

Canadian Tire Corporation Limited



**EXPECT  
CHANGE**



CANADIAN TIRE 1998 ANNUAL REPORT

Canadian Tire Corporation, Limited offers a unique mix of products and services through three distinct yet interrelated businesses as outlined below. Together these businesses form a very competitive package of location, price, service and assortment that meets the needs of our customers for total value. The 35,000 employees of Canadian Tire and the Associate Dealers share a common vision: **To be the best at what our customers value most.**

#### Canadian Tire Retail ("CTR")

CTR is Canada's leading hardgoods retailer, offering consumers approximately 95,000 stock-keeping units of automotive parts and accessories, sports and leisure products, and home products, primarily through a network of stores operated by Associate Dealers.

#### Canadian Tire Petroleum ("Petroleum")

Petroleum is one of Canada's largest independent gasoline retailers and markets related products and services such as oil changes, car washes and propane. Petroleum enhances Canadian Tire's competitive offering to customers with merchandise cross-promotions.

#### Canadian Tire Financial Services ("Financial Services")

Financial Services is engaged primarily in financing and managing credit card accounts for CTR and Petroleum customers. Financial Services operates an emergency roadside service and markets other financial and telecommunications products to our customers.

**...CUSTOMERS  
DEMAND IT.**

1	TO OUR SHAREHOLDERS
11	EXPECT CHANGE
22	FINANCIAL REVIEW
54	ENVIRONMENTAL, HEALTH AND SAFETY STEWARDSHIP
55	CANADIAN TIRE IN THE COMMUNITY
56	DIRECTORS AND OFFICERS
58	QUARTERLY INFORMATION
59	SHAREHOLDER AND CORPORATE INFORMATION



# CANADIAN TIRE

We are currently updating our mailing list.  
If you wish to remain on our list, please fill  
in the form below and return it to :

Nous mettons présentement à jour notre liste de  
distribution. Si vous désirez que votre nom demeure  
sur la liste, veuillez remplir la section ci-dessous et  
retourner ce formulaire à l'attention de :

Wanda Rajcic  
Investor Relations/Relations avec les investisseurs

Fax/Télécopieur :

(416) 480-8168

Mail/Adresse postale :

Canadian Tire Corporation, Limited  
2180 Yonge St, 18<sup>th</sup> Floor  
P. O. Box 770, Station K  
Toronto, ON  
M4P 2V8

La Société Canadian Tire Limitée  
2180 rue Yonge, 18<sup>e</sup> étage  
B.P. 770, succursale K  
Toronto (Ontario)  
M4P 2V8

---

Name/Nom : \_\_\_\_\_

Title/Poste : \_\_\_\_\_

Department/Service : \_\_\_\_\_

Company/Entreprise : \_\_\_\_\_

Address/Adresse : \_\_\_\_\_

\_\_\_\_\_

City/Ville : \_\_\_\_\_

State/Province : \_\_\_\_\_

Country/Pays : \_\_\_\_\_

Phone/Téléphone : \_\_\_\_\_

Fax/Télécopieur : \_\_\_\_\_

E-mail/Courriel : \_\_\_\_\_

Désirez recevoir la documentation sur Canadian Tire en français? \_\_\_\_\_

## To our shareholders

By almost any measure, 1998 was a record year for Canadian Tire. The Corporation's consolidated gross operating revenue for the 52-week period was \$4.35 billion, a 6.3 percent increase from the 53-week period in 1997. Consolidated net earnings per share totalled \$2.09 in 1998, up 17.1 percent over last year's \$1.79. In common with all of our fellow shareholders, we are gratified that the value of Canadian Tire, as measured by market valuation, increased 30 percent during 1998.

A more detailed discussion of the Corporation's financial and operating performance can be found in Management's Discussion and Analysis of Operations, which begins on page 24.

### A Review of Our Strategy

In 1993, Canadian Tire developed a strategy to ensure its position as the first choice for Canadians in automotive, sports and leisure, and home products. Over the past five years, this strategy has been responsible for the substantial increases in gross operating revenue, earnings from continuing operations and shareholder value.

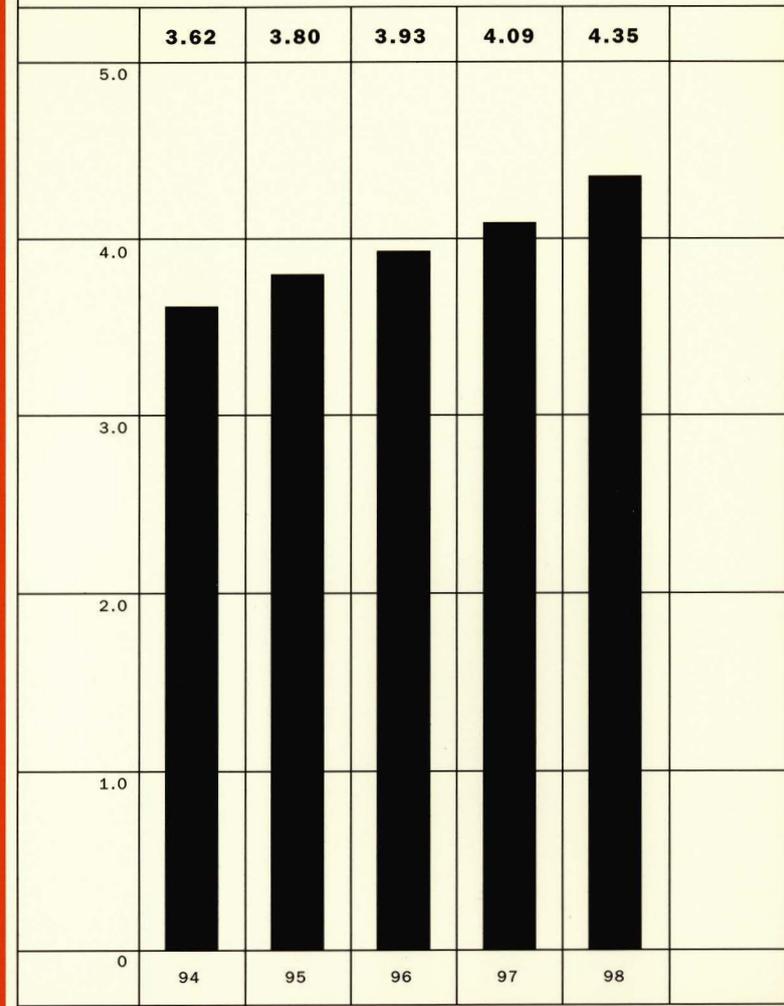
The accomplishments on our five-year journey deserve a brief review because they underline the effectiveness of the strategies that we believe will also drive Canadian Tire's growth in the years ahead.

In early 1993, we set out three priorities for Canadian Tire: focus our assortments, institute customer-driven service and make our operations more competitive. We created three distinct "stores" under one roof in automotive, sports and leisure, and home products. We conducted research to discover what customers really value in their shopping experience in each of these categories. This in-depth research led to successful tests of new concepts for categories including auto hardparts, tires, lawn and garden products and sporting goods. Customer-driven merchandising improvements implemented to date have significantly increased sales. We continue to develop additional merchandising strategies.

Concurrent with addressing the need for a more focused presentation of products, we said we needed larger, brighter stores for customers to shop in. We built the first of our new-format stores in 1994. By 1998, we were opening 34 a year, ending the year with a total of 137 new-format stores.

These stores are delivering such impressive gains in revenues and image that we have accelerated the pace to 45 openings in each of the next two years. What's more, we have expanded the number of markets for new-format stores to 300 from our original estimate of 240. It is important to note that the comparable-store sales growth from these new stores is meeting our high expectations, which gives us confidence in future revenue growth as our network of new stores expands and matures.

**CONSOLIDATED GROSS  
OPERATING REVENUE**  
(*\$billions*)



**REVENUE GREW  
6.3 PERCENT IN 1998  
TO \$4.35 BILLION**

**CONSOLIDATED NET EARNINGS FROM  
CONTINUING OPERATIONS**  
(*\$millions*)



**NET EARNINGS  
WERE UP 12.4 PERCENT  
IN 1998  
TO \$167 MILLION**

In 1993, we said customer-driven service was a top priority for the enterprise. Service excellence is a process of incremental improvements that never ends, so we are pleased but not yet satisfied with our progress. An active partnership with our vendors, for example, has substantially raised their service levels to Canadian Tire. We believe – and customer surveys have confirmed – that we have dramatically improved the overall quality of the shopping experience at Canadian Tire stores in the past five years. Associate Dealers have played a key role in these improvements by surveying customers, refining their operations and broadening the training they make available to their employees.

Finally, in 1993, we set out to eliminate costs that do not add value for customers. During the last five years, we have driven down operating expenses as a percentage of net shipments by over 300 basis points. Dealers have reduced their costs as well. Here again, we are pleased with our rate of progress, but we are not resting. We are working very hard to find new opportunities to lower the cost of doing business everywhere in the enterprise. Lower costs give us the opportunity to continue to price Canadian Tire products more competitively, a key component in providing more value which creates customers for life.

These financial and operating accomplishments have led us to confirm the strategic course Canadian Tire is on. We will, of course, continue to refine our product assortment, improve service to customers and seek ways to make our operations more competitive. In fact, during 1999, we will augment these major strategies with specific

initiatives that, in aggregate, are intended to drive up revenue while they drive down costs.

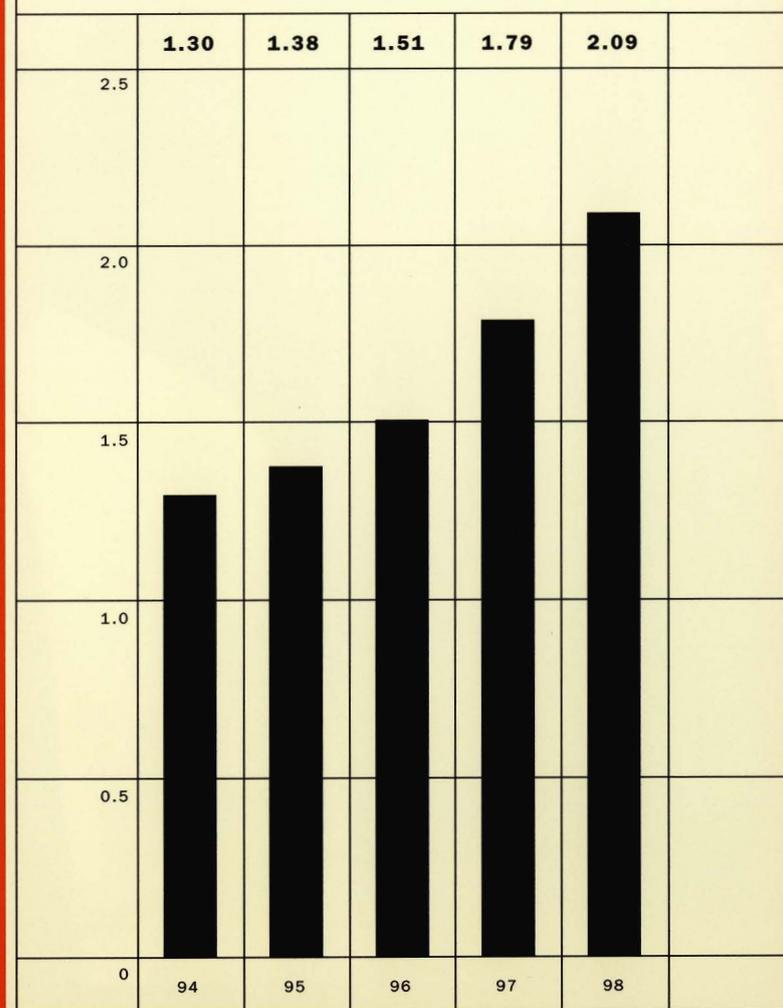
### **Our Priorities in 1999**

Our first priority for 1999 is to ensure that Canadian Tire's information systems are ready for the transition to the Year 2000 date change. Much of our work is ahead of schedule. By the end of 1998, we had completed the changeover of our internal systems and largely finalized a risk confirmation survey of Canadian Tire's largest vendors. Store management systems are already Year 2000-ready and the installation of new point-of-sale terminals will be completed by mid-1999. Integration testing – a simulation of how all Canadian Tire systems will work together beginning on January 1, 2000 – will be finished by mid-1999. By that time, we will also have a contingency plan in place for operating the Corporation's most critical systems.

If there is a silver lining to the highly complex Year 2000 issue, it is the project-management disciplines developed by our organization to deal with the issue. Once Year 2000 testing is completed, we will redeploy these disciplines to a wide range of initiatives related to our second strategic priority – to revolutionize Canadian Tire's supply-chain process. There is much to do in building our capabilities in store forecasting and replenishment and multi-channel distribution. We have finalized a strategic partnership with a leader in supply-chain technologies and will begin development of new systems during 1999. We fully expect this investment in our supply-chain management will lead not only to ongoing improvements in service levels to our stores but also to substantial reductions in our distribution costs. More

**CONSOLIDATED NET EARNINGS PER SHARE  
FROM CONTINUING OPERATIONS**

**(\$)**



**NET EARNINGS  
PER SHARE INCREASED  
17.1 PERCENT IN 1998  
TO \$2.09**



**Gilbert S. Bennett**  
Chairman of the Board

**Stephen E. Bachand**  
President and Chief Executive Officer

importantly, the more flexible distribution system we intend to create will improve Canadian Tire's ability to meet the changing needs of customers efficiently, which is a key component of growth in both revenue and earnings.

Our third strategic priority for 1999 is to reinforce our position as Canada's leading provider of automotive parts and service. Our improved offering of in-store automotive hardparts, which we successfully tested last year, will be rolled out to all stores in the network. In automotive service, we will increase training, formalize national standards for quality and workmanship and offer best values on prices and warranties. We will also open additional *Auto PartSource*<sup>®</sup> stores in new markets to continue our testing of these stand-alone automotive parts facilities for "heavy do-it-yourself" customers and professional installers. The results to date have exceeded our expectations.

Another area which is receiving our attention is electronic commerce. The internet is creating exciting new opportunities for retailers and we want to ensure that we take full advantage of its potential. We are currently exploring and evaluating a number of specific opportunities to create value through the internet.

The pace of retail today requires an ability to seize opportunities and take decisive action. We recognize speed of implementation as a core competitive advantage and have assigned this area as a strategic priority in 1999. We have put in place an initiative to significantly enhance our ability to rapidly deliver retail innovation and services.

Canadian Tire's Petroleum and Financial Services operations are an integral part of the total value provided by our retail operations.

Petroleum is delivering “best gas values” through dramatically lower costs, entrepreneurial agents and new revenue-building synergies between Associate Stores and our pumps. Financial Services is improving its already world-class service by consolidating its call centres and outsourcing its credit card processing, further enhancing its ability to develop and market high-value products and services that our customers have come to expect.

Overall, the strategies that Canadian Tire has been following for the past five years, and the priorities we have for 1999, share a common objective: to create customers for life. This is the foundation for Canadian Tire’s continuing growth in the years to come.

## Looking Ahead

In our minds, creating customers for life is synonymous with delivering the most value to shareholders. The last five years support the proposition, and we believe the next five will as well. Our confidence in the future comes from the exceptional efforts we continually see from the 35,000 members of the Canadian Tire family. They have not only expected change, they have embraced it. This is the primary reason Canadian Tire is “still the right place” for shareholders and customers alike.



**Gilbert S. Bennett**  
Chairman of the Board

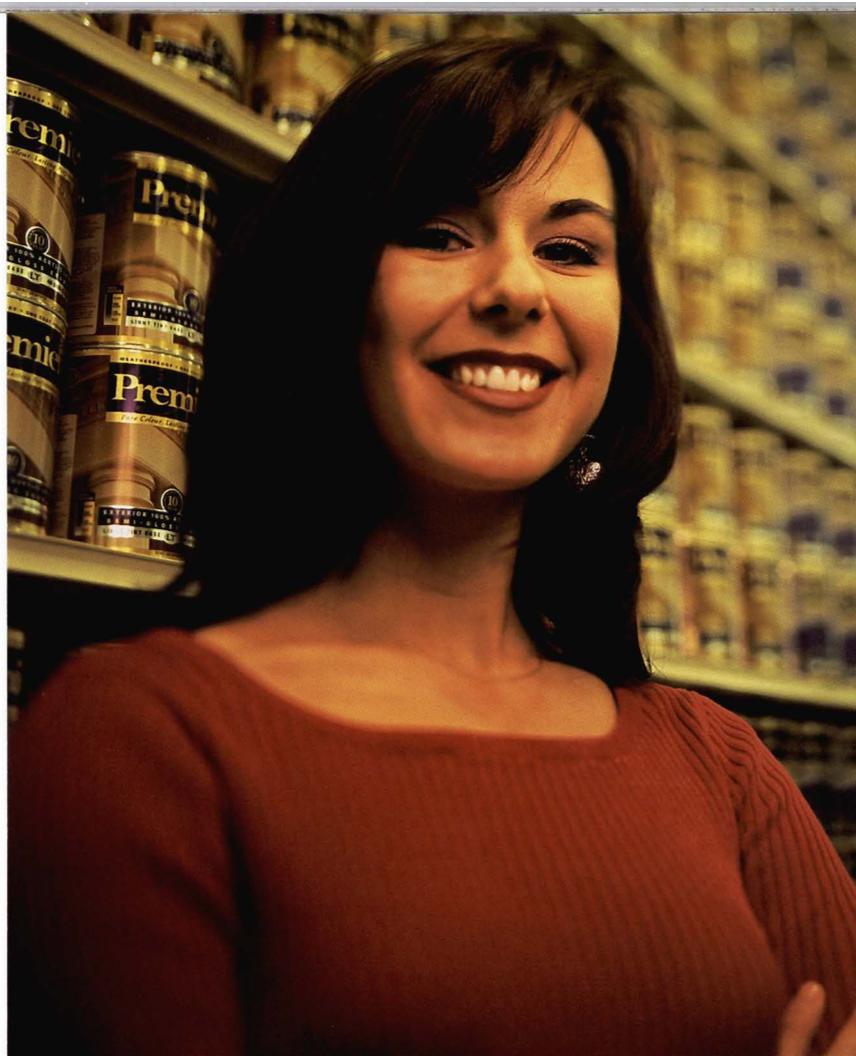


**Stephen E. Bachand**  
President and Chief Executive Officer

March 4, 1999

*We have all seen it wherever we shop. When retailers offer more in order to be competitive, customers come to expect more. Today, customers tell us that their preferred shopping experience is one that offers more service, better prices, longer hours and broader selection. Meeting these expectations profitably requires a retailer to continually reinvent its presentation and processes. That is why you should expect change at Canadian Tire. Customers demand it.*

**EXPECT  
CHANGE**



*Each of our millions of customers has individual expectations about shopping at a local Associate Store. Through consumer research, test marketing and continual improvements throughout the enterprise, we are getting closer to what each of them prefers in their shopping experience.*

WE ARE DEDICATED TO DELIVERING WHAT OUR

# CUSTOMERS PREFER

*Being the best at what our customers value most requires us to know as precisely as possible what they really do value. Each year, Canadian Tire questions thousands of Canadians about what they prefer in their shopping experience. This research tells us that they are looking for ultimate value – great prices, quality retail and national brands, and knowledgeable, accessible staff combined with convenient locations, abundant parking, long hours and quick checkouts.*

*Research has also shown us that different groups of customers prefer different experiences, depending on what they are shopping for at their local Canadian Tire store. For example, many customers have auto maintenance or home improvement projects to complete; so they value groupings of related products that simplify their trip to the store. This finding has led to successful tests of strategies for products such as paint and accessories, hardware fittings, housewares and a “Safety Street” presentation that includes child car seats, locks, kid-proof latches and other safety devices. In each of these areas, our buyers are finding innovative ways to purchase and merchandise product groupings so customers can find everything they need to complete their projects.*

*Staying close to our customers through ongoing research is driving a lot of changes like these at Canadian Tire. But that is why, as our advertising says, Canadian Tire is still the right place.*

WE ARE COMMITTED TO A CLEAR

# STRATEGIC FOCUS

*Our discoveries about what customers want in their shopping experience are the foundation on which we build every strategy at Canadian Tire. The roll-out of our new-format stores is just one example. Since the first store was opened in 1994, each subsequent store design has incorporated the lessons we have learned from operations and research. By the end of 1998, 137 new-format stores were in operation; 34 of them were built and opened during the year. We expect to complete 45 new stores in each of 1999 and 2000. What's more, our research has identified an expanded opportunity for new-format stores across Canada. We now intend to build 300, up from our initial forecast of 240 stores.*

*Inside Canadian Tire stores, we are rolling out new customer-driven strategies in auto parts, tires and paint. There is continuing refinement of our popular sports and leisure categories as well as testing of home improvement, auto service and retail brand concepts. Auto PartSource, the stand-alone auto parts store that professional installers and "heavy do-it-yourself" automotive customers told us they wanted, is being tested in several new markets. And in Associate Stores and corporate operations alike, we are continuing to implement strategies for cost reduction so we can provide more of the savings that customers expect.*

*Petroleum's strategy is also designed to meet customer expectations for "best gas values" by augmenting competitive prices with instant discounts and in-store merchandise promotions. Financial Services is building its capability to develop and market high-value products and services under the Canadian Tire brand. Strategies like these are just part of the total change underway at Canadian Tire today to meet the changing expectations of our customers.*



*We want customers to get a great shopping experience along with great shopping value. To our brighter, larger stores with their expanded product assortments, we have added aggressive prices, quality Canadian Tire brands, instant gasoline discounts and the convenience of multiple payment options.*



*Long-time customer Bernie Thibaudeau, in the foreground, has a dynamic team anticipating his auto maintenance needs.*

*From the left are Owen McManamon, Vice-President, Canada, Pennzoil-Quaker State International;  
Harry Campbell, Associate Dealer, Ottawa South; and John Tartaglia, Canadian Tire Buyer, Automotive Marketing.*

WE THINK AND ACT WITH A

# COMMON FOCUS

*Creating the best possible experience for Canadian Tire customers requires us to ensure that all parts of the supply chain, from manufacturers to stores, have a common focus on improving the shopping experience. Canadian Tire has an excellent relationship with its 2,000 vendors, whose involvement goes well beyond on-time deliveries to include support for marketing programs and product line reviews. In turn, we offer vendors a huge store network that is selling more and more of their products, logistical innovations such as a 26-week advance view of our planned orders and the best retail advertising programs in Canada.*

*We are continually looking for new ways to provide what customers prefer. During 1998, we opened a full-scale retail laboratory in which Canadian Tire buyers, major vendors and Associate Dealers can test new ideas for packaging, modules, merchandising and layouts. This common focus on the actual selling environment enables our buyers and vendors to complete assortment changes more efficiently with less cost, and gives customers a more consistent and timely presentation of products in our stores.*

*As an integrated retailer, Canadian Tire and the Associate Dealers are working more closely than ever to serve customers better. Through a variety of committees, these entrepreneurial Dealers provide input to the development of strategy. Store-level implementation of tactics designed to improve the customer experience are a strategic priority for Canadian Tire. As a result, teams from Marketing and Dealer Relations are working with individual Dealers to develop a variety of programs that are improving not only the profitability of their stores but also their overall offering to customers. Just a few of the many reasons Canadian Tire is still the right place.*

WE ALL EMBRACE A

# LEARNING ATTITUDE

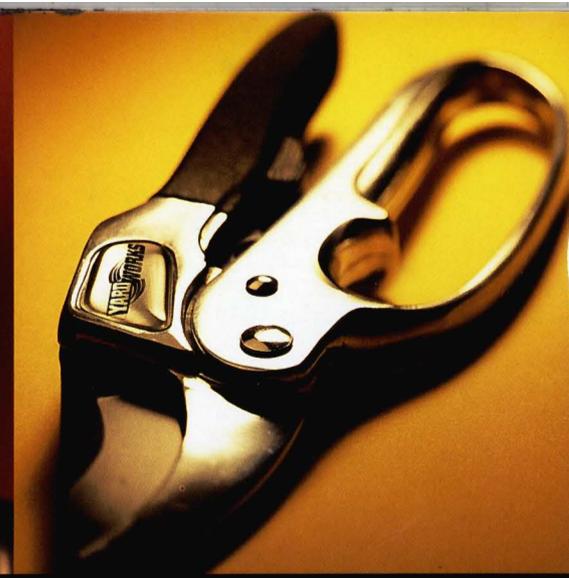
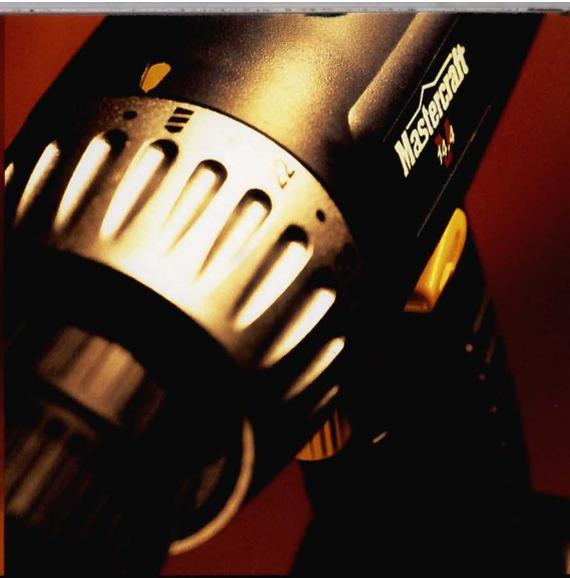
*To those of us at Canadian Tire, being the best at what our customers value most is both a job worth doing and a goal worth aspiring to. We do our best to be the best with the knowledge that there is always more to learn about what customers value, always another way in which we must change to provide the best experience.*

*The thousands of projects we have implemented in recent years have required us to alter the way we operate in fundamental ways. Strategy development and project management now routinely span functional divisions and embrace numerous levels within the enterprise; that has given us more efficient and effective implementation of tactics that add value to the shopping experience. We have also formalized the organizational values Canadian Tire embraces and adopted clear guidelines on the competencies we need for continuing success. These values and competencies now form the basis for recruiting and measuring managers.*

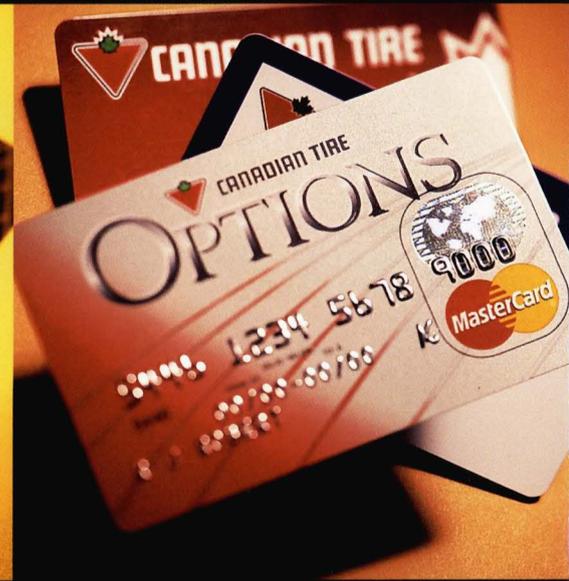
*Lifelong learning is a very important value at Canadian Tire. Our new Canadian Tire University concept for example, focuses on core management training with a combination of traditional classroom work and action learning. Associate Dealers have developed a similar concept for training their store staff. By the end of 1999, more than a quarter of all store employees will have completed extensive training that enhances the customer-service experience. Financial Services has tied learning to compensation, so that call-centre employees can advance professionally and economically by learning to handle customer inquiries on more products. Initiatives such as these are moving Financial Services closer to its goal of creating world-class service quality and Canadian Tire closer to meeting the changing expectations of its customers.*



*During the past five years, expecting and welcoming change has become a way of life for Canadian Tire employees. We are continually learning innovative ways of working smarter, faster and more cooperatively to meet our customers' demands for the best possible shopping experience.*



*We are the only hardgoods retailer to offer three distinct "stores" under one roof that provide extensive assortments of automotive, home and sports and leisure products. Canadian Tire Retail is continually refining these categories with a variety of customer-driven merchandising strategies.*



*Financial Services has an active program of product development and enhancement that not only builds on the trust customers place in the Canadian Tire brand but also adds to the total package of value available from Canadian Tire.*



*Over the next several years, Petroleum will upgrade its gas bars to complement Canadian Tire's new-format stores. The new stations offer customers brighter, more spacious auto lanes, easy, at-the-pump credit purchases and a wider selection of convenience items.*

CANADIAN TIRE IS A PERMANENT

# WORK IN PROGRESS

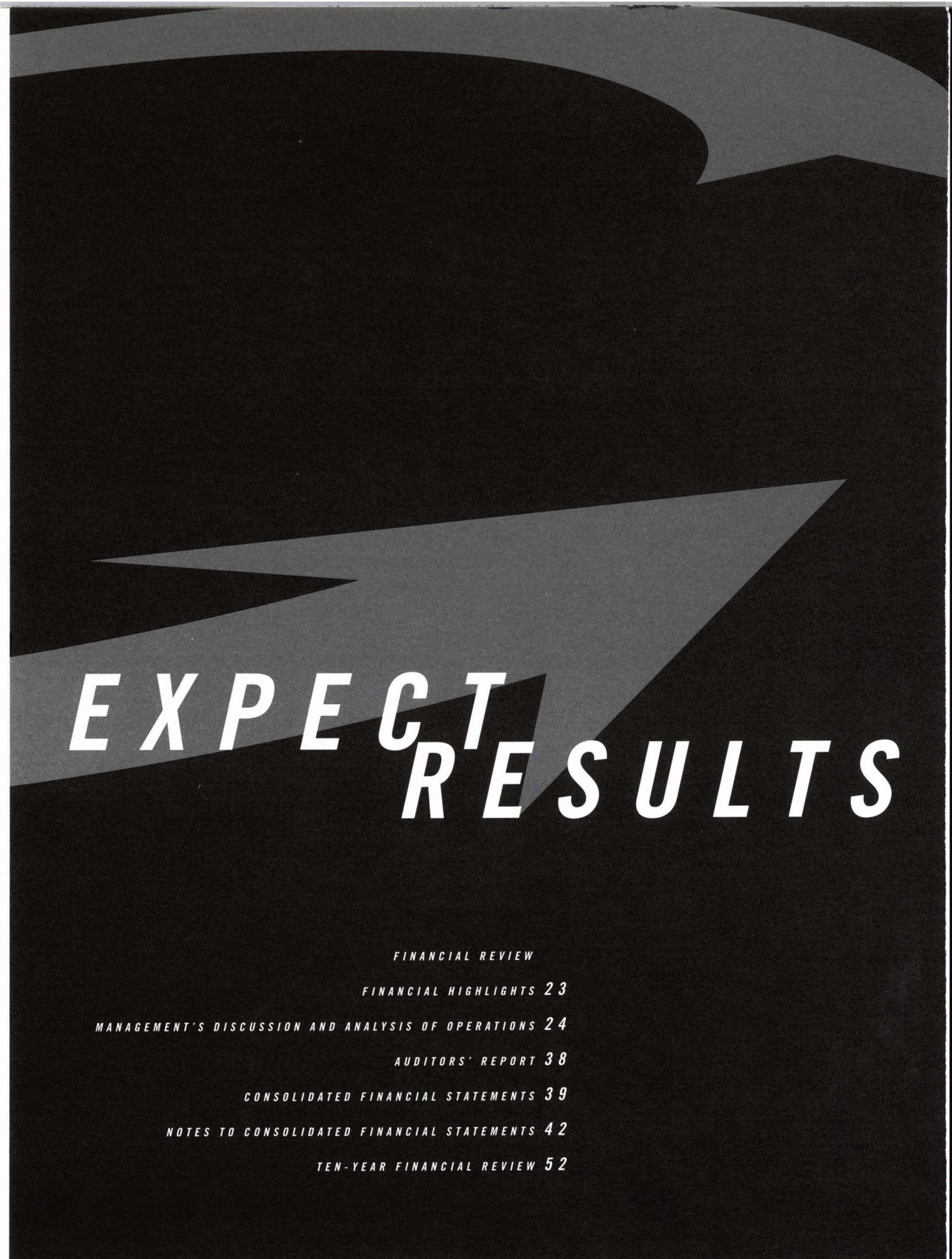
*We recognize that the job of being the best at what our customers value most is never complete. That is why we expect change, and that is why Canadian Tire is a permanent work in progress.*

*During 1999, for example, Marketing will extend its "drill-down" research in order to understand what customers value in houseware categories. Last year's research is generating new strategies for hardware and home-improvement lines, and testing will continue on new strategies for automotive service, paint and Auto PartSource, our stand-alone auto parts stores.*

*Petroleum had an outstanding year in 1998, increasing profitability and completing the conversion of all gas bars to agent-operators. During 1999, Petroleum will continue its focus on improving the productivity of its network, become more aggressive in tapping the potential of its "best gas value" offering and accelerate the renovation of its sites to the standard of Canadian Tire's new-format stores.*

*Financial Services completed a major realignment of its operations last year. The division is now better able to focus on creating Canadian Tire "customers for life" through enhancements to existing products and an active program of new-product development, testing and marketing. Financial Services will also seek out new opportunities to reduce costs in order to offer the best package of total value to customers.*

*These projects, and hundreds more like them, drive constant change at Canadian Tire every year. That is the commitment it takes to provide the retail experience customers prefer. And that is why Canadian Tire is still the right place.*



# *EXPECT RESULTS*

*FINANCIAL REVIEW*

*FINANCIAL HIGHLIGHTS 23*

*MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS 24*

*AUDITORS' REPORT 38*

*CONSOLIDATED FINANCIAL STATEMENTS 39*

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 42*

*TEN-YEAR FINANCIAL REVIEW 52*

**FINANCIAL HIGHLIGHTS**  
**CONSOLIDATED**

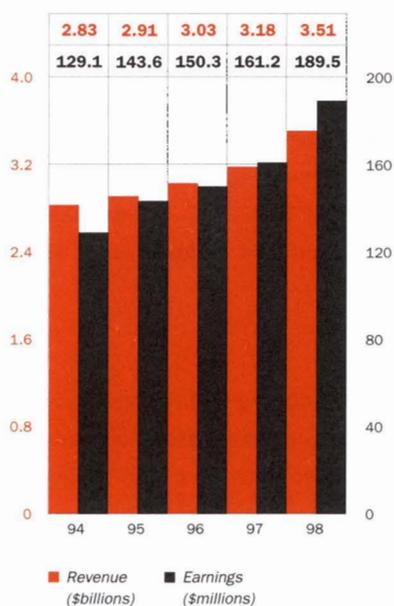
(Dollars in thousands except per share amounts)	1998 (52 weeks)	1997 (53 weeks)	Percent Change*
Gross operating revenue	\$ 4,347,283	\$ 4,087,802	6.3%
Earnings before income taxes	249,712	209,498	19.2
Income taxes	82,732	60,927	(35.8)
Net earnings	166,980	148,571	12.4
Cash generated from operations	259,838	236,692	9.8
Cash generated from operating activities	313,116	202,042	55.0
Dividends	31,299	33,244	(5.9)
Per Share			
Net earnings	\$ 2.09	\$ 1.79	17.1%
Cash generated from operations	3.26	2.85	14.4
Cash generated from operating activities	3.92	2.43	61.5
Dividends	0.40	0.40	-
Shareholders' equity	16.20	15.79	2.5

\* Percent change calculated from unrounded amounts.

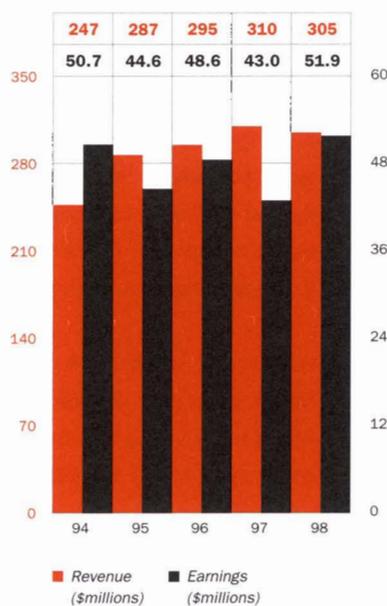
**FINANCIAL HIGHLIGHTS**  
**BUSINESS UNITS**

(Dollars in thousands)	CTR		Financial Services		Petroleum		Consolidated	
	1998	1997	1998	1997	1998	1997	1998	1997
Gross operating revenue	\$ 3,511,695	\$ 3,180,987	\$ 305,391	\$ 310,248	\$ 530,197	\$ 596,567	\$ 4,347,283	\$ 4,087,802
Earnings before income taxes	189,468	161,161	51,860	42,975	8,384	5,362	249,712	209,498

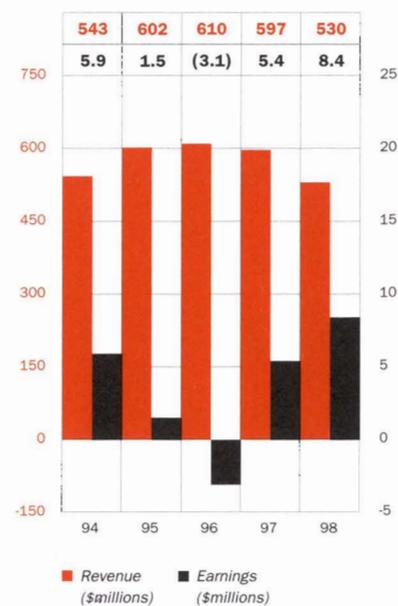
**CTR GROSS OPERATING REVENUE AND EARNINGS BEFORE INCOME TAXES**



**FINANCIAL SERVICES GROSS OPERATING REVENUE AND EARNINGS BEFORE INCOME TAXES**



**PETROLEUM GROSS OPERATING REVENUE\* AND EARNINGS BEFORE INCOME TAXES**



\* Gross operating revenue includes provincial gasoline taxes.

**OVERVIEW OF THE BUSINESS**

Canadian Tire Corporation, Limited and its subsidiaries ("Canadian Tire" or the "Corporation") consist of three businesses: Canadian Tire Retail ("CTR"), Canadian Tire Financial Services ("Financial Services") and Canadian Tire Petroleum ("Petroleum").

CTR is Canada's leading hardgoods retailer, offering consumers approximately 95,000 stock-keeping units of automotive parts and accessories, sports and leisure products, and home products, primarily through a network of stores operated by Associate Dealers. CTR also manages the marketing and operations of the petroleum business.

Financial Services is engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards and *Options*® MasterCard. Financial Services also performs third-party transaction processing, operates a national emergency roadside service and markets a variety of insurance and telecommunications products to Canadian Tire customers.

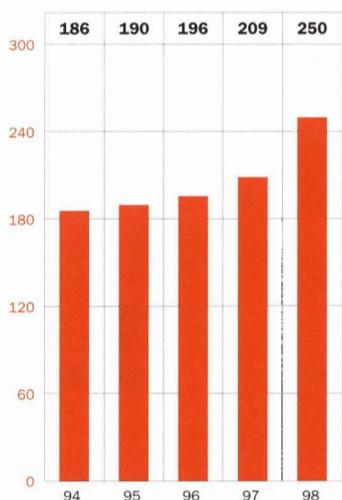
Petroleum, one of the largest independent retailers of gasoline in Canada, markets petroleum and convenience products. It also supports CTR merchandise sales through special promotions and the issuance of Canadian Tire 'Money', which is redeemable for goods at Associate Stores across Canada.

Together, CTR, Financial Services and Petroleum offer Canadians a very competitive package of total value that includes conveniently located retail outlets with three specialty stores under one roof, a variety of payment options and competitively priced petroleum and convenience items. Canadian Tire is distinctive among Canadian retailers in offering such a unique range of goods and services.

Canadian Tire Associate Dealers make a major commitment, in many ways, to the success of the combined business. They have a substantial financial investment in their business that they operate in accordance with the Corporation's overall strategy and marketing programs.

Associate Dealers provide employment to over 30,000 Canadians. They also serve the communities in which they live, giving generously of their time and resources to a variety of local organizations. Involvement by Associate Dealers in the daily life of the communities they serve helps Canadian Tire forge stronger links with customers across Canada.

**CONSOLIDATED EARNINGS  
FROM CONTINUING OPERATIONS  
BEFORE INCOME TAXES**  
(\$millions)



**CONSOLIDATED RESULTS<sup>1</sup>**

Canadian Tire achieved record financial results in 1998. Consolidated gross operating revenue was \$4.35 billion for 1998, a 52-week period ending January 2, 1999. This was an increase of 6.3 percent compared to \$4.09 billion for 1997, a 53-week period ending January 3, 1998. Consolidated earnings before taxes were up 19.2 percent from \$209.5 million in 1997 to \$249.7 million in 1998. Consolidated net earnings rose 12.4 percent to \$167.0 million in 1998 compared to \$148.6 million in 1997. Consolidated net earnings per share were \$2.09, a 17.1 percent increase over the \$1.79 per share earned in the prior year.

**Key Factors Affecting Consolidated Results**

Higher consumer spending, aggressive merchandising and revenue gains attributable to the new-format stores helped boost Associate Dealer total retail sales by 7.5 percent during 1998. This contributed to a 10.4 percent

<sup>1</sup>All results reflect a 52-week period in 1998 compared to a 53-week period in 1997.

gain in gross operating revenue for CTR. CTR operating earnings totalled \$189.5 million, a 17.6 percent increase over the \$161.2 million earned in 1997. The impact of higher shipments to Dealers in 1998 was partially offset by the related Supply Chain cost to support the increased volume of shipments and by the higher interest costs related to capital expenditures for CTR's new-format store program.

In 1998, Petroleum gasoline sales volume increased by 3.4 percent in a highly competitive market. Despite lower average pump prices which resulted in a decline in gross operating revenue, Petroleum margins were sustained. Lower expenses due to the conversion to agent-operated sites contributed to 1998 operating earnings of \$8.4 million – a 56.3 percent increase over the \$5.4 million earned in 1997.

Canadian Tire Financial Services' gross operating revenue for the year totalled \$305.4 million compared to \$310.2 million a year earlier. Operating earnings rose to \$51.9 million in 1998 from \$43.0 million in the prior year. The 20.7 percent increase was due primarily to a lower provision for credit losses.

Depreciation and amortization of property and equipment, which is primarily related to expenditures on new-format stores by CTR, totalled \$79.9 million in 1998, up 10.8 percent from the \$72.1 million recorded in the prior year.

Finally, the weighted average number of shares outstanding decreased from 83.1 million for 1997 to 79.8 million for 1998; the shares purchased under the Corporation's Normal Course Issuer Bid program more than offset the issuance of shares under various programs.

Segmented information of key financial data for Canadian Tire's three business segments can be found in Note 11 to the Consolidated Financial Statements.

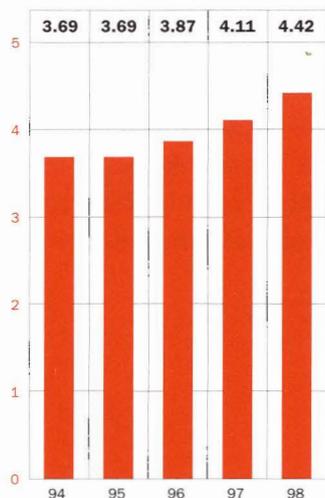
#### REVIEW OF OPERATIONS

This discussion of the Corporation's business units reviews their operational and financial performance in 1998 compared to 1997 and provides their outlook for 1999. In addition, this section reviews Canadian Tire's financial condition and risk-management practices.

#### CANADIAN TIRE RETAIL

CTR includes: *Marketing*, which is responsible for all aspects of product acquisition, advertising, merchandising and customer loyalty programs; *Supply Chain*, which manages the flow of products from the manufacturer to the customer; *Real Estate*, which is responsible for the identification and acquisition of real estate, as well as the coordination of the design, construction, property management, maintenance and administration of Canadian Tire Associate Stores; and *Dealer Relations*, which selects and trains new Dealers for Associate Stores, manages Dealer changeovers, advises Dealers on high-quality business practices and monitors the operating performance of Associate Stores. At year-end, there were 430 Associate Stores operated by 398 Associate Dealers.

**ANNUAL RETAIL SALES**  
(\$billions)



Petroleum is an integral part of CTR's operations and is one of the largest independent retailers of gasoline in Canada. It markets petroleum products and related products and services such as quick oil changes, car washes and propane. Petroleum also supports CTR through special promotions and the issuance of Canadian Tire 'Money' through its 195 outlets.

CTR builds customer awareness and traffic in Associate Stores through weekly promotional flyers, seasonal catalogues and electronic "flyers" distributed over the Internet; through the extensive use of television, as well as radio, newspaper, magazine and Internet advertising; and through event sponsorship. Canadian Tire builds customer loyalty through the issuance of Canadian Tire 'Money' at the point of sale to customers paying by cash, cheque or debit card and offers *Options* points to customers using the Canadian Tire retail card and *Options* MasterCard. These loyalty programs are an integral part of the total value package CTR offers customers. In addition, the cross-marketing strategies of the Financial Services and Petroleum operations encourage customers to make purchases at Associate Stores.

#### 1998 Operating Highlights

Gross operating revenue for CTR rose 10.4 percent to \$3.51 billion in 1998; this compared to gross operating revenue of \$3.18 billion in 1997. Competitive pricing and aggressive merchandising by Associate Dealers resulted in a 7.5 percent increase in retail sales compared to a 6.4 percent increase in 1997. The implementation of new customer-driven strategies by CTR and Dealers in automotive tires and hardparts, as well as sports and leisure products, contributed to gains in retail sales and improved market share in these categories.

CTR's revenue gains were fueled by strong store sales growth. Sales on a comparable store basis rose 3.1 percent compared to a 2.2 percent increase in the prior year. A major portion of the growth in gross operating revenue was related to increased shipments to the new-format stores. In their first year of operation these stores continue to deliver average sales gains in excess of 50 percent over the previous store in the same market. In addition, their comparable sales growth in subsequent years is well above the network average. By the end of 1998, Real Estate had opened a total of 137 new-format stores since the program began in 1994; 34 stores were opened in 1998 compared to 36 in 1997.

Higher revenue was the primary factor in increased earnings at CTR in 1998. Operating earnings were \$189.5 million, a 17.6 percent increase over the \$161.2 million earned in 1997. Total CTR operating expenses as a percentage of net shipments fell by 124 basis points in 1998, as the Corporation's efforts to make its operations more competitive by reducing costs gained momentum. This focus on cost reduction will continue in the coming year as the Corporation balances its strategy of offering customers more value through weekly sales, Canadian Tire 'Money' and lower prices on thousands of products.

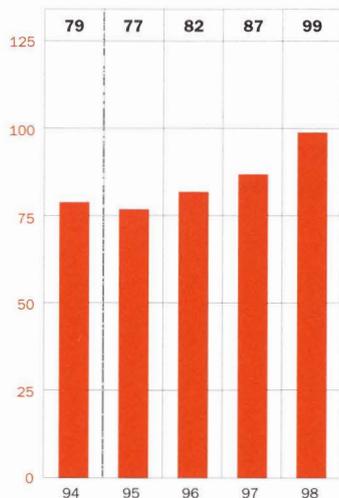
#### 1999 Outlook

CTR's highest priority for 1999 is to ensure its business is ready for a smooth transition to the Year 2000 date change. As is detailed on page 33 of this Report, much has been accomplished in this regard, and CTR expects its systems to be Year 2000-ready and tested by mid-1999.

During 1998, CTR opened 34 new-format stores for a total of 137 since 1994. For 1999, CTR plans to accelerate the pace of openings of these stores to 45 in each of the next two years. At the end of 1998, 25 of these projects were under construction. A total of 182 new-format stores are expected to be in operation by the end of 1999.

CTR has also expanded the number of markets for new-format stores to approximately 300 from the original estimate of 240. The comparable-store sales growth Canadian Tire is experiencing from these stores is meeting CTR's high expectations, which suggests strong future revenue growth as the network of new-format stores expands and matures.

**TOTAL CUBIC VOLUME SHIPPED TO ASSOCIATE DEALERS**  
(millions of cubic feet)



Another primary focus for CTR in 1999 will be to increase comparable-store sales by further strengthening the offering made to customers in the 430 Associate Stores across Canada. In automotive products, for example, the division will continue the national roll-out of in-store specialty parts and tire departments that have been enthusiastically accepted by customers. The test of *Auto PartSource* will be expanded into new markets to help validate the positive results achieved by the five stores currently in operation. *Auto PartSource*, a stand-alone store for brand-name auto parts, is designed to appeal to the "heavy do-it-yourself" market, as well as to professional installers. In addition, CTR is testing a strategy for automotive service involving increased training, formalized national standards for quality and workmanship, and best values on prices and warranties.

In sports and leisure categories, CTR will continue to refine the very successful implementation of new assortments and merchandising. A strategic review of home products was completed in 1998. New strategies such as paint and accessories will be rolled out in 1999.

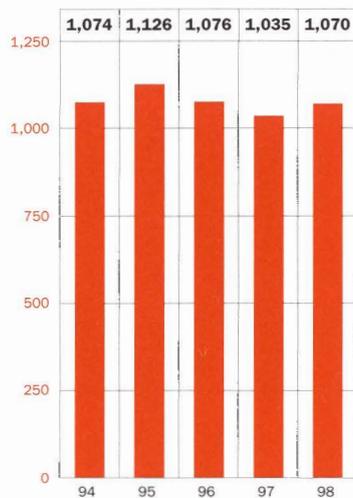
Extensive consumer research indicates that CTR's reputation for trust and integrity gives Canadian Tire the opportunity to offer customers a best-value proposition with more of its own brands, as has been the case for decades with *Mastercraft* and *Motomaster* products. During 1999, CTR will launch a number of its own brands in selected product categories. This will give customers a compelling combination of quality and value.

To support lower pricing, CTR will continue to eliminate cost structures and activities that do not add value. The Associate Dealers have also developed a detailed strategy to help reduce their costs, which will enable them to be more competitive in local markets. The program is being implemented across the country during 1999.

A major initiative in the coming year will be tactical improvements in CTR's Supply Chain. Working in a strategic partnership with a leader in supply-chain technologies, CTR will begin development of new systems during 1999. CTR fully expects this investment in supply-chain management will lead not only to ongoing improvements in service levels to stores, but also to substantial reductions in distribution costs by continuing to develop multi-channel distribution capabilities. More importantly, a more flexible distribution system will improve Canadian Tire's ability to meet the changing needs of customers efficiently, which is a key component of growth in both revenue and earnings.

CTR expects that retail sales across Canada in 1999 will benefit from a positive albeit slower rate of economic growth. Despite continued competition in all merchandise categories, CTR believes that the new-format stores and stronger in-store implementation of customer-driven merchandising strategies will generate above-average gains in comparable-store sales and will continue to improve CTR's financial contribution in 1999.

**PETROLEUM GASOLINE SALES VOLUME**  
(millions of litres)



**CANADIAN TIRE PETROLEUM**

During 1998, Petroleum completed the conversion of its outlets from an employee-managed model to an agent-managed model. Over the past decade, agent-managed sites have become the industry-standard method of operating retail gasoline outlets in Canada. The conversion to this practice provides direct incentives to the agents to improve sales while reducing the expense of site-level support as well as the cost of administrative systems.

**1998 Operating Highlights**

Petroleum's gross operating revenue was \$530.2 million in 1998, an 11.1 percent decrease from gross operating revenue of \$596.6 million in 1997, primarily due to lower average pump prices. However, a return to aggressive marketing programs resulted in a 3.4 percent increase in gasoline sales volume. In addition, Petroleum's revenue from non-gasoline sales were lower because of the conversion to agent-managed sites which resulted in the transfer of the majority of these sales to the operating agents. The combined non-gasoline sales for Petroleum and the agents increased in 1998.

Petroleum's operating earnings continued to improve substantially. Operating earnings reached \$8.4 million in 1998, a 56.3 percent increase over the \$5.4 million earned in 1997. This improvement was primarily due to major reductions in operating and other expenses attributable to the successful conversion to agent-operated sites.

A key element of Petroleum's ongoing value proposition to customers is to ensure a long-term supply of high-quality gasoline. Petroleum has finalized a new supply agreement with a major refiner; the six-year contract commenced on February 1, 1999. In the second half of 1998, Petroleum also began a multi-year program to upgrade its sites to the quality and look of CTR's new-format stores. A total of 17 projects were completed that ranged in scope from renovated sites to entirely new facilities.

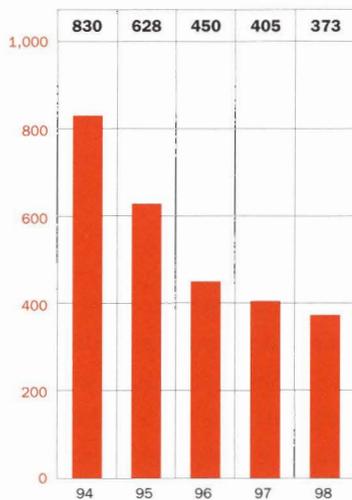
1999 Outlook

In the coming year, Petroleum will continue to build on the earnings momentum of the past two years. Administrative and site systems are expected to be tested and Year 2000-ready by the end of the third quarter of 1999. Additional sites will be upgraded to the look of the new-format stores, providing customers with improved access to pumps and an expanded offering of ancillary products. Petroleum also intends to become more aggressive in its use of cross-merchandising strategies and Canadian Tire 'Money' in order to drive increases in gasoline volume and store traffic.

CANADIAN TIRE FINANCIAL SERVICES

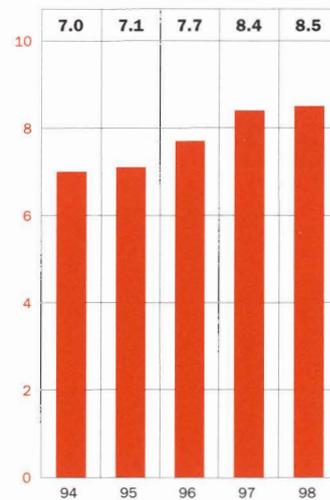
Financial Services is engaged primarily in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards and Options MasterCard. Financial Services serves a broad geographic mix of cardholders, thereby diversifying its economic risk as a supplier of credit. In addition, Financial Services earns revenue from third-party transaction processing. Financial Services also operates an emergency roadside service for Canadian Tire Auto Club™ – and third-party clients under the name Professional Dispatch Group® – and markets a variety of insurance, telecommunications and financial products to Canadian Tire customers.

**FINANCIAL SERVICES NET CREDIT CHARGE RECEIVABLES\***  
(\$millions)



\* 1998 Net Credit Charge Receivables exclude \$604 million of securitized receivables (1997 – \$573 million, 1996 – \$470 million, 1995 – \$300 million, 1994 – nil).

**FINANCIAL SERVICES NUMBER OF CARDHOLDERS**  
(millions)



#### 1998 Operating Highlights

Financial Services' 1998 gross operating revenue was \$305.4 million compared to \$310.2 million in 1997. The decline in revenue was due primarily to more stringent credit-granting policies designed to improve the quality of the credit card portfolio, as well as the sale of the Canadian Tire long-distance programs to AT&T Canada Long Distance Service Company. This sale occurred in 1998 as part of a long-term licensing agreement.

Operating earnings, however, advanced 20.7 percent to \$51.9 million compared to the \$43.0 million earned in 1997. The increase was due primarily to the improved quality of the credit portfolio during 1998, which resulted in a lower provision for credit losses and a lower level of write-offs compared to 1997. Sales of ancillary financial products and third-party processing also contributed to the improved earnings during 1998.

Following its launch in 1997, growth in both the number of holders and use of the *Options* MasterCard continued during 1998. There have been more than 500,000 cards issued and in 1998, sales on the card exceeded \$900 million. The card offers holders an attractive combination of Canadian Tire *Options* loyalty reward points on all purchases and a competitive interest rate on outstanding balances.

In 1997, Financial Services implemented a major change program designed to improve customer service, increase marketing flexibility and reduce risk in its credit portfolio. Three initiatives in 1998 moved it closer to those goals. The alliance with AT&T Canada, for example, will allow Financial Services to offer more programs and better savings to customers while earning a licensing fee and retaining marketing control. The transfer of its credit card processing to one of North America's largest providers will bring Financial Services to a new standard of competitiveness in terms of pricing, risk management and marketing. In addition, the consolidation of its call centres to what is effectively one "virtual" facility, as well as the intensified training of representatives to deal with questions on any Canadian Tire product or service, is improving both service and productivity significantly.

#### 1999 Outlook

Financial Services' first priority is to complete the remediation and testing of its systems for Year 2000-readiness. This is expected to be finalized by July 1999. By mid-year, this business will also have completed the conversion of all its credit card products to the third-party platform. This will give Financial Services the functionality to continue to drive down write-offs in its credit portfolio while enhancing its marketing competitiveness. In addition, further investments in software, hardware and training are expected to produce additional productivity gains from call-centre operations.

Financial Services will continue its aggressive programs to increase the number of holders of both the *Options* MasterCard and the Canadian Tire retail card. During 1999, Financial Services will also test a number of new credit and insurance products under the Canadian Tire trademark.

### FINANCIAL CONDITION

A primary objective of Canadian Tire is to maintain consistently strong earnings and cash flows, as well as a strong capital structure. This is essential to ensure that the Corporation maintains its ability to fund future growth at competitive rates and to continue to build long-term shareholder value. Management reviews the Corporation's funding requirements on an ongoing basis.

### CAPITAL STRUCTURE

One of Canadian Tire's objectives in selecting appropriate funding alternatives is to manage its capital structure in such a way as to diversify funding sources, minimize risk and optimize its credit rating. Canadian Tire continues to rank as one of the highest-rated Canadian retailers and has ready access to debt markets at competitive interest rates. At year-end, the Corporation's capital structure was as follows:

	1998	1997
Capital Structure		
Shareholders' equity	55.0%	61.5%
Short-term debt	7.9	17.2
Long-term debt*	35.6	19.9
Deferred taxes	1.5	1.4
	100.0%	100.0%

\* Includes current portion of long-term debt.

**Equity** The year-end book value of Common and Class A Non-Voting Shares was \$16.20 per share compared to \$15.79 at the end of 1997. Total shareholders' equity decreased to \$1,262 million from \$1,299 million in the prior year.

During 1998, the Corporation issued 1.6 million Class A Non-Voting Shares under various corporate and Dealer employee profit-sharing programs as well as under the Corporation's stock-purchase, stock-option and dividend-reinvestment plans. In 1997, 2.1 million of these shares were issued under these plans.

The issuance of Class A Non-Voting Shares was offset by the purchase during 1998 of 5.9 million of these shares under the Corporation's Normal Course Issuer Bid Program ("Issuer Bid Program") on the Toronto and Montreal stock exchanges. During 1997, 6.3 million of these shares were purchased under that year's Issuer Bid Program.

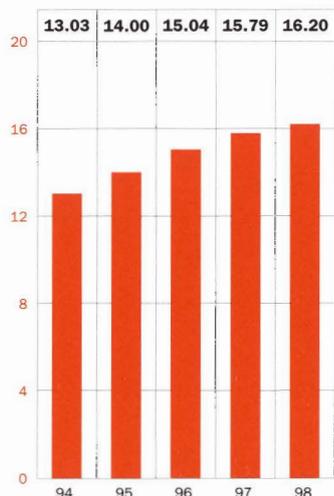
During 1999, the Corporation intends to purchase up to 2.3 million Class A Non-Voting Shares through its Issuer Bid Program to offset the expected dilutive effect on earnings per share of various programs. A further 3.8 million of these shares may be purchased through the Issuer Bid Program if the purchases can be made on terms that serve the best interests of the Corporation and its shareholders.

**Shares Outstanding.** At January 2, 1999, there were 74,469,278 Class A Non-Voting Shares and 3,423,366 Common Shares outstanding; this compares to 78,791,271 Class A Non-Voting Shares and 3,430,750 Common Shares outstanding at January 3, 1998.

**Dividends.** Dividends declared on Common and Class A Non-Voting Shares were \$31.3 million in 1998 compared to \$33.2 million in 1997. The annual dividend on both classes of shares remained constant at \$0.40 per share.

### SHAREHOLDERS' EQUITY PER SHARE\*

(\$)



\*Total shareholders' equity divided by actual number of shares outstanding.

**Short-term Debt** The Corporation has a Commercial Paper program with an \$800 million authorized limit. At year-end, \$181.8 million in commercial paper was outstanding compared to \$362.9 million at January 3, 1998.

The Corporation also has committed lines of credit that are equal to or greater than the maximum projected amount of outstanding commercial paper balances; none of these lines have been drawn upon. Undrawn lines of credit remained in excess of \$750 million at the end of 1998.

Credit ratings for the Corporation's commercial paper at year-end were "A-1+" from CBRS Inc. ("CBRS") and "R-1(low)" from Dominion Bond Rating Service ("DBRS").

**Long-term Debt** In order to gain access to debt markets in a timely manner as required, Canadian Tire has filed a shelf prospectus with provincial securities commissions for the issuance of \$750 million of debt securities and debt warrants; \$500 million of this limit has been allocated to the Medium Term Note program. This program is evaluated every two years. The last renewal was completed in December 1998.

The Corporation's long-term debt had ratings at year-end of "A+(low)" from CBRS and "A" from DBRS.

On January 18, 1999 and February 22, 1999, the Corporation completed issuances of \$200 million and \$85 million of Medium Term Notes, respectively, as detailed in Note 5 to the Consolidated Financial Statements.

Like most issuers, Canadian Tire has provided covenants to certain of its lenders. All the covenants were complied with during 1998 and 1997.

**FUNDING PROGRAM**

**Funding Requirements**

The Corporation's capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and share purchases under the Issuer Bid Program, are funded from a combination of sources. In 1998, this pool of funds comprised \$436 million of proceeds from the issuance of long-term debt, \$313 million of cash generated from operating activities and \$25 million from the Corporation's sale of credit charge receivables, described below.

**Capital Expenditures**

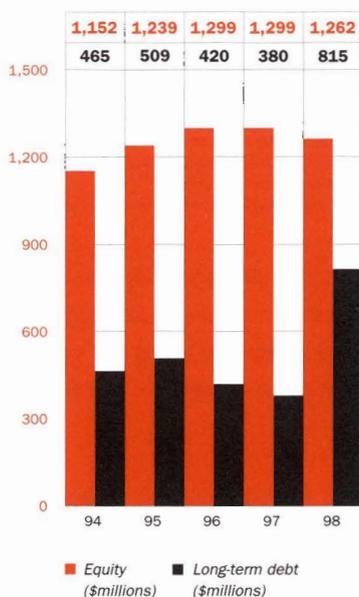
Canadian Tire spent a total of \$303.1 million on capital projects in 1998, a 19.6 percent increase over the \$253.5 million spent in 1997. Real Estate expenditures totalled \$201.0 million, substantially all of which was for construction of new-format Associate Stores; this was a 1.6 percent increase over the \$197.9 million spent in 1997. In addition, CTR spent \$69.9 million on systems development, fixtures and equipment and other capital projects.

Capital expenditures by Financial Services were \$21.0 million compared to \$14.1 million in 1997; 1998 expenditures were primarily for improved information technology. Capital projects by Petroleum totalled \$11.2 million in 1998 compared to \$1.3 million in the prior year. The 1998 expenditures represent the first year of a program to upgrade Petroleum sites to the quality and look of the new-format stores.

**1999 Capital Program**

Canadian Tire's 1999 capital requirements, which are determined on a consolidated basis, are expected to total just over \$500 million. Real Estate projects are planned at \$320 million. Financial Services has been allocated approximately \$114 million to fund the growth of its credit charge receivables. Petroleum plans to spend \$10 million for site upgrades and maintenance. The balance of planned capital expenditures are for CTR, Financial Services and the upgrade of the information technology infrastructure across the Corporation.

**SHAREHOLDERS' EQUITY AND LONG-TERM DEBT\***



\* Excludes current portion of long-term debt.

#### Sources of Liquidity

The primary sources of Canadian Tire's liquidity include cash and short-term investments, sales of credit charge receivables and other sources of funding such as the Corporation's Commercial Paper program and Medium Term Note program.

**Cash and Short-term Investments** At year-end, Canadian Tire's cash and short-term investments totalled \$308.4 million, a 17.1 percent increase from the \$263.4 million held at January 3, 1998. Short-term investments held at year-end 1998 included Canadian and United States government-guaranteed securities, and high-quality commercial paper.

During 1998, cash generated from operating activities totalled \$313.1 million; this was a 55.0 percent increase from \$202.0 million in 1997. The 1998 amount represents cash generated from operating activities of \$3.92 per share versus \$2.43 in the prior year.

**Canadian Tire Financial Services Receivables** The objective of the Corporation's credit charge receivables securitization program is to provide Financial Services and the Corporation, with a cost-effective, alternative source of funding. The securitization of credit charge receivables is considered an integral part of the funding program for future growth.

Financial Services owned \$373 million of net credit charge receivables at the end of 1998; this compares to \$405 million held at the end of 1997. The decrease during 1998 was primarily due to the incremental sale of co-ownership interests of \$25 million of credit charge receivables to Canadian Tire Receivables Trust™ (the "Trust"). During 1999, the Corporation expects to raise funds from the sale of additional receivables.

Details of the outstanding asset-backed Notes issued by the Trust are listed in the table below. As the Trust is not controlled by the Corporation, its financial statements have not been consolidated with those of Canadian Tire.

#### CANADIAN TIRE RECEIVABLES TRUST ASSET-BACKED NOTES OUTSTANDING

(Dollars in millions)	1998	1997
Series 1997-1 Commercial Paper Notes <sup>1</sup>	\$ 134	\$ 103
7.48% Series 1995-1 Senior Notes <sup>2</sup>	198	198
7.83% Series 1995-2 Senior Notes <sup>2</sup>	99	99
7.10% Series 1996-1 Senior Notes <sup>2</sup>	160	160
7.94% Series 1995-1 Subordinated Notes <sup>3</sup>	2	2
8.46% Series 1995-2 Subordinated Notes <sup>3</sup>	1	1
7.71% Series 1996-1 Subordinated Notes <sup>3</sup>	2	2
<b>Total</b>	<b>\$ 596</b>	<b>\$ 565</b>

<sup>1</sup>The Notes will mature on a business day 364 days or less from the date of issuance.

<sup>2</sup>On December 1, 2000, December 1, 2002, and March 1, 1999, respectively, for the Series 1995-1, Series 1995-2, and Series 1996-1 Notes, the process for repayment of principal will commence, subject to earlier prepayment in certain events, from allocations to the Trust in the previous month. These final payment dates of June 1, 2001, June 1, 2003, and September 1, 1999, respectively, are estimated based upon certain assumptions regarding the performance of the credit charge receivables pool and other factors.

<sup>3</sup>Repayment of the principal amount of the Subordinated Notes will not begin until all principal and interest owing under the related series of Senior Notes have been fully repaid.

The success of these programs is due primarily to the Trust's ability to obtain funds by issuing debt instruments of the highest credit rating. The Trust's asset-backed Commercial Paper program has a rating of "A-1+" from CBRS and "R-1(high)" from DBRS. The Senior Notes received a rating of "A++" from CBRS and "AAA" from DBRS. In all cases, these are the rating services' highest categories. The Subordinated Notes have a rating of "A+" from CBRS and "AA(low)" from DBRS.

**Capital Assets** Capital assets are another source of liquidity for Canadian Tire. Substantially all of the Corporation's land and buildings are unencumbered.

#### FINANCIAL RATIOS

Canadian Tire continues to have a strong balance sheet and strong financial ratios. These allow the Corporation relatively easy access to funding from financial markets. Long-term debt as a percentage of total capital increased to 35.6 percent from 19.9 percent in 1997, primarily reflecting increased use of long-term debt. The current ratio at year-end was 1.4:1 compared to 1.2:1 at January 3, 1998. Interest coverage in 1998 on a cash-flow basis, after adjusting earnings from operations for depreciation and amortization, was 5.5 times.

#### FUNDING COSTS<sup>1</sup>

The following table summarizes the Corporation's total funding costs, including the impact of Canadian Tire's risk management program, which is discussed below.

(Dollars in thousands)	1998	1997
Interest Expense <sup>2</sup>		
Long-term interest expense	\$ 59,544	\$ 49,396
Short-term interest expense	14,913	14,166
	\$ 74,457	\$ 63,562
Effective blended cost of debt	7.7%	8.6%

<sup>1</sup>Funding costs and all related debt shown on this table exclude those of the Trust.

<sup>2</sup>Interest expense is increased or decreased by the interest rate differentials paid on interest rate swap contracts.

The effective average blended cost of debt decreased between 1998 and 1997 as long-term debt issuances during 1998 were at more favourable interest rates.

#### RISK MANAGEMENT

Canadian Tire is exposed to a number of risks in the normal course of its business that have the potential to affect the operating performance of the Corporation. These risks, and the actions taken to minimize them, are discussed below.

**Year 2000-Readiness** A significant challenge to all businesses is the need to address the impact of the century date change on information systems. Many information systems have been designed to identify years only by the last two digits rather than four, a situation that could cause significant business disruptions if not addressed prior to the end of 1999.

**Oversight and Risk Evaluation.** Since 1996, Canadian Tire has had a designated executive overseeing the Corporation's program for Year 2000-readiness. This individual has reported quarterly to the Audit Committee of the Board of Directors, which in turn has reported to the full Board. The Board and Management are confident that the Corporation's internal information systems will be Year 2000-ready. The effort to achieve this readiness status is not expected to have a material impact on operations or financial results.

**Uses of Information Technology.** Canadian Tire uses information technology ("IT") throughout its operations in order to improve service to customers and ensure the efficient operation of the business. The Corporation's critical business processes and supporting IT systems are:

- Mainframe systems that support core supplier and product-related systems necessary for the flow of goods to customers, as well as the Corporation's financial systems;
- Electronic commerce systems for communication of information to and from suppliers and partners;
- Warehouse management and building automation systems at the Corporation's distribution facilities that support the efficient movement of products to Associate Stores;

- Store-based systems that support ordering, pricing and stocking of products as well as management of related services to customers;
- Point-of-sale devices in Associate Stores and Petroleum gas bars that provide customers with a variety of payment options and enable certain customer-service features;
- Processing and telecommunications systems in the Corporation's Financial Services operations that provide credit services, insurance products and call-centre services and support;
- PC-based office systems and networks used in clerical, analytical and administrative functions related to the general operation of the Corporation; and
- General IT infrastructure that supports voice and data communications, information networks and related hardware and operating system software.

*Current State of Year 2000-Readiness.* All Year 2000 projects are managed within strict project-management guidelines. No projects appear to have project-completion risk, and all completion dates are well within acceptable timeframes. Following is the current state of remediation and testing of the Corporation's critical IT systems:

- All mainframe systems have been remediated, tested and are in operation. Critical systems are undergoing integration testing – a simulation of how all systems will work together beginning January 1, 2000 – that will be completed by the end of June 1999.
- Electronic commerce systems were ready and tested in 1998. Roll-out to the Corporation's largest suppliers and partners is scheduled to be completed by the end of June 1999.
- Critical building automation systems have been fixed and are in operation. Systems critical to the flow of product are undergoing integration testing that is expected to be completed by the end of June 1999.
- Critical store-based systems have been remediated and are in operation. New point-of-sale systems in Associate Stores have been developed and are currently being installed with expected completion by the end of June 1999; the installation of Petroleum-related point-of-sale systems, and the remediation and testing of its administrative IT systems, is expected to be completed by the end of September 1999.
- The transition of Financial Services' credit processing to a third-party provider was partially completed during 1998; the third party's systems are Year 2000-ready. The balance of the transition is scheduled for completion by the end of May 1999, with integration testing finalized by the end of July 1999. All other Financial Services' IT systems are expected to be remediated and tested by the end of July 1999.
- The remediation of the Corporation's general IT infrastructure, including hardware, software and PC-based systems, was completed during 1998. Integration testing is scheduled for completion by the end of June 1999, with ongoing monitoring in the event that vendors of IT products rescind previous readiness certificates.

*Interaction with Third Parties.* As a major corporation and retailer, Canadian Tire is dependent on third-party suppliers and partners for the provision of critical products and services. These include merchandise, transportation, IT infrastructure, financial services, power and telecommunications. It is difficult to determine the full extent of Year 2000 risk associated with these external business partners. In selected cases, the Corporation is working with its suppliers and partners to mitigate risk to Canadian Tire; in other cases, the Corporation is building contingency plans that will enable it to perform critical functions should a supplier or partner experience Year 2000 problems.

Canadian Tire has been proactive with its major suppliers and partners. By the end of 1998, the Corporation had completed a risk confirmation survey of nearly 1,000 of its largest suppliers to assess their Year 2000-readiness and confirm their risk profile. While Canadian Tire has made every effort to ensure the readiness of its major suppliers through assessment and/or active collaboration, there can be no assurance that suppliers and partners have, or will have, IT systems that are Year 2000-ready, or that required systems modifications will be completed by January 1, 2000. Failure of major suppliers and partners to be Year 2000-ready could have a material adverse effect on the Corporation's operations and results. Contingency plans to address such possible failures are discussed in the following section.

*Contingency Planning.* Management believes that the work completed to date and work planned in 1999 for Year 2000-readiness make it unlikely that the Corporation will experience a significant business disruption related to its own IT systems. However, there is some residual risk that problems with less critical systems may interact in unforeseen ways to cause temporary disruptions in certain functions. The Corporation is developing contingency plans for the operation of all critical business processes as well as related recovery plans. This process considers external partners and Canadian Tire's dependence on them. Work on developing contingency plans is expected to be completed by the end of June 1999, with testing and, in some cases, implementation of the plans throughout the balance of the year.

*Accounting Treatment.* Canadian Tire has allocated extensive resources throughout the organization to its Year 2000 program. Year 2000 program costs are being controlled substantially within the established operating budgets of various functions within the Corporation, as the majority of staff working on the Year 2000 program have been reallocated from other projects.

Certain non-Year 2000 projects were deferred during 1997 and 1998, which enabled the Corporation to mitigate the expense impact on earnings and cash flow. While the timing of implementation for those other projects is affected, the staffing for the Year 2000 program does not represent significant incremental costs to the Corporation.

In the normal course of business, the Corporation had planned for various new systems and systems betterments. This enabled the Corporation to simultaneously address the Year 2000-readiness issue. Year 2000 program costs have been accounted for in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

**Retail Competitive Risk** While Canadian Tire competes against national and regional retailers in all major markets across Canada, there is no one organization or type of business that competes directly with all product lines available at Associate Stores. However, several of these retailers, such as department stores, mass merchandisers, home-improvement warehouse operators and specialty marketers are currently in one or more of the business segments in which Associate Stores compete.

CTR actively monitors competitive developments in its markets, particularly its performance relative to competitors. This analysis enables it to determine the degree of competitiveness within a market or business segment and take the necessary steps to both protect and build market share.

Canadian Tire also has numerous core strengths that reduce its competitive risk. Foremost is the network of Associate Dealers whose investment in and commitment to their Associate Stores provides a significant competitive advantage and reduction in risk. In addition, a primary strength is the convenience of location of their Associate Stores. Management estimates that, with 430 Associate Stores across Canada, approximately 90 percent of the Canadian population is within a 15-minute drive of at least one Associate Store. Canadian Tire is enhancing this advantage with the continual refinement of new-format stores and new-format "look" stores, as well as a number of additional stores in new markets. These new-format stores are proving to be very effective at competing with different types of retailers and formats in the same market. Since 1994, the Corporation has committed a total of approximately \$700 million to this very successful program.

Internal and independent consumer surveys indicate that customers have very high awareness of, and loyalty to, Canadian Tire. In the most recent survey, 58 percent of those interviewed had shopped at an Associate Store within the last 30 days. In addition, Associate Stores hold strong market-share positions in many of the product categories in which they do business. This is particularly evident in automotive and hardware lines and in selected seasonal and sporting goods categories.

These core strengths are reinforced by a deep commitment to continuous strategic and operational reviews of core product categories providing a comprehensive and up-to-date awareness of CTR's market position, opportunities and threats. This commitment results in ongoing innovations in Canadian Tire, such as new test programs, new-format stores and *Auto PartSource*, all of which contribute to long-term growth in market share and profitability.

Specific initiatives designed to enhance CTR's competitive position, and thus reduce the Corporation's retail competitive risk, are described in the CTR section earlier in this Discussion.

**Environmental Risk** Environmental protection is an essential part of Canadian Tire's corporate mission. The Corporation's environmental programs are intended to be in the forefront of the retail industry in protecting the environment. In addition, the Corporation's forward-looking procedures for the identification and mitigation of environmental risk, as well as the Corporation's record of accomplishment in this area, have enabled it to purchase environmental insurance coverage at very favourable premiums.

In 1998, the Corporation continued to ensure that management systems were in place to address environmental issues, policies and procedures. Quarterly and annual reports on environmental and health and safety issues, policies and procedures are submitted to the Canadian Tire Board of Directors and its Audit and Social Responsibility Committees.

Canadian Tire carries out regular assessments of facilities and procedures to ensure that its operations meet regulatory and corporate requirements. In addition, the Corporation has initiated many proactive programs that set new standards of environmental management. These programs are discussed in more detail under "Environmental, Health and Safety Stewardship" on page 54.

**Concentration Risk** Canadian Tire, by the national nature of its operations, is relatively well diversified across Canada's regional economies. Management believes this makes the Corporation less susceptible to adverse economic conditions in specific regions of the country.

With regard to credit privileges extended to Canadian Tire customers by Financial Services, the card base comprises more than eight million holders across Canada. Approximately half reside in Ontario and Quebec, with the balance distributed across Canada. Financial Services' Private Label customers are similarly dispersed across Canada. In addition, concentration risk is limited with regard to receivables due from Associate Dealers, whose businesses are geographically dispersed. The largest trade receivable balance owed to the Corporation by any one Associate Dealer is less than three percent of total Associate Dealer receivables.

#### CAPITAL MANAGEMENT RISK

It is important to note that, in implementing financial strategies to reduce risk, Canadian Tire's Treasury department does not operate as a profit centre. Controls are in place to prevent and detect speculative activity.

**Financial Products Risk** It is the Corporation's policy to identify and manage currency, interest rate and commodity price risk proactively and conservatively.

There are typically two parties to a financial transaction. The successful completion of the transaction, and thus the mitigation of risk, depends on the ability of both parties to meet their financial commitments under the contract. In the case of Canadian Tire, counterparty credit risk is considered to be negligible as the Corporation restricts the counterparties that it deals with to highly rated financial institutions. A minimum rating of "A+" by CBRS and "AA" by DBRS is required.

**Foreign-Exchange Risk** The Corporation's guideline is to hedge a minimum of 75 percent of purchases of foreign-denominated goods and services which are expected to be completed within a four- to six-month period.

**Commodity Price Risk** The operating performance of Petroleum is very sensitive to the pricing actions of major competitors in the retail gasoline market. During the past 18 months, Petroleum has been reducing its operating costs to become more competitive with the "best-in-class" gasoline retailers. This gives the division greater flexibility during periods of extreme competition. In addition, Petroleum has a very competitive contract with a major supplier for the acquisition of gasoline that helps offset the potential impact of foreign exchange and commodity price fluctuations.

**Interest Rate Risk** This risk reflects the sensitivity of Canadian Tire's financial condition to movements in interest rates. The Corporation's exposure is limited to the impact of interest rate fluctuations on cash and short-term investments and commercial paper. The Corporation's net balance sheet interest rate sensitivity in 1998 and 1997 was managed through the use of interest rate swap contracts. As a result, Canadian Tire's exposure to interest rate fluctuations is limited. A one percent change in interest rates would not materially affect the Corporation's earnings, cash flow or financial position. Consolidated interest rate sensitivity was minimized at the end of 1998 and 1997 as all of the Corporation's long-term debt had been issued at fixed rates and is thus not sensitive to interest rate movements. Interest-rate risk is further discussed in Note 10 to the Consolidated Financial Statements.

Although interest rate sensitivity is primarily managed on a consolidated basis, the Corporation also reviews interest rate sensitivity by business unit. Most of Financial Services' revenue is non-interest rate sensitive as it is generated from Canadian Tire's credit cards and the *Options* MasterCard, which each carry a fixed interest rate. Financial Services' funding requirements were reduced during 1998 and 1997 primarily due to the sale of credit charge receivables through the securitization program described on page 32. The balance of Financial Services' funding requirements in 1998 and 1997, however, was met with the issuance of floating-rate debt, which makes Financial Services' results somewhat sensitive to changes in interest rates. This impact has been mitigated at a consolidated level to reduce the sensitivity of the interest rate exposure.

Canadian Tire monitors market conditions and the impact of interest rate fluctuations on the Corporation's fixed/floating rate exposure on an ongoing basis.

*MANAGEMENT'S RESPONSIBILITIES 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 oversees management's responsibilities for financial statements primarily through the activities of its Audit Committee, which is composed solely of Directors who are neither officers nor employees of the Corporation. This Committee meets with management and the Corporation's independent auditors, Deloitte & Touche LLP, to review the financial statements and recommend approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment and remuneration of the Corporation's auditors. 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 Deloitte & Touche LLP, whose appointment was ratified by shareholder vote at the annual shareholders' meeting. Their report is presented below.



Stephen E. Bachand  
President and  
Chief Executive Officer  
March 4, 1999



Gerald S. Kishner  
Executive Vice-President, Finance and Administration  
and Chief Financial Officer

*AUDITORS' REPORT*

To the Shareholders, Canadian Tire Corporation, Limited

We have audited the Consolidated Balance Sheets of Canadian Tire Corporation, Limited as at January 2, 1999 and January 3, 1998 and the Consolidated Statements of Earnings, Retained Earnings and Operating, Investing and Financing Activities for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Corporation as at January 2, 1999 and January 3, 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants  
Toronto, Ontario  
March 4, 1999

**CONSOLIDATED STATEMENTS OF  
EARNINGS AND RETAINED EARNINGS**

For the years ended (Dollars in thousands except per share amounts)	January 2, 1999 (52 weeks)	January 3, 1998 (53 weeks)
<b>Gross operating revenue</b>	<b>\$ 4,347,283</b>	<b>\$ 4,087,802</b>
<b>Operating expenses</b>		
Cost of merchandise sold and all expenses except for the undernoted items	<b>3,914,678</b>	3,716,392
Interest		
Long-term debt	<b>59,544</b>	49,396
Short-term debt	<b>14,913</b>	14,166
Depreciation and amortization	<b>86,720</b>	79,862
Employee profit sharing plans	<b>21,716</b>	18,488
<b>Total operating expenses</b>	<b>4,097,571</b>	3,878,304
<b>Earnings before income taxes</b>	<b>249,712</b>	209,498
<b>Income taxes</b> (Note 7)		
Current	<b>76,752</b>	52,825
Deferred	<b>5,980</b>	8,102
<b>Total income taxes</b>	<b>82,732</b>	60,927
<b>Net earnings</b>	<b>\$ 166,980</b>	<b>\$ 148,571</b>
<b>Net earnings per share</b>	<b>\$ 2.09</b>	<b>\$ 1.79</b>
Weighted average number of Common and Class A Non-Voting Shares outstanding	<b>79,792,682</b>	83,139,384
<b>Retained earnings, beginning of year</b>	<b>\$ 1,176,898</b>	<b>\$ 1,058,663</b>
<b>Net earnings</b>	<b>166,980</b>	148,571
<b>Dividends</b>	<b>(31,299)</b>	(33,244)
<b>Reissue of Class A Non-Voting Shares</b> (Note 6)	<b>5,659</b>	2,908
<b>Retained earnings, end of year</b>	<b>\$ 1,318,238</b>	<b>\$ 1,176,898</b>

**CONSOLIDATED STATEMENTS OF OPERATING,  
INVESTING AND FINANCING ACTIVITIES**

For the years ended (Dollars in thousands)	January 2, 1999 (52 weeks)	January 3, 1998 (53 weeks)
<b>Cash generated from (used for):</b>		
<b>Operating activities</b>		
Net earnings	\$ 166,980	\$ 148,571
Items not affecting cash		
Depreciation and amortization of property and equipment	79,910	72,119
Amortization of other assets	6,810	7,743
Deferred income taxes	5,980	8,102
Loss on disposals of property and equipment	158	157
<b>Cash generated from operations</b>	<b>259,838</b>	236,692
<b>Changes in other working capital components</b>	<b>53,278</b>	(34,650)
<b>Cash generated from operating activities</b>	<b>313,116</b>	202,042
<b>Investing activities</b>		
Additions to property and equipment	(303,058)	(253,488)
Long-term receivables and other assets	(14,547)	(6,963)
Credit charge receivables	32,184	45,749
Disposals of property and equipment	7,882	7,934
	(277,539)	(206,768)
<b>Dividends</b>	<b>(31,299)</b>	(33,244)
<b>Financing activities</b>		
Issuance of long-term debt	435,550	-
Commercial paper	(181,137)	309,421
Class A Non-Voting Share transactions	(173,721)	(113,909)
Repayment of long-term debt	(40,000)	(88,840)
	40,692	106,672
<b>Cash generated in the year</b>	<b>44,970</b>	68,702
<b>Cash position, beginning of year</b>	<b>263,422</b>	194,720
<b>Cash position, end of year</b>	<b>\$ 308,392</b>	\$ 263,422

**CONSOLIDATED BALANCE SHEETS**

As at (Dollars in thousands)	January 2, 1999	January 3, 1998
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 308,392	\$ 263,422
Accounts receivable	403,083	347,207
Credit charge receivables (Note 2)	372,511	404,695
Merchandise inventories	411,696	409,058
Prepaid expenses and deposits	10,589	13,894
<b>Total current assets</b>	<b>1,506,271</b>	<b>1,438,276</b>
<b>Long-term receivables and other assets</b> (Note 3)	<b>41,088</b>	<b>33,351</b>
<b>Property and equipment</b> (Note 4)	<b>1,618,521</b>	<b>1,403,413</b>
<b>Total assets</b>	<b>\$ 3,165,880</b>	<b>\$ 2,875,040</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Commercial paper	\$ 181,768	\$ 362,905
Accounts payable and other	801,182	701,448
Income taxes payable	70,713	62,977
Current portion of long-term debt (Note 5)	951	40,000
<b>Total current liabilities</b>	<b>1,054,614</b>	<b>1,167,330</b>
<b>Long-term debt</b> (Note 5)	<b>815,000</b>	<b>380,401</b>
<b>Deferred income taxes</b>	<b>34,714</b>	<b>28,734</b>
<b>Total liabilities</b>	<b>1,904,328</b>	<b>1,576,465</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 6)	<b>318,558</b>	<b>318,558</b>
<b>Accumulated foreign currency translation adjustment</b>	<b>4,784</b>	<b>3,767</b>
<b>Retained earnings</b>	<b>1,318,238</b>	<b>1,176,898</b>
<b>Less: shares held in treasury</b> (Note 6)	<b>(380,028)</b>	<b>(200,648)</b>
<b>Total shareholders' equity</b>	<b>1,261,552</b>	<b>1,298,575</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,165,880</b>	<b>\$ 2,875,040</b>

Approved by the Board



Gilbert S. Bennett  
Director



Maureen J. Sabia  
Director

**1. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries.

**Fiscal year**

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

**Revenue recognition**

The Corporation's shipments of merchandise to Associate Dealers (retail store owner-operators) are recorded as revenue when delivered. Revenue on the sale of petroleum products is recorded upon sale to the consumer. Merchant fees on credit charge receivables are taken into revenue at the time new receivables are recorded. Service charges are accrued each month on balances outstanding at each account's billing date.

**Cash and short-term investments**

For purposes of the Consolidated Financial Statements, cash is defined as cash and short-term investments less bank indebtedness. Short-term investments held include Canadian and United States government securities and notes of other creditworthy parties due within one year.

**Merchandise inventories**

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

**Property and equipment**

Property and equipment are stated at cost. The cost of real estate includes all direct costs, financing costs on specific and general corporate debt relating to major projects, and certain pre-development costs. Depreciation is provided for using the declining balance method commencing in the month that the equipment or facilities are placed into service. Amortization of leasehold improvements is provided for on a straight-line basis over the terms of the respective leases. Purchased computer software, including direct implementation costs, is amortized on a straight-line basis over a period of up to five years.

**Debt discount and other issue expenses**

Debt discount and other issue expenses are included as other assets on the Consolidated Balance Sheets and are amortized over the term of the respective debt issues.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Deferred expenses

The Corporation capitalizes both direct and indirect costs with respect to ventures which are in the development stage. Capitalization of costs continues until formal operations have commenced, at which time the deferred costs are amortized over a three-year period. Should a venture be abandoned during the development stage, all capitalized costs will be immediately expensed. Financial Services defers costs pertaining to the acquisition of most new businesses. These acquisition costs are amortized over the terms of the related contracts. All the above costs are included as other assets on the Consolidated Balance Sheets.

### Translation of foreign currencies

The components of the Consolidated Statements of Earnings related to foreign subsidiaries 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. Gains and losses on translation are included in net earnings, except for the exchange gains or losses related to investments in self-sustaining foreign operations. Translation adjustments on self-sustaining foreign operations are included in a separate component of shareholders' equity.

### Post-employment benefits other than pensions

The Corporation provides certain health care, life insurance and other benefits, but not pensions, for certain retired employees pursuant to Corporate policy. The Corporation estimates the liability for the benefits to be provided at the time an employee retires and accrues the total future estimated liability.

### Financial instruments

Interest rate swap contracts are used to hedge current and anticipated interest rate risks. Interest to be paid or received under such swap contracts is recognized over the life of the contracts as adjustments to interest expense. Unrealized gains or losses resulting from market movements are not recognized.

Foreign currency risks related to certain purchased goods and services are hedged. Any costs associated with these purchases are included in the Canadian dollar cost of these products.

### Use of estimates

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

## 2. CREDIT CHARGE RECEIVABLES

The Corporation sells undivided co-ownership interests in a pool of credit charge receivables to an independent trust (the "Trust"). No gain or loss has been recorded on these sales by the Corporation. As at January 2, 1999, the Trust's undivided co-ownership interest in the pool of credit charge receivables was \$604 million (1997 - \$573 million). Any income generated on the sold co-ownership interest in excess of the Trust's stipulated share of service charges is retained by the Corporation. The Trust's recourse to the Corporation is limited and is based on income earned on the receivables. As the Trust is not controlled by the Corporation, it has not been consolidated in these financial statements.

### 3. LONG-TERM RECEIVABLES AND OTHER ASSETS

(Dollars in thousands)	1998	1997
Other assets	\$ 23,350	\$ 17,100
Long-term debt issue costs	6,336	2,694
Loans receivable	5,868	6,335
Mortgages receivable	5,534	7,222
	\$ 41,088	\$ 33,351

#### Loans receivable

The loans receivable include interest-free loans that have been provided to certain senior executives. These loans have various maturity dates extending to 2008.

### 4. PROPERTY AND EQUIPMENT

(Dollars in thousands)	1998			1997			Depreciation Amortization Rate/Term
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value	
Land	\$ 410,347	\$ -	\$ 410,347	\$ 365,322	\$ -	\$ 365,322	
Buildings	1,325,445	412,758	912,687	1,202,301	372,998	829,303	4% - 10%
Fixtures and equipment	328,899	213,277	115,622	305,477	197,040	108,437	10% - 33%
Leasehold improvements	61,157	30,897	30,260	60,395	26,845	33,550	Term of lease
Computer software	64,679	24,747	39,932	37,713	23,238	14,475	Up to 5 years
Work in progress	109,673	-	109,673	52,326	-	52,326	
	\$ 2,300,200	\$ 681,679	\$ 1,618,521	\$ 2,023,534	\$ 620,121	\$ 1,403,413	

Included in property and equipment is property held for disposal with a cost of \$102,279,000 (1997 - \$69,917,000) and accumulated depreciation of \$36,746,000 (1997 - \$31,254,000). The Corporation capitalized interest of \$2,200,000 (1997 - \$1,845,000) for property and equipment under construction. The interest capitalized related to the Corporation's new-format store program.

## 5. LONG-TERM DEBT

(Dollars in thousands)	1998	1997
Obligation under mortgage payable	\$ -	\$ 401
Unsecured debt		
Medium Term Notes at rates from 5.40% to 8.20% maturing at various dates to 2028	515,000	80,000
10.40% Series 1 Debentures, maturing January 14, 2000 (Series 1 Debentures)	150,000	150,000
12.10% Debentures, maturing May 10, 2010 (2010 Debentures)	150,000	150,000
<b>Total – net of current portion</b>	<b>\$ 815,000</b>	<b>\$ 380,401</b>

### Medium Term Notes

Certain of the Medium Term Notes are redeemable by the Corporation, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption.

### Series 1 Debentures

The Series 1 Debentures are redeemable by the Corporation, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption.

### 2010 Debentures

The 2010 Debentures are redeemable by the Corporation, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption. Commencing with the quarter ended October 1, 1994, and for each subsequent quarter, the Corporation may (subject to availability and pricing) be required to purchase up to 1.15 percent of the 2010 Debentures outstanding at the beginning of such quarter. To date, no such purchases have been made.

### Debt covenants

The Corporation has provided covenants to certain of its lenders. All of the covenants were complied with during 1998 and 1997.

### Repayment requirements

(Dollars in thousands)	1999	2000	2001	2002	2003	Thereafter	Total
Mortgages payable	\$ 951	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 951
Medium Term Notes	-	50,000	-	30,000	135,000	300,000	515,000
Series 1 Debentures	-	150,000	-	-	-	-	150,000
2010 Debentures	-	-	-	-	-	150,000	150,000
	\$ 951	\$ 200,000	\$ -	\$ 30,000	\$ 135,000	\$ 450,000	\$ 815,951

On January 18, 1999, the Corporation completed an issuance of \$200 million of unsecured Medium Term Notes which mature on January 16, 2006, and bear interest at 5.65 percent. On February 22, 1999, the Corporation issued an additional \$85 million of unsecured Medium Term Notes which mature on June 1, 2004, and which bear interest at 5.25 percent.

## 6. SHARE CAPITAL

(Dollars in thousands)		1998	1997
<b>Authorized</b>			
3,423,366	Common Shares (1997 – 3,430,750)		
100,000,000	Class A Non-Voting Shares		
<b>Issued (including shares held in treasury)</b>			
3,423,366	Common Shares (1997 – 3,430,750)	\$ 177	\$ 178
88,250,161	Class A Non-Voting Shares (1997 – 88,242,777)	318,381	318,380
		<b>\$ 318,558</b>	<b>\$ 318,558</b>

During 1998 and 1997, the Corporation reissued and repurchased Class A Non-Voting Shares. Although all Class A Non-Voting Shares repurchased by the Corporation are restored to the status of authorized and unissued, for accounting purposes shares so repurchased are considered to be held in treasury at cost and available for reissue. The net excess of the reissue price over cost was added to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares held in treasury during 1998 and 1997:

(Dollars in thousands)	1998		1997	
	Number	\$	Number	\$
Shares held in treasury at the beginning of the year	9,451,506	200,648	5,277,922	83,831
Reissued	(1,570,623)	(44,280)	(2,126,416)	(44,831)
Repurchased	5,900,000	218,001	6,300,000	158,740
Excess of reissue price over cost	–	5,659	–	2,908
Shares held in treasury at the end of the year	13,780,883	380,028	9,451,506	200,648

As at January 2, 1999 the outstanding number of Common and Class A Non-Voting Shares (net of shares held in treasury) was 77,892,644 (1997 – 82,222,021).

From January 3, 1999 to March 4, 1999, the Corporation repurchased 1,310,700 and reissued 277,221 Class A Non-Voting Shares for a net cost of \$45,888,000.

### 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 by the *Business Corporations Act* (Ontario) 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.

## 6. SHARE CAPITAL (continued)

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. Neither the Class A Non-Voting Shares nor the Common Shares can be changed by way of subdivision, consolidation, reclassification, exchange or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

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 the 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.

As at January 2, 1999, the Corporation had dividends payable to Class A Non-Voting and Common shareholders of \$7,800,000 (1997 – \$8,553,000).

### Stock options

The Corporation has granted options to certain employees for the purchase of Class A Non-Voting Shares, with vesting occurring on a graduated basis over a number of years. These options were granted at prices between \$10.848 and \$40.372, and expire between February 1999 and November 2008.

Stock option transactions during 1998 and 1997 were as follows:

(Number of Shares)	1998	1997
Outstanding at beginning of year	<b>3,232,525</b>	3,807,755
Granted	<b>507,126</b>	594,877
Exercised	<b>(579,337)</b>	(909,550)
Terminated	<b>(122,315)</b>	(260,557)
Outstanding at end of year	<b>3,037,999</b>	3,232,525

Since 1988 the Corporation has followed a no dilution policy. As a result, the exercise of stock options is not expected to dilute earnings per share and, accordingly, fully diluted earnings per share are not presented.

## 7. INCOME TAXES

(Dollars in thousands)	1998	1997
Income taxes based on a combined Canadian federal and provincial income tax rate of 43.7% (1997 – 43.9%)	<b>\$ 109,124</b>	\$ 91,969
Adjustment to income taxes resulting from:		
Lower income tax rate on earnings of foreign subsidiaries	<b>(31,632)</b>	(34,232)
Large corporations tax	<b>4,670</b>	2,717
Non-taxable dividends	<b>–</b>	(75)
Other	<b>570</b>	548
	<b>\$ 82,732</b>	\$ 60,927

## 8. 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 2024. Under sublease arrangements with Associate Dealers, the majority of these properties are income-producing. The minimum annual rental payments required in each of the next five years and thereafter are approximately \$54 million for each of the years 1999 to 2003 and approximately \$288 million cumulatively from 2004 to 2024.

## 9. COMMITMENTS AND CONTINGENCIES

As at January 2, 1999, the Corporation had commitments of approximately \$44 million for the acquisition of property and equipment and the expansion of retail store facilities, as well as a minimum of \$31 million for the acquisition of processing services.

The Corporation has committed to letters of credit and guarantees of letters of credit aggregating approximately \$128 million. These commitments relate to the financing of its merchandise operations and construction projects.

The Corporation and certain of its subsidiaries are party to a number of legal proceedings. The Corporation believes that each such proceeding constitutes routine litigation incidental to the business conducted by the Corporation and that the ultimate disposition of these matters will not have a material adverse effect on its consolidated earnings, cash flow or financial position.

A significant challenge to all businesses is the need to address the impact of the century date change on information systems. Many information systems have been designed to identify years only by the last two digits rather than four, a situation that could cause business disruptions if not addressed. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Corporation, including those related to customers, suppliers, or other third parties will be fully resolved.

## 10. FINANCIAL INSTRUMENTS

The purpose of this note is to disclose the Corporation's exposure related to financial instruments.

### Off-balance sheet financial instruments

The Corporation enters into interest rate swap contracts with approved creditworthy counterparties, to manage the Corporation's current and anticipated exposure to interest rate risks. The Corporation also enters into foreign exchange contracts, primarily in U.S. dollars, to hedge purchases of foreign-denominated goods and services that are expected to be completed within a four- to six-month period. The Corporation does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the Consolidated Balance Sheets.

10. FINANCIAL INSTRUMENTS (continued)

As at January 2, 1999, outstanding off-balance sheet financial instruments of the Corporation are summarized as follows:

(Dollars in thousands)	Notional amounts maturing in				1998 Total	1997 Total
	Less than 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years		
Interest rate swap contracts	\$ -	\$576,000	\$200,000	\$100,000	\$876,000	\$726,000
Foreign exchange contracts <sup>1</sup>	\$448,819	\$ -	\$ -	\$ -	\$448,819	\$208,080

<sup>1</sup> May include both forward contracts and options.

For the year ended January 2, 1999, interest expense included approximately \$3,300,000 (1997 - \$7,500,000) relating to interest rate swaps. Any unsettled interest differentials outstanding at year-end were accrued for and included in accounts payable and other.

Fair value of financial instruments

The estimated fair values of financial instruments as at January 2, 1999 and January 3, 1998 are based on relevant market prices and information available at that time. The fair value estimates below are not necessarily indicative of the amounts that the Corporation might receive or pay in actual market transactions. For financial instruments that are short-term in nature, carrying value approximates fair value. The fair values of other financial instruments are as follows:

(Dollars in thousands)	1998		1997	
	Book Value	Fair Value	Book Value	Fair Value
<b>Financial assets and liabilities</b>				
Loans and mortgages receivable	\$ 11,402	\$ 11,766	\$ 13,557	\$ 14,081
Long-term debt	\$ (815,000)	\$ (902,753)	\$ (380,401)	\$ (474,637)
<b>Off-balance sheet financial instruments</b>				
Interest rate swap contracts	\$ -	\$ (11,809)	\$ -	\$ (9,115)
Foreign exchange contracts	\$ -	\$ 469	\$ -	\$ 375

The fair values of loans and mortgages receivable and long-term debt were estimated based on quoted market prices (when available) or discounted cash flows, using discount rates based on market interest rates and the Corporation's credit rating. The fair value of interest rate swap contracts was estimated by comparing the appropriate yield curves with matching terms and maturities. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates. For both interest rate swap and foreign exchange contracts, the fair values reflect the estimated amounts that the Corporation would receive or pay if it was to unwind the contracts at the reporting date.

10. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The following table identifies the Corporation's financial assets and liabilities that are sensitive to interest rate movements and those that are non-interest rate sensitive as they are either non-interest bearing or bear interest at fixed rates.

(Dollars in thousands)	1998		1997	
	Interest Sensitive	Non-Interest Sensitive	Interest Sensitive	Non-Interest Sensitive
Cash and short-term investments	\$ 308,392	\$ -	\$ 263,422	\$ -
Credit charge receivables	-	372,511	-	404,695
Commercial paper	(181,768)	-	(362,905)	-
Long-term debt (including current portion)	-	(815,951)	-	(420,401)
Net position	\$ 126,624	\$ (443,440)	\$ (99,483)	\$ (15,706)

The Corporation enters into interest rate swap contracts to manage its exposure to interest rate risk. As at January 2, 1999, the Corporation had entered into contracts that fixed interest rates on a net notional amount of \$214 million of floating rate debt (1997 - \$264 million). These contracts hedged both the Corporation's net balance sheet interest rate sensitivity position and the interest rate exposure related to anticipated net funding requirements as at both January 2, 1999 and January 3, 1998. As a result, a one percent change in interest rates would not materially affect the Corporation's earnings, cash flow or financial position.

Credit Risk

The Corporation's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Associate Dealers who individually comprise less than three percent of the total balance outstanding and are spread across Canada. Similarly, credit charge receivables are generated by credit card customers, a large and geographically dispersed group. Current credit exposure is limited to the loss that would be incurred if all the Corporation's counterparties were to default at the same time. It is the current replacement value of only those contracts which are in a gain position. The credit exposure due to interest rate swap and foreign exchange contracts as at January 2, 1999 was \$28 million (1997 - \$29 million). The Corporation believes that its exposure to credit and market risks for these instruments is negligible.

## 11. SEGMENTED INFORMATION

The Corporation's reportable operating segments are strategic business units that offer different products and services. The Corporation has three reportable operating segments: Canadian Tire Retail ("CTR"), Financial Services and Canadian Tire Petroleum ("Petroleum"). CTR derives its revenue primarily from shipments of merchandise to the Associate Dealers. Financial Services is primarily engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards and Options Mastercard. Petroleum revenue arises from the sale of petroleum products through its outlets.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Corporation evaluates performance based on earnings before income taxes. The only significant non-cash item included in segment earnings before income taxes is depreciation and amortization.

(Dollars in thousands)	CTR		Financial Services		Petroleum		Eliminations		Total	
	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
Gross operating revenue <sup>1</sup>	\$3,511,695	\$3,180,987	\$ 305,391	\$ 310,248	\$ 530,197	\$ 596,567	\$ -	\$ -	\$4,347,283	\$4,087,802
Earnings before income taxes	\$ 189,468	\$ 161,161	\$ 51,860	\$ 42,975	\$ 8,384	\$ 5,362	\$ -	\$ -	\$ 249,712	\$ 209,498
Income taxes									(82,732)	(60,927)
Net earnings									\$ 166,980	\$ 148,571
Interest revenue <sup>2</sup>	\$ 19,803	\$ 14,789	\$ 5,442	\$ 3,991	\$ -	\$ -	\$ (11,022)	\$ (9,145)	\$ 14,223	\$ 9,635
Interest expense <sup>2</sup>	\$ 76,873	\$ 65,710	\$ 8,606	\$ 6,997	\$ -	\$ -	\$ (11,022)	\$ (9,145)	\$ 74,457	\$ 63,562
Depreciation and amortization	\$ 66,614	\$ 57,036	\$ 13,659	\$ 16,268	\$ 6,447	\$ 6,558	\$ -	\$ -	\$ 86,720	\$ 79,862
Total assets	\$2,882,046	\$2,527,170	\$ 516,605	\$ 639,269	\$ 218,410	\$ 143,515	\$ (451,181)	\$ (434,914)	\$3,165,880	\$2,875,040
Capital expenditures	\$ 270,909	\$ 238,038	\$ 20,964	\$ 14,118	\$ 11,185	\$ 1,332	\$ -	\$ -	\$ 303,058	\$ 253,488

<sup>1</sup> Gross operating revenue includes interest revenue.

<sup>2</sup> Interest revenue and expense are not allocated to Petroleum for performance evaluation purposes.

## 12. COMPARATIVE FIGURES

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

**TEN-YEAR FINANCIAL REVIEW**

(Dollars in thousands except per share amounts)	1998	1997*	1996
<b>Consolidated Statements of Earnings</b>			
Gross operating revenue	<b>\$ 4,347,283</b>	\$ 4,087,802	\$ 3,930,400
Operating earnings before depreciation and applicable financing charges	<b>404,079</b>	345,179	320,930
Earnings from continuing operations before income taxes	<b>249,712</b>	209,498	195,914
Income taxes	<b>82,732</b>	60,927	64,018
Net earnings from continuing operations	<b>166,980</b>	148,571	131,896
Discontinued operations	-	-	-
Net earnings	<b>166,980</b>	148,571	131,896
Cash generated from operations	<b>259,838</b>	236,692	205,880
Cash generated from operating activities	<b>313,116</b>	202,042	234,352
Earnings retained and reinvested	<b>134,928</b>	115,240	96,978
Capital expenditures	<b>303,058</b>	253,488	220,728
<b>Consolidated Balance Sheets</b>			
Current Assets	<b>\$ 1,506,271</b>	\$ 1,438,276	\$ 1,339,790
Long-term receivables and other assets	<b>41,088</b>	33,351	34,131
Property and equipment	<b>1,618,521</b>	1,403,413	1,230,135
Total assets	<b>3,165,880</b>	2,875,040	2,604,056
Current liabilities	<b>1,054,614</b>	1,167,330	863,636
Long-term debt (excludes current portion)	<b>815,000</b>	380,401	420,401
Deferred income taxes	<b>34,714</b>	28,734	20,632
Shareholders' equity	<b>1,261,552</b>	1,298,575	1,299,387
<b>Consolidated Per Share</b>			
Net earnings from continuing operations	<b>\$ 2.09</b>	\$ 1.79	\$ 1.51
Net earnings	<b>2.09</b>	1.79	1.51
Cash generated from operating activities	<b>3.92</b>	2.43	2.69
Dividends paid	<b>0.40</b>	0.40	0.40
Shareholders' equity	<b>16.20</b>	15.79	15.04
<b>Statistics at year-end</b>			
Number of Associate Stores	<b>430</b>	430	426
Number of petroleum outlets	<b>195</b>	193	197
Number of registered Class A Non-Voting shareholders	<b>7,354</b>	6,999	8,297
Number of registered Common shareholders	<b>494</b>	519	569

\* 53-week period

	1995	1994	1993	1992*	1991	1990	1989
	\$ 3,795,641	\$ 3,618,530	\$ 3,432,024	\$ 3,209,477	\$ 3,009,566	\$ 3,095,973	\$ 2,980,084
	319,174	305,575	281,660	249,835	297,955	311,652	307,562
	189,622	185,615	162,980	131,062	219,889	246,109	254,306
	67,872	70,846	62,596	44,622	87,832	101,743	104,690
	121,750	114,769	100,384	86,440	132,057	144,366	149,616
	-	(109,277)	(18,979)	(14,147)	(4,981)	-	-
	121,750	5,492	81,405	72,293	127,076	144,366	149,616
	198,741	156,667	151,773	166,234	179,961	185,025	174,576
	67,988	118,067	242,639	148,380	214,478	231,882	254,750
	86,557	(29,946)	45,129	36,417	90,981	109,942	122,426
	195,045	90,567	42,362	87,603	177,826	249,698	142,059
	\$ 1,558,584	\$ 1,655,445	\$ 1,388,091	\$ 1,308,082	\$ 1,225,266	\$ 1,148,711	\$ 1,106,817
	30,035	28,669	21,862	28,102	24,169	14,484	17,116
	1,085,887	984,749	990,326	1,009,046	970,680	821,723	606,409
	2,674,506	2,668,863	2,400,279	2,345,230	2,220,115	1,984,918	1,730,342
	911,009	1,044,418	691,610	698,755	653,298	522,881	495,337
	509,241	465,027	474,555	449,331	428,447	421,123	308,080
	14,914	7,312	25,782	41,404	24,180	13,657	6,325
	1,239,342	1,152,106	1,208,332	1,155,740	1,114,190	1,027,257	920,600
	\$ 1.38	\$ 1.30	\$ 1.11	\$ 0.96	\$ 1.46	\$ 1.60	\$ 1.65
	1.38	0.06	0.90	0.80	1.41	1.60	1.65
	0.77	1.34	2.68	1.65	2.38	2.57	2.81
	0.40	0.40	0.40	0.40	0.40	0.38	0.30
	14.00	13.03	13.40	12.87	12.40	11.44	10.23
	424	423	425	424	420	418	414
	199	202	208	213	207	192	173
	8,308	9,294	10,525	10,871	11,012	11,795	11,540
	571	602	640	674	694	721	726

At Canadian Tire, we work hard to be the best at what our customers value most. We believe they value a cleaner environment, and that is why we have dedicated ourselves over many years to providing leadership among Canadian retailers on waste management, product recycling and environmental stewardship.

Canadian Tire has been acknowledged by governments and consumers alike for its efforts to recycle materials that would otherwise be sent to landfill sites. Our Supply Chain team continues to divert the vast majority of its waste materials from landfill. In 1998, Supply Chain recycled, for example, 1,881 tonnes of old corrugated cardboard; 218 tonnes of scrap metal; and 454 tonnes of stretch film.

During 1998, we participated in Rechargeable Battery Recycling in Canada's *Charge Up to Recycle!* program for rechargeable nickel-cadmium (Ni-Cd) batteries. The program allows customers to drop their Ni-Cd batteries for recycling at Canadian Tire stores at no cost. We have been so impressed with the quality and importance of the initiative that we presented the Canadian Household Battery Association with Canadian Tire's 1998 *Vendor Environmental Award of Excellence*.

We have encouraged the recycling of scrap vehicle batteries since 1992. In partnership with our vendor, Exide Canada, Canadian Tire collected and recycled approximately 20 million pounds of scrap batteries last year, up from 19 million pounds in 1997. We also recovered over five million litres of used oil from our installed oil change business as well as from do-it-yourself customers.

The Canadian Tire *Community Environmental Awards* had a very successful second year in 1998. Under this program, employees of Associate Stores can request financial support for non-profit projects that make a significant contribution to the environment in their local community. Eleven awards of up to \$1,000 each were made during 1998. Among the projects receiving the grants were the creation of osprey nesting platforms in Campbellford, Ontario; an Earth Day planting project in St. Eustache, Quebec; the installation of bluebird nesