may be attributed to a number of factors.

Over the past six decades Canadian Tire has achieved leadership in the Canadian retail industry. Our surveys indicate that the Corporation and its Dealers have together achieved a top-of-mind, first-choice position with consumers for their automotive, home products and leisure goods when price, value and convenience are their decision-making criteria.

Two years ago, Canadian Tire adopted a "back-to-basics" marketing strategy that focused on our basic strengths in the automotive, home and leisure areas. Significantly increased expenditures in 1987 for advertising and promotion support were aimed at extending our position in these areas.

In particular, our marketing programs emphasized the quality and value of Canadian Tire's products sold under the Motomaster and Mastercraft brand names.

Working with our vendors, Canadian Tire continues to increase the number of proprietary products offered. There are now more than 12,000 Motomaster automotive and 5,000 Mastercraft home and hand tool products exclusively available through Dealers' stores. Canadian Tire annually buys its products from more than 4,000 Canadian and international suppliers.

"Canadian Tire is an integrated supplier of automotive products and services, and home and leisure products..."

Canadian Tire's catalogues have proven to be increasingly effective marketing tools. In surveys conducted by the Merchandising Division, 60 percent of those asked, recalled getting our catalogues; 90 percent of this group knew where to find it in their homes and some 40 percent said they referred to it at least once a month.

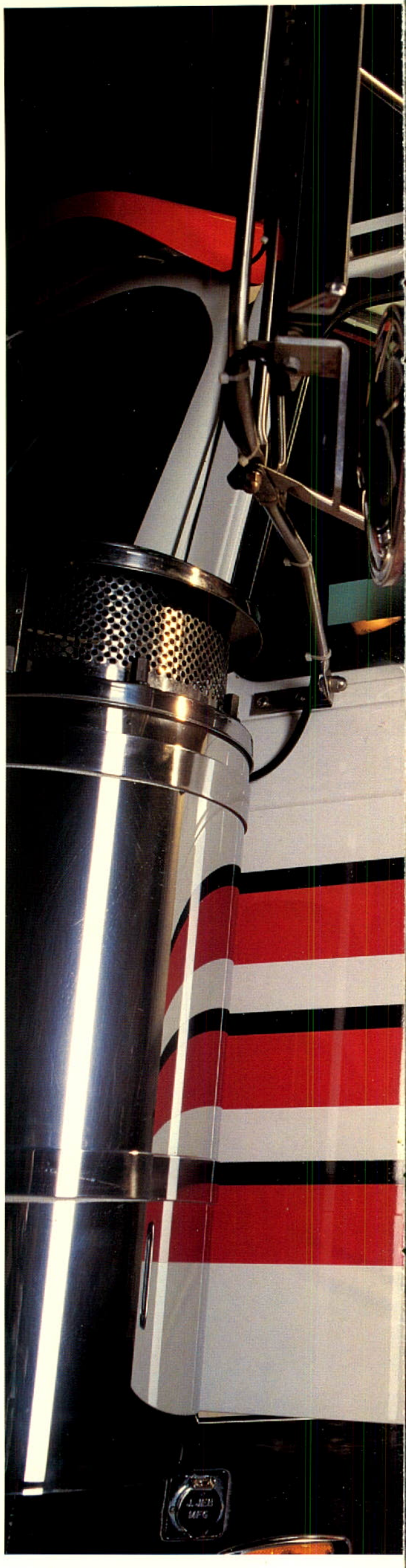
In 1988, Canadian Tire will maintain its Fall and Winter catalogue at 108 pages, while adding 16 pages to the Annual Value Guide, bringing it to 324 pages. We will also continue the use of T.V. and radio advertising and increase the number of flyers issued to at least one a week in all markets.

The growth in retail sales is also attributable to aggressive investment by our Dealers to update and improve the decor of their stores, using a new design package developed by the Corporation. The concept includes providing more information and guidance to customers to assist them in locating and evaluating products and the increased use of effective modular merchandising displays.

During 1987, Canadian Tire completed the preparation of a major new training program to be introduced to the Associate Dealers in 1988. The program is called SMART – Strategic Merchandising and Retailing Techniques. The program's seven elements deal with areas such as product assortment planning, display modules, store layout and how to make the shopping experience more pleasurable in a Canadian Tire store. This program is especially important in preserving the character and environment our customers expect to find when they go to a Canadian Tire store.

SMART was developed by studying selected Dealerships which demonstrated excellence in various retailing and merchandising techniques. We believe that the program will benefit all Dealers and contribute to growth in sales and profitability.

SMART is only one of several important Canadian Tire training programs. In particular, the Corporation and its Dealers are also continuing their substantial investment in five-year education programs designed to increase the product knowledge and customer-relations skills of store employees.



"We will strive to achieve sales growth rates in excess of market growth, thereby increasing market share..."

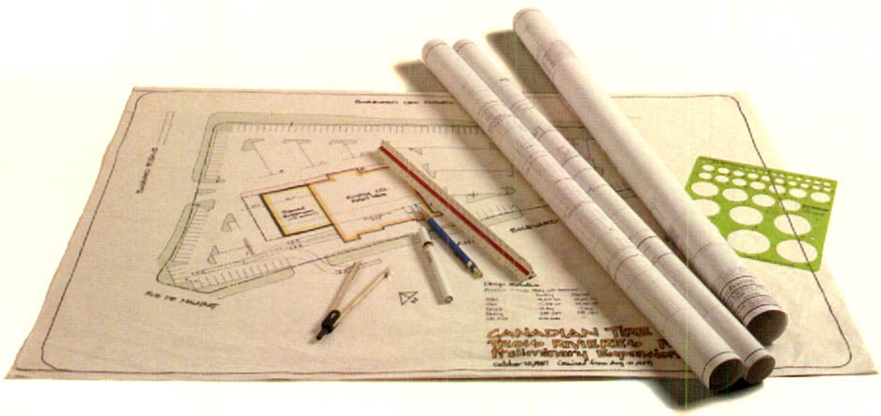
Driver Ken McCarty makes sure that the thousands of items you see in our stores are delivered on time. He's part of a fleet of 500 truck owner/operators who provide our stores with fast, efficient delivery right across Canada.

Real Estate Division

In 1987, the Real Estate Division completed 18 projects, adding three stores in new locations, replacing six older sites and expanding nine locations. These projects accounted for about two-thirds of the Corporation's $90.5 million in capital investment in 1987.

Work is underway on a number of the projects planned for 1988, which will result in the completion of seven new stores, four replacements and eight major expansions by year end. The Division expects to achieve productivity gains in planning for such sites as a result of a new computer aided design ("CAD") system installed to assist in designing buildings and internal layouts.

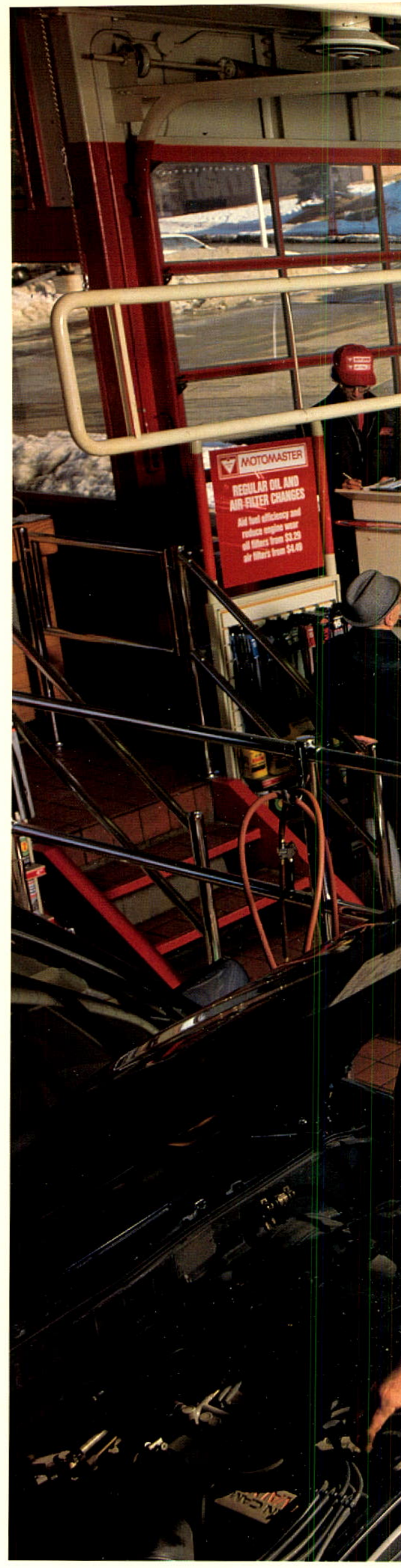
In 1987, the Real Estate Division generated a 7.2 percent increase in rental revenue and a 16.5 percent gain in income, including the sale of surplus properties.



"Our unique two-step marketing system and its strong partnership with our Associate Dealers is recognized as a key to our success..."

In 1987 and 1988, we will have undertaken some 37 projects to provide new, expanded or replacement stores to better serve our customers.


ADIAN TIRE



Petroleum Marketing Division

Petroleum Marketing Division's operating revenue rose 10.1 percent in 1987. While operating earnings continued to be an important contributor to consolidated pre-tax earnings, they were down substantially from the outstanding level achieved in 1986. This decline reflected higher supply costs and constraints on gas prices in a highly competitive market environment.

The Division added 14 new gas bars and a Pit Stop® location during the year to bring the total to 132 gas bars in six provinces and 53 Pit Stops with 59 service bays. The Division's operations also include propane, bulk oil and diesel marketing and distribution.

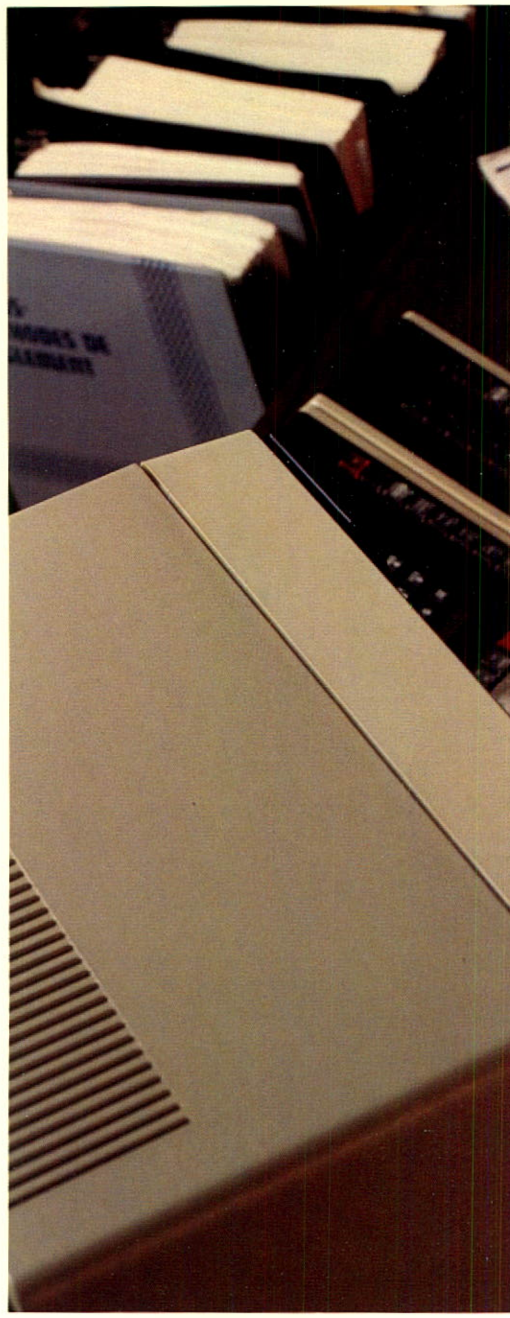
The gas bars encourage consumer business for Canadian Tire stores through proximity and the issuance of Canadian Tire cash bonus coupons. In 1987, more than $12 million in coupons were issued by the gas bars, providing potential savings to consumers and encouraging additional retail business.

Canadian Tire's new strategic plan identifies petroleum operations as an opportunity for future growth by rounding out our automotive services across the country.

"We will grow by leveraging capabilities and strengths into related business areas."

Canadian Tire takes an innovative approach to auto care, while maintaining our fine reputation for customer service. 1987 saw the opening of an additional Pit Stop® and many new gas bars, some boasting state-of-the-art conveniences such as the Gas Key system, a program which provides volume discounts on gasoline purchases, when customers use their special Gas Key card.


pit stop
Total Lube Care



Canadian Tire Auto Club dispatcher, Yollande Laverdière, is on the job to help Club members when they're in trouble on the road. Membership increased 50% in 1987, a sure indication that many Canadians recognize the Club's value and appreciate its benefits.

Canadian Tire Acceptance – Cantire Products Amalgamation

On January 1, 1987 Canadian Tire Corporation, Limited's wholly owned subsidiaries Canadian Tire Acceptance Limited (CTAL) and Cantire Products Limited amalgamated under the CTAL name. The amalgamation has been accounted for as a pooling of interests which combines the two entities in the CTAL financial statements. A new company named Cantire Products Limited has been formed to become the marketing arm of CTAL's manufacturing division.

Canadian Tire Acceptance Limited

Financial Services Division. Canadian Tire Acceptance Limited's (CTAL) Financial Services Division accomplished further growth in the number and use of its retail accounts and experienced particularly strong gains in commercial credit sales in 1987. In total, the Division, for the first time, passed the $1 billion mark in credit sales for its own and other credit cards.

Since 1980, CTAL had been acting as a sales agent for an auto club. In 1986, it assumed responsibility for operating the Club and renamed it the Canadian Tire Auto Club. Promotion of the Club resulted in a 50 percent increase in membership during 1987 and CTAL is aiming to exceed this growth rate in 1988 through further promotional efforts emphasizing the Club's advantages over competitive operations.

After completing test marketing in 1986 for accidental death insurance, CTAL introduced this product in 1987 and also successfully test marketed term life insurance. Both products will be marketed broadly in 1988.

The growth in its credit, auto club and insurance marketing operations contributed to a 13.1 percent gain in operating revenue and 28.9 percent increase in net earnings for CTAL in 1987.

Manufacturing Division. The turnaround in the performance of Cantire Products initiated in 1986, continued in 1987, with the remanufacturing operations recording a modest profit after two years of losses. The improved performance resulted particularly from the Division's efforts to increase the quality levels of its remanufacturing operations. In addition, the Division has aggressively worked on improving customer sales and service, while tightly controlling its costs.

"We will strive for excellence, innovation and superior productivity through the continued development of all our resources..."

Financial Review

For the year ended January 2, 1988, Canadian Tire Corporation achieved record consolidated gross operating revenue, net earnings and earnings per share.

In 1987, a 52-week period, consolidated gross operating revenue rose to $2.48 billion, a 6.8 percent increase from the $2.33 billion recorded in 1986 (a 53-week period).

Dealer retail sales grew 7.1 percent slightly ahead of the rate of increase in consolidated gross operating revenues as Dealers reduced their inventories achieving more effective cost management. The retail sales gain was mainly attributable to higher volume as, in a highly competitive retail environment, prices increased for the products sold by the Corporation by just over three percent.

The cost of merchandise and other general expenses rose in line with the revenue gains despite a nearly 10 percent increase in advertising and promotion expenditures.

Interest and investment income increased by 18.5 percent to $15.0 million. Our increased cash position resulted in higher levels of short-term investments.

Earnings before income taxes and extraordinary item rose 15.6 percent in 1987 to $199.5 million from $172.6 million in the prior year. Canadian Tire's effective tax rate rose to 50.5 percent in 1987 from 49.1 percent in 1986. The increase is principally attributable to the changes in the sources of earnings on a year to year basis and the elimination of the three percent inventory allowance in the first quarter of 1986.

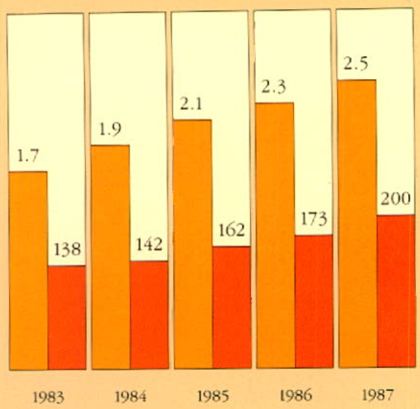
Net earnings were up 10.7 percent in 1987 at $98.8 million ($1.10 per share), compared with $89.3 million ($1.03 per share) a year earlier. The 1986 earnings include an extraordinary gain of $1.4 million ($0.02 per share) realized from the use of prior years' tax losses in the U.S.

The weighted average number of Class A Non-Voting and Common Shares outstanding increased by 2.9 percent to 89.6 million in 1987. During the year, about 2.6 million Class A Non-Voting Shares were issued for Corporate and Dealer employee stock purchase and profit sharing plans as well as for stock dividend and dividend reinvestment plans. In January 1988, Canadian Tire announced plans for 1988 to reduce or eliminate further dilution of its non-voting stock by buying shares on the open market in an amount approximating the prior year's requirements of its profit sharing, stock dividend, dividend reinvestment and stock purchase plans.

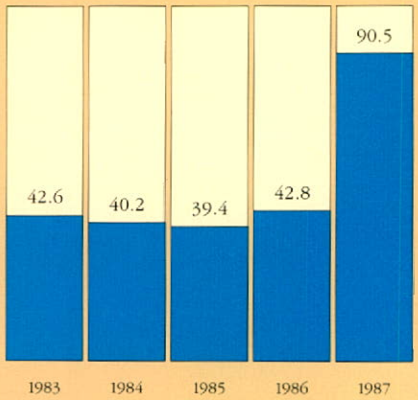
Gross Operating Revenue and Earnings Before Tax

Gross Operating Revenue
(billions of dollars)

Earnings before Taxes
(millions of dollars)



Capital Spending
(millions of dollars)



Operating Earnings

Gross operating revenue for the largest of Canadian Tire's five principal operating units, the Merchandising Division, rose 6.3 percent in 1987.

This reflected a slower growth in shipments to Dealers. Improved margins enabled the Division to more than offset a substantial boost in advertising and promotion expenditures, resulting in a 14.1 percent growth in operating earnings from the 1986 level.

The Real Estate Division ranked second in earnings contribution in 1987, recording a 9.8 percent gain in income from property rentals as rental revenue rose 7.2 percent.

The Petroleum Marketing Division's operating revenue rose 10.1 percent; however, earnings dropped by 39.4 percent, reflecting higher supply costs and constraints on gas prices in a highly competitive market environment.

Operating revenue for CTAL's remanufacturing operation, Cantire Products, fell marginally. However, the Division reported a profit after two years of losses. Improved quality levels and tight cost controls were major factors in Cantire's turnaround.

Canadian Tire Acceptance Limited's Financial Services Division achieved a 28.9 percent gain in net earnings in 1987 as gross operating revenue rose by 13.1 percent. The gains reflect growth in the number of credit accounts, the successful growth of its auto club and insurance businesses and improved cost control.

Capital Spending up 121 Percent

In 1987, Canadian Tire increased its level of capital expenditures to $90.5 million, from the $42.8 million spent in 1986. These funds were primarily devoted to increased activity for new stores and the expansion and modernization of established locations. The Corporation expects to invest about $100 million in 1988.

The Corporation's increasing cash flow from operations will permit financing of its capital program with internally generated funds. During the year, the Corporation's operations and financing activities generated $152.2 million in cash, compared with $114.7 million in 1986. At year-end 1987, the Corporation held more than $161 million in cash and short-term investments, net of outstanding bank debt.

Balance Sheet Grows Stronger

Further evidence of the Corporation's financial strength is the decline in long-term debt to total capitalization ratio to 24.1 percent from 30.7 percent in 1986. Interest coverage improved to 6.1 times earnings from 5.0 times in 1986. The return on capital employed amounted to 22.3 percent in 1987 compared with 22.0 percent in 1986.

The book value of Class A Non-Voting and Common Shares was $7.99 per share at year-end 1987, compared with $6.88 at the end of 1986. After tax return on shareholders' average equity was 14.9 percent in 1987, compared with 16.1 percent in 1986, while total shareholders' equity rose to $724.3 million in 1987 from $605.4 million in 1986.

Dividends paid to Class A Non-Voting and Common Shareholders totaled $17.9 million in 1987 and $17.4 million in 1986. The payout rate of $0.20 per share was the same in both years.

Long-Term Debt to Total Capitalization

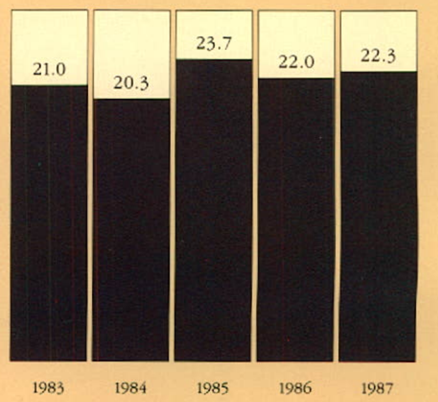
(percent)

Debt
Equity

Return on Capital Employed*

(percent)

**Pre-tax earnings before interest expense as a percentage of the total of long-term debt, shareholders' equity, deferred taxes, dividends payable, loans from directors and shareholders and short-term promissory notes.*



Consolidated statements of earnings and retained earnings

Year ended January 2, 1988

(Dollars in thousands except per share amounts)	1987 (52 weeks)	1986 (53 weeks)
Gross operating revenue	$ 2,483,822	$ 2,326,002
Operating expenses		
Cost of merchandise sold and all expenses except for the undernoted items	2,218,480	2,085,805
Interest		
Long-term debt	30,822	30,392
Short-term debt	8,172	12,612
Depreciation and amortization	27,289	24,138
Employee profit sharing plans	14,512	13,057
	2,299,275	2,166,004
	184,547	159,998
Interest and investment income (Note 9)	14,977	12,639
Earnings before income taxes	199,524	172,637
Income taxes (Note 10)		
Current	100,761	82,009
Deferred	(63)	2,783
	100,698	84,792
Earnings before extraordinary item	98,826	87,845
Extraordinary item (Note 11)	–	1,437
Net earnings	$ 98,826	$ 89,282
Earnings per share before extraordinary item	$ 1.10	$ 1.01
Extraordinary gain per share	–	.02
Earnings per share	$ 1.10	$ 1.03
Weighted average number of Class A Non-Voting and Common Shares outstanding	89,627,905	87,061,591
Retained earnings, beginning of year	$ 339,690	$ 267,920
Net earnings	98,826	89,282
	438,516	357,202
Dividends	18,019	17,512
Retained earnings, end of year	$ 420,497	$ 339,690

Consolidated statement of changes in financial position

Year ended January 2, 1988

(Dollars in thousands)	1987 (52 weeks)	1986 (53 weeks)
Cash generated from (used for) operations		
Earnings before extraordinary item	$ 98,826	$ 87,845
Depreciation and amortization	27,289	24,138
Deferred income taxes	(63)	2,783
Amortization of deferred foreign exchange loss	528	1,953
Amortization of long-term debt discount and issue expense	271	253
Gain on disposals of property and equipment	(2,276)	(322)
Changes in non-cash working capital components (Note 8)	17,270	(50,376)
	141,845	66,274
Cash generated from (used for) investment activities		
Disposals of property and equipment	6,744	4,172
Mortgages receivable	268	3,218
Scientific research contract	–	2,285
Reduction in notes receivable	–	1,950
Additions to property and equipment	(90,529)	(42,777)
Charge account receivables	(21,601)	(33,278)
Increase in notes receivable	(1,425)	(2,175)
Other investments	(301)	(20)
Advances to Dealers	(5,119)	–
	(111,963)	(66,625)
Cash used for dividends	(17,884)	(17,385)
Cash generated from (used for) financing activities		
Issue of long-term promissory notes	–	50,000
Issue of Class A Non-Voting Shares	36,799	34,218
Mortgages payable	725	4,109
Short-term promissory notes	8,550	(21,251)
Redemption of long-term promissory notes	(5,000)	(10,000)
Unsecured Notes	(23,292)	(4,818)
Sinking Fund Debentures	(7,453)	(3,540)
Long-term debt issue expense	–	(310)
	10,329	48,408
Cash generated in the year	22,327	30,672
Cash position, beginning of year	139,359	108,687
Cash position, end of year	$161,686	$139,359

Consolidated balance sheet

January 2, 1988

(Dollars in thousands)	1987	1986
ASSETS		
Current assets		
Cash and short-term investments	$ 170,960	$ 153,249
Accounts and loans receivable	156,860	149,946
Charge account receivables	314,003	292,402
Merchandise inventories	317,618	294,017
Prepaid expenses and deposits	9,172	7,312
Total current assets	968,613	896,926
Long-term receivables and investments (Note 2)	22,984	16,101
Property and equipment (Note 3)	438,022	379,247
Other assets (Note 4)	890	3,953
	$1,430,509	$1,296,227

(Dollars in thousands)	**1987**	1986
LIABILITIES		
Current liabilities		
Bank indebtedness	**$ 9,274**	$ 13,890
Accounts payable	**205,414**	163,003
Income taxes payable	**14,541**	18,013
Dividends payable	**4,570**	4,435
Accrued liabilities and coupons outstanding	**123,253**	111,985
Loans payable to directors and shareholders	**2,344**	2,733
Short-term promissory notes	**104,733**	96,183
Current portion of long-term debt	**44,921**	32,588
Non-consolidated subsidiary (Note 5)	**8,739**	9,960
Total current liabilities	**517,789**	452,790
Long-term debt (Note 6)	**185,678**	235,295
Deferred income taxes	**2,706**	2,769
	706,173	690,854
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	**303,710**	266,911
Accumulated foreign currency translation adjustment	**129**	(1,228)
Retained earnings	**420,497**	339,690
	724,336	605,373
	$1,430,509	$1,296,227

Approved by the Board:

H L Macaulay — Hugh L. Macaulay, *Director*

W S Deluce — William S. Deluce, *Director*

Notes to consolidated financial statements

January 2, 1988

1. Significant accounting policies

Basis of consolidation
The consolidated financial statements include the accounts of Canadian Tire Corporation, Limited and all its subsidiaries except White Stores, Inc., its subsidiary in the United States. As explained in Note 5, the investment in White Stores, Inc. is not consolidated. All consolidated subsidiaries are wholly owned.

Accounting period
The financial year of the Corporation consists of a fifty-two or fifty-three week period ending on the Saturday closest to December 31. The financial year of major subsidiaries ends on December 31.

Merchandise inventories
Merchandise inventories are valued at the lower of cost and estimated net realizable value, with cost being determined substantially on a first-in, first-out basis.

Property and equipment
Property and equipment are stated at cost. Depreciation is provided for using the declining balance method. A full year's depreciation is provided for on all retail stores opened during the year, or under construction at the year-end. Depreciation of major warehouse facilities and computer equipment commences in the month the facilities are placed into service. Amortization of leasehold improvements is provided for on a straight-line basis over the terms of the respective leases.

Debt discount and issue expense
Debt discount and issue expense is amortized over the terms of the respective debt issues such that the stated interest together with the amortization yields a consistent effective borrowing rate.

Revenue recognition
The Corporation's shipments of merchandise to Dealers are recorded as a sale when delivered.

Translation of foreign currencies
The components of the consolidated statement of earnings are translated to Canadian dollars using average currency exchange rates in effect during the period and assets and liabilities are translated at the exchange rates in effect at the end of the accounting period. Cash generated from or used for operations is translated at the average exchange rates for the period and for investment and financing activities is translated at the exchange rates in effect when the transaction took place. Gains and losses on translation are included in net earnings, except for the exchange losses or gains related to the Unsecured Notes and investments in self-sustaining foreign operations. Translation losses or gains on the Unsecured Notes are deferred and amortized over the remaining terms of the respective Notes. Translation adjustments on the self-sustaining foreign operations are included in a separate component of shareholders' equity.

Charge Account Receivables
Charge account receivables are due in terms not exceeding twenty-four months and, in accordance with recognized trade practice, are included in current assets.

Discounts on charge account receivables are taken into revenue at the time the new receivables are recorded. Service charges are accrued each month on balances outstanding at each account's billing date.

2. Long-term receivables and investments

	1987	1986
	(Dollars in Thousands)	
Advances to Dealers – less amounts due within one year – at cost	**$16,182**	$11,063
Notes receivable	**5,525**	4,100
Mortgages receivable	**514**	473
Other investments	**763**	465
	$22,984	$16,101

Notes receivable
At January 2, 1988, interest-free loans of $5,525,000 were outstanding from certain senior executives for the purchase of Class A Non-Voting Shares from the Corporation. These loans are to be repaid over a maximum period of 10 years. The purchased shares are pledged as security for the loans.

3. Property and equipment

	1987	1986	Depreciation/ Amortization Rate/Term
	(Dollars in Thousands)		
Land	**$113,722**	$102,491	
Buildings	**402,573**	353,648	4%-10%
Fixtures and equipment	**115,814**	104,725	10%-30%
Leasehold improvements	**28,145**	23,362	Term of lease
	660,254	584,226	
Less accumulated depreciation and amortization	**222,232**	204,979	
	$438,022	$379,247	

4. Other assets

	1987	1986
	(Dollars in Thousands)	
Deferred foreign exchange loss	**$ 28**	$2,820
Long-term debt discount and issue expense	**862**	1,133
	$890	$3,953

5. Non-consolidated subsidiary

In December 1985, a decision was made to wind down the operations of White Stores, Inc. and dispose of all its assets. Accordingly, White Stores, Inc. is not being consolidated. The assets of this subsidiary are recorded at their estimated net realizable value and a provision was made for the estimated costs to be incurred during the wind-down.

6. Long-term debt

	1987	1986
	(Dollars in Thousands)	
Term promissory notes at rates from 9.40% to 13.25% maturing at various dates to 1995	**$ 90,000**	$125,000
Mortgages and obligation under capital leases	**3,303**	7,279
Unsecured Notes		
Series 2 Notes $11,000 U.S., due December 31, 1992	**14,292**	15,161
Series 3 Sinking Fund Notes $5,600 U.S., (1986 – $8,050 U.S.) due December 31, 1990	**7,276**	11,095
	21,568	26,256
Sinking Fund Debentures (unsecured)		
8.50% Series A, maturing June 1, 1991	**8,225**	8,975
9.25% Series B, maturing July 15, 1994	**14,935**	16,485
10.75% Series C, maturing August 15, 1995	**19,647**	21,300
10.00% Series D, maturing August 15, 1997	**28,000**	30,000
	70,807	76,760
Total – net of current portion	**$185,678**	$235,295

Unsecured Notes
The Unsecured Notes bear interest at 16.25% and are not redeemable prior to maturity, except in certain circumstances not in the ordinary course of business. Mandatory prepayments of principal of $2,450,000 U.S. ($3,183,000 Cdn.) are required for each year from 1988 to 1989 on the Series 3 Sinking Fund Notes.

The Note Purchase Agreements under which these Notes were issued impose certain restrictions on the Corporation. To January 2, 1988, all of the conditions of the Note Purchase Agreements had been met.

Sinking Fund Debentures (unsecured)
The Sinking Fund Debentures are redeemable, in whole or in part, at various premium rates which decline annually.

Under the Trust Indenture, sinking funds must be provided to redeem debentures of each series as follows:

Series	Annual Principal Amount	Redemption Period
	(Dollars in Thousands)	
A	$ 500	1988 – 1991
B	$1,500	1988 – 1993
C	$1,200	1988 – 1994
D	$2,000	1988 – 1997

In addition to the mandatory sinking fund requirements, the Corporation has an annual, non-cumulative right to make optional sinking fund payments sufficient to retire up to $250,000 of principal of Series A Debentures and up to $300,000 of principal of Series C Debentures.

The Trust Indenture imposes certain restrictions on the Corporation. To January 2, 1988, all of the conditions of the Trust Indenture had been met.

Repayment requirements
At January 2, 1988, the Corporation had met certain sinking fund requirements of future years. After giving effect to these advance fundings, annual maturities and mandatory sinking fund requirements in respect of long-term debt for each of the next five years and thereafter are as follows:

	Total	Sinking Fund Debentures	Unsecured Notes	Term Promissory Notes	Other
				(Dollars in Thousands)	
1988	$ 44,921	$ 2,000	$ 3,183	$ 35,000	$4,738
1989	22,570	4,182	3,183	15,000	205
1990	26,733	5,125	4,093	17,500	15
1991	25,217	5,200	–	20,000	17
1992	29,511	5,200	14,292	10,000	19
Thereafter	81,647	51,100	–	27,500	3,047
	$230,599	$72,807	$24,751	$125,000	$8,041

7. Share capital

	1987	1986
	(Dollars in Thousands)	
Authorized		
100,000,000 Class A Non-Voting Shares		
3,450,000 Common Shares		
Issued		
87,153,389 Class A Non-Voting Shares (1986 – 84,553,337)	**$303,531**	$266,732
3,450,000 Common Shares	**179**	179
	$303,710	$266,911

Conditions of Class A Non-Voting Shares and Common Shares
The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of 1¢ per share per annum. After payment of a dividend on each of the Common Shares at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in each year in equal amounts per share. In the event of liquidation, dissolution or winding-up of the Corporation, the Class A Non-Voting Shares and Common Shares rank equally with each other on a share-for-share basis.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders but, except as provided in the Business Corporations Act, 1982 and as hereinafter noted, are not entitled to vote thereat. Holders of Class A Non-Voting Shares, voting separately as a class, are entitled to elect the greater of:

i. three directors or
ii. one-fifth of the total number of the Corporation's directors.

Common Shares can be converted, at any time, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of Common Shares cannot be increased without the approval of the holders of Class A Non-Voting Shares. The Class A Non-Voting Shares and the Common Shares cannot be changed by way of subdivision, consolidation, reclassification or otherwise unless at the same time the other class of shares is also changed in the same manner.

Should an offer to purchase Common Shares be made to all or substantially all of the holders of Common Shares (other than an offer to purchase both Class A Non-Voting Shares and Common Shares at the same price and on the same terms and conditions) and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon be entitled to one vote per share at all meetings of shareholders.

The foregoing is a summary of certain of the conditions attached to the Class A Non-Voting Shares of the Corporation and reference should be made to the Corporation's articles for a full statement of such conditions.

Issue of Class A Non-Voting Shares
During 1987, the Corporation issued 2,600,052 Class A Non-Voting Shares for cash in the total amount of $36,799,561. These were purchased principally by or for the benefit of employees or former employees of the Corporation, its subsidiaries and its Dealers (retail store owner-operators). Subsequent to the year end, from January 3, 1988, to March 2, 1988, the Corporation issued 793,512 Class A Non-Voting Shares for cash in the total amount of $10,581,482.

8. Consolidated statement of changes in financial position

For purposes of this statement, cash is defined as cash and short-term investments less bank indebtedness:

The changes in non-cash working capital components are as follows:

	1987	1986
	(Dollars in Thousands)	
Cash generated from (used for) current assets		
Accounts and loans receivable	**$ (7,223)**	$(15,449)
Merchandise inventories	**(23,601)**	6,133
Prepaid expenses and deposits	**(1,860)**	(3,740)
Cash generated from (used for) current liabilities		
Accounts payable	**42,411**	(25,680)
Income taxes payable	**(3,472)**	4,956
Accrued liabilities and coupons outstanding	**11,268**	5,874
Loans payable to directors and shareholders	**(389)**	384
Non-consolidated subsidiary	**(1,221)**	(21,284)
Foreign currency translation adjustment	**1,357**	(1,570)
	$ 17,270	$(50,376)

9. Interest and investment income

Interest and investment income was earned from the following sources:

	1987	1986
	(Dollars in Thousands)	
Short-term investments	**$11,255**	$ 8,519
Advances to Dealers	**3,129**	3,801
Mortgages	**52**	168
Other	**541**	151
	$14,977	$12,639

Interest earned on charge account receivables is included in gross operating revenue in the consolidated statement of earnings.

10. Income taxes

The Corporation's provision for income taxes comprises:

	1987	1986
	(Dollars in Thousands)	
Income taxes based on a combined Canadian federal and provincial income tax rate of 50.6% (1986 – 52.4%)	**$100,882**	$90,502
Adjustment to income taxes resulting from:		
Non-deductible foreign exchange loss	**2,327**	–
Inventory allowance	**–**	(678)
Lower income tax rate on earnings of foreign subsidiaries	**(2,181)**	(4,489)
Other	**(330)**	(543)
	$100,698	$84,792

The Corporation's non-consolidated subsidiary has significant income tax losses available for utilization in the United States. These losses expire in the years 1997 to 2002 and the associated benefits have not been reflected in these consolidated financial statements.

11. Extraordinary item

In 1986, the Corporation was able to recover $1,436,481 of United States income taxes as a result of the utilization of prior years' losses of White Stores, Inc.

12. Operating leases

The Corporation is committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) for equipment and properties under leases with termination dates extending to 2034. Under sublease arrangements the majority of these properties are income-producing. The minimum annual rental payments required in each of the next five years and thereafter are as follows:

	(Dollars in Thousands)
1988	$20,585
1989	$18,887
1990	$15,454
1991	$14,002
1992	$12,811
1993 to 2034	$94,449

13. Related party transactions

Transactions with directors
Two members of the Corporation's Board of Directors, who are shareholders, were Canadian Tire Dealers. During the period, the aggregate billings to those two Dealers totalled less than 2% of the Corporation's gross operating revenue. All transactions with these Dealers and other Dealers who may be shareholders of the Corporation were in accordance with established corporate policy applicable to all Dealers.

Loans from directors and shareholders
As disclosed in the consolidated balance sheet, the Corporation has loans payable to directors and shareholders which bear interest at rates which approximate those which would be payable by the Corporation on borrowings in the commercial paper market.

14. Commitments

As at January 2, 1988, the Corporation had commitments of $21,662,000 for the acquisition of property and equipment and the expansion of retail store facilities.

15. Litigation

Actions against the Corporation have been commenced by certain former dealers of White Stores, Inc. The Corporation is defending these actions but the outcome is not determinable at this time.

16. Segmented information

Management has determined that the operations of the Corporation and its consolidated subsidiaries form a single, integrated industry segment made up of compatible and complementary product lines and activities.

17. Comparative figures

Certain of the prior year's figures presented for comparison have been reclassified to conform to the current year's presentation.

Management's Responsibility For Financial Statements

The management of Canadian Tire Corporation, Limited is responsible for the integrity of the accompanying consolidated financial statements and all other information in the annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles, which recognize the necessity of relying on some best estimates and informed judgements. All financial information in the annual report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Corporation's systems of internal accounting control. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Management meets the objectives of internal accounting control on a cost-effective basis through: the prudent selection and training of personnel; adoption and communication of appropriate policies; and employment of an internal audit program.

The Board of Directors discharges its responsibilities for the financial statements primarily through the activities of its Audit Committee composed solely of directors who are neither officers nor employees of the Corporation. This Committee meets with management and the Corporation's independent auditors, Touche Ross & Co., to review the financial statements and recommend approval by the Board of Directors. The Audit Committee also meets with the auditors, without the presence of management, to discuss the results of their audit, their opinion on internal accounting controls and the quality of financial reporting.

The financial statements have been audited by Touche Ross & Co., whose appointment was ratified by shareholder vote at the annual shareholders' meeting. Their report is presented below.

Dean Groussman

Dean Groussman
President and Chief Executive Officer

James B. Williams
Executive Vice-President, Finance and Administration and Chief Financial Officer

Auditors' Report

To the Shareholders,
Canadian Tire Corporation, Limited;

We have examined the consolidated balance sheet of Canadian Tire Corporation, Limited as at January 2, 1988 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at January 2, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Toronto, Ontario
March 2, 1988

Touche Ross & Co.
Chartered Accountants

Eleven-year review of performance

(Dollars in thousands except per share amounts)	1987	1986*	1985
Statement of Earnings			
Gross operating revenue	$2,483,822	2,326,002	2,077,742
Earnings before income taxes	199,524	172,637	162,339
Income taxes	100,698	84,792	68,491
Earnings before non-consolidated subsidiary	98,826	87,845	93,848
Non-consolidated subsidiary	–	–	(53,018)
Earnings before extraordinary items	98,826	87,845	40,830
Extraordinary items	–	1,437	(142,492)
Net earnings (loss)	98,826	89,282	(101,662)
Dividends paid	17,884	17,385	16,845
Earnings retained and reinvested	80,942	71,897	(118,507)
Balance Sheet			
Current assets	$ 968,613	896,926	828,844
Long-term receivables, investments and other assets	23,874	20,054	22,850
Property and equipment	438,022	379,247	364,468
Total assets	1,430,509	1,296,227	1,216,162
Current liabilities	517,789	452,790	499,007
Long-term debt	185,678	235,295	215,831
Deferred income taxes	2,706	2,769	–
Shareholders' equity	724,336	605,373	501,324
Per share			
Earnings before non-consolidated subsidiary	$1.10	1.01	1.12
Earnings before extraordinary items	1.10	1.01	.49
Net earnings (loss)	1.10	1.03	(1.21)
Dividends paid	.20	.20	.20
Shareholders' equity at year end	7.99	6.88	5.88
Statistics at year end			
Number of Associate Stores	404	401	396
Number of gasoline stations	132	118	115
Number of Class A Non-Voting shareholders	13,985	13,851	15,891
Number of Common shareholders	745	842	1,192

**53-Week Year*

1984	1983	1982	1981	1980*	1979	1978	1977
1,877,707	1,701,585	1,601,661	1,340,764	1,057,536	935,753	798,717	718,114
142,480	137,759	123,872	100,432	72,240	69,583	53,938	52,240
59,477	60,756	57,381	48,966	34,513	33,070	25,163	23,750
83,003	77,003	66,491	51,466	37,727	36,513	28,775	28,490
(54,999)	(29,203)	(9,824)	–	–	–	–	–
28,004	47,800	56,667	51,466	37,727	36,513	28,775	28,490
668	1,595	1,973	2,212	901	2,195	694	1,000
28,672	49,395	58,640	53,678	38,628	38,708	29,469	29,490
16,178	14,857	12,581	9,936	8,487	7,017	10,435	5,800
12,494	34,538	46,059	43,742	30,141	31,691	19,034	23,690
651,624	604,326	543,366	500,086	435,183	343,372	312,831	277,894
188,402	160,416	116,510	44,156	46,364	51,953	5,443	5,040
351,699	337,416	318,557	287,961	266,854	244,496	235,989	218,209
1,191,725	1,102,158	978,433	832,203	748,401	639,821	554,263	501,143
383,271	334,524	343,535	303,409	279,451	211,903	165,040	134,511
215,181	206,760	181,141	137,641	136,387	136,361	138,377	142,317
4,794	6,758	6,443	4,281	3,599	3,822	3,382	1,512
588,479	554,116	447,314	386,872	328,964	287,735	247,464	222,803
1.03	1.03	.92	.74	.56	.56	.45	.45
.35	.64	.78	.74	.56	.56	.45	.45
.35	.66	.81	.77	.57	.59	.46	.47
.20	.20	.17	.14	.13	.11	.16	.09
7.20	6.96	6.13	5.46	4.82	4.37	3.87	3.55
384	375	365	348	333	319	314	314
109	99	91	84	71	64	62	61
12,465	8,937	8,339	8,075	8,665	9,310	10,435	10,248
1,201	965	1,139	1,168	1,252	1,315	1,450	1,417

Statements of earnings and retained earnings

Year ended December 31, 1987

(Dollars in thousands)	1987	1986
Gross operating revenue	$141,348	$134,205
Operating expenses		
All expenses except for the undernoted items	80,334	83,141
Interest		
Long-term debt	14,574	12,753
Short-term debt	6,591	8,501
Net provision for credit losses	10,031	8,346
Employee profit sharing plans	3,003	2,766
Depreciation and amortization	1,262	1,234
	115,795	116,741
Earnings before income taxes and extraordinary item	25,553	17,464
Income taxes		
Current	11,975	9,542
Deferred	325	12
	12,300	9,554
Earnings before extraordinary item	13,253	7,910
Extraordinary item (Note 9)	–	3,098
Net earnings	$ 13,253	$ 11,008
Retained earnings, beginning of year	$ 52,080	$ 41,072
Net earnings	13,253	11,008
Retained earnings, end of year	$ 65,333	$ 52,080

Statement of changes in financial position

Year ended December 31, 1987

(Dollars in thousands)	1987	1986
Cash generated from (used for) operations		
Earnings before extraordinary item	$ 13,253	$ 7,910
Depreciation and amortization	1,262	1,234
Amortization of long-term debt issue expense	130	106
Deferred income taxes	325	12
Loss on disposals of equipment	26	3
Changes in non-cash working capital components (Note 10)	3,445	3,464
	18,441	12,729
Cash generated from (used for) investment activities		
Disposals of equipment	1	557
Charge account receivables	(21,601)	(33,278)
Additions to property and equipment	(1,695)	(1,716)
	(23,295)	(34,437)
Cash generated from (used for) financing activities		
Issue of common shares	–	12,000
Issue of long-term promissory notes	–	50,000
Short-term promissory notes	8,550	(21,251)
Redemption of long-term promissory notes	(5,000)	(10,000)
Long-term debt issue expense	–	(310)
	3,550	30,439
Cash (used) generated in the year	(1,304)	8,731
Net bank indebtedness, beginning of year	(2,686)	(11,417)
Net bank indebtedness, end of year	$ (3,990)	$ (2,686)

Balance sheet

December 31, 1987

(Dollars in thousands)	1987	1986
ASSETS		
Current assets		
Accounts receivable	$ 10,696	$ 13,879
Charge account receivables (less allowance for credit losses: 1987 – $8,416; 1986 – $8,202)	314,003	292,402
Inventories (Note 3)	24,546	17,764
Income taxes recoverable	–	4,907
Prepaid expenses	207	367
	349,452	329,319
Property and equipment (Note 4)	4,319	3,913
Long-term debt issue expense	374	504
	$354,145	$333,736

	1987	1986
LIABILITIES		
Current liabilities		
Bank indebtedness	$ 3,990	$ 2,686
Accounts payable and accrued liabilities	20,207	16,845
Due to parent and affiliated corporations	3,512	4,891
Income taxes payable	1,170	1,176
Short-term promissory notes (Note 5)	104,733	96,183
Current portion of long-term debt	35,000	5,000
	168,612	126,781
Long-term debt (Note 6)	90,000	125,000
Deferred income taxes	546	221
	259,158	252,002
SHAREHOLDER'S EQUITY		
Share capital (Note 7)	29,654	29,654
Retained earnings	65,333	52,080
	94,987	81,734
	$354,145	$333,736

Approved by the Board:

H L Macaulay — Hugh L. Macaulay, *Director*

Bruce R Wilson — Bruce R. Wilson, *Director*

Notes to financial statements

December 31, 1987

1. Summary of significant accounting policies

Charge account receivables
Charge account receivables are due in terms not exceeding twenty-four months and, in accordance with recognized trade practice, are included in current assets.

Inventories
Finished goods and work-in-process are valued at the lower of cost and net realizable value. Raw materials are valued at the lower of cost and replacement cost. Automotive parts (cores) returned for rebuilding are recorded at the lower of deposit value, replacement cost and net realizable value.

Property and equipment
Property and equipment are stated at cost. Depreciation is provided for using the declining balance method. Amortization of leasehold improvements is provided for on a straight-line basis over the terms of the respective leases.

Debt discount and issue expense
Debt discount and issue expense is amortized over the terms of the respective debt issues such that the stated interest together with the amortization yields a consistent effective borrowing rate.

Revenue recognition
Discounts on charge account receivables are taken into revenue at the time the new receivables are recorded. Service charges are accrued each month on balances outstanding at each account's billing date.

Translation of foreign currencies
The components of the statement of earnings are translated to Canadian dollars using average currency exchange rates in effect during the year, and assets and liabilities are translated at the exchange rates in effect at the end of the accounting year. Gains and losses on translation are included in net earnings.

Notes to financial statements

December 31, 1987

2. Amalgamation

On January 1, 1987, the Corporation was formed by the amalgamation of two wholly-owned subsidiaries of Canadian Tire Corporation, Limited (Canadian Tire Acceptance Limited and Cantire Products Limited) under the provisions of the Ontario Business Corporations Act. The amalgamation has been accounted for as a pooling of interests which involves the combination of two entities. The issued shares of Cantire Products Limited were cancelled at the time of the amalgamation.

3. Inventories

	1987	1986
		(Dollars in Thousands)
Raw materials, including cores	$11,132	$ 9,205
Work-in-process	3,945	1,319
Finished goods	9,469	7,240
	$24,546	$17,764

4. Property and equipment

	1987	1986	Depreciation/ Amortization Rate/Term
		(Dollars in Thousands)	
Fixtures and equipment	$ 9,410	$ 8,042	20%-30%
Leasehold improvements	2,341	2,235	Term of lease
Automotive equipment	96	76	30%
	11,847	10,353	
Less accumulated depreciation and amortization	7,528	6,440	
	$ 4,319	$ 3,913	

5. Short-term promissory notes

The short-term promissory notes of the Corporation are unconditionally guaranteed by its parent corporation.

6. Long-term debt

Long-term debt is comprised of the following long-term promissory notes:

	1987	1986
		(Dollars in Thousands)
11.125%, due June 7, 1988	$ –	$ 5,000
12.500%, due September 23, 1988	–	10,000
12.250%, due October 12, 1988	–	10,000
12.000%, due November 15, 1988	–	10,000
13.125%, due August 23, 1989	5,000	5,000
13.250%, due August 23, 1989	5,000	5,000
12.750%, due October 2, 1989	5,000	5,000
12.500%, due February 5, 1990	7,500	7,500
10.600%, due November 8, 1990	10,000	10,000
10.000%, due October 17, 1991*	20,000	20,000
9.400%, due January 15, 1992*	10,000	10,000
9.750%, due July 15, 1993*	20,000	20,000
12.500%, due February 6, 1995	7,500	7,500
Total – net of current portion	$90,000	$125,000

*The maturity date may be extended by the lender.

The long-term promissory notes of the Corporation are unconditionally guaranteed by its parent corporation.

7. Share capital

	1987	1986
Authorized		*(Dollars in Thousands)*
3,000,000 Preference Shares, 50¢ non-cumulative dividend, redeemable at amount paid thereon		
200,000 Common Shares		
Issued		
1,560,000 Preference Shares	$15,600	$15,600
100,000 Common Shares	14,054	14,054
	$29,654	$29,654

8. Income taxes

The Corporation's provision for income taxes is less than the basic combined Canadian federal and provincial income tax rate due to the manufacturing and processing rate reduction.

9. Extraordinary item

In 1986, the Corporation recognized the recovery of income taxes resulting from utilization of prior years' losses.

10. Statement of changes in financial position

The changes in non-cash working capital components are as follows:

	1987	1986
Cash generated from (used for) current assets		*(Dollars in Thousands)*
Inventory	$(6,782)	$ 5,340
Income taxes recoverable	4,907	(759)
Accounts receivable	3,183	(569)
Prepaid expenses	160	(81)
Cash generated from (used for) current liabilities		
Accounts payable and accrued liabilities	3,362	843
Due to parent and affiliated corporations	(1,379)	(130)
Income taxes payable	(6)	(1,180)
	$ 3,445	$ 3,464

11. Lease commitments

The minimum annual rental payments for leased premises and equipment are as follows: *(Dollars in Thousands)*

1988 $5,375 / 1989 $4,352 / 1990 $1,735 / 1991 $970 / 1992 $956 / 1993 to 1999 $1,408

12. Related party transactions

Significant transactions with the parent and affiliated corporations, not disclosed separately in the accompanying financial statements, are as follows:

	1987	1986
Consumer credit		*(Dollars in Thousands)*
Charge account receivables financed	$58,208	$52,582
Reimbursement received for promotional costs	437	733
Auto parts remanufacturing		
Sales of remanufactured auto parts	48,801	25,160
Core returns and inventory purchases	9,625	12,211

13. Comparative Figures

Certain of the prior year's figures presented for comparison have been reclassified to conform to the current year's presentation and to give effect to the pooling of interests accounting treatment.

14. Segmented information

The Corporation operates in two major industry segments. Segmented information is as follows:

	Consumer Credit		Automotive Parts Remanufacturing		Total	
						(Dollars in Thousands)
	1987	1986	1987	1986	1987	1986
Revenue	$ 92,211	$ 81,525	$49,137	$52,680	$141,348	$134,205
Operating profit (loss)	25,526	21,293	27	(3,829)	25,553	17,464
Identifiable assets	326,616	306,181	29,702	29,340	356,318	335,521

Auditors' Report

To the Shareholder,
Canadian Tire Acceptance Limited:

We have examined the balance sheet of Canadian Tire Acceptance Limited as at December 31, 1987 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Toronto, Ontario
March 2, 1988

Touche Ross & Co.
Chartered Accountants

CANADIAN TIRE CORPORATION, LIMITED

DIRECTORS

Alfred J. Billes
Dealer Profit Sharing, Corporation Liaison, Co-Founder and past President of the Corporation

Alfred W. Billes
Retired Dealer

David G. Billes
President of Performance Engineering Limited, a professional engineering company

Martha G. Billes
President of Albikin Management Inc., an investment holding company

Pierre Côté
Chairman, Celanese Canada Inc.

William S. Deluce
President and Chief Executive Officer, Air Ontario Inc.

Steve W. Groch
President of Grock Enterprises Limited, which operates a Canadian Tire Associate Store

Dean Groussman
President and Chief Executive Officer of the Corporation

Lynne Hall
Chairman of F.S.G. International, a U.S. based holding company

W. Lawrence Heisey
Chairman, Harlequin Enterprises Limited

Donald C. Lowe
President and Chief Executive Officer, Canadair Inc.

Hugh L. Macaulay
Chairman of the Board of the Corporation

Ronald Y. Oberlander
Executive Vice President, Diversified Group Abitibi-Price Inc.

Maureen J. Sabia
Barrister & Solicitor

Bruce A. Sully
Chairman and C.E.O. Champion Road Machinery Limited

OFFICERS

Hugh L. Macaulay
Chairman of the Board

Dean Groussman
President and Chief Executive Officer

Peter Lige
Executive Vice-President, Dealer Relations

Clive Minto
Executive Vice-President, Diversified Businesses

James B. Williams
Executive Vice-President, Finance and Administration and Chief Financial Officer

Howard E. Board
Vice-President, Controller

Steven J. Bochen
Vice-President, Distribution

W. Rae Cowan
Vice-President, Marketing

Alan B. Goddard
Vice-President, Corporate Affairs

Douglas H. Heuman
Vice-President, Treasurer

Dereck A. Hicks
Vice-President, Real Estate and Construction

William H. Hicks
Vice-President, Human Resources

Archibald B. Malcolm
Vice-President, Petroleum Marketing

V. Henning Mikkelsen
Vice-President, Management Information Services

Robert Law, Q.C.
Secretary and General Counsel

Colin D. Smith
Assistant Treasurer

CANADIAN TIRE ACCEPTANCE LIMITED

DIRECTORS

Dean Groussman
President and Chief Executive Officer, Canadian Tire Corporation, Limited

Hugh L. Macaulay
Chairman of the Board, Canadian Tire Corporation, Limited

Robert Law, Q.C.
Secretary

Bruce R. Wilson
President, Canadian Tire Acceptance Limited

OFFICERS

Bruce R. Wilson
President

Patrick Durnford
Executive Vice-President

Vaughn P. Aloian
Vice-President, Information Systems

Mario Bevacqua
Vice-President, Credit Operations

Glenn W. Cooper
Vice-President, Finance

Douglas H. Heuman
Treasurer

Robert Law, Q.C.
Secretary

CANTIRE PRODUCTS LIMITED

DIRECTORS

Dean Groussman
President and Chief Executive Officer, Canadian Tire Corporation, Limited

Hugh L. Macaulay
Chairman of the Board, Canadian Tire Corporation, Limited

Douglas L. Sedgwick
President, Cantire Products Limited

Robert Law, Q.C.
Secretary

OFFICERS

Douglas L. Sedgwick
President

Dennis Gaede
Vice-President, Marketing

Edward T. Hyjek
Vice-President, Finance

Robert Law, Q.C.
Secretary

CORPORATE INFORMATION

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Toronto, Ontario M4P 2V8
(416) 480-3000
(FAX) (416) 480-3746

STOCK EXCHANGE LISTINGS AND SYMBOLS

Toronto and Montreal

Class A Non-Voting Shares	*CTR.A*
Common Shares	*CTR*

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada

SOLICITORS

Cassels, Brock & Blackwell

AUDITORS

Touche Ross & Co.

BANKERS

Canadian Imperial Bank of Commerce

The Royal Bank of Canada

The Toronto-Dominion Bank

Printed in Canada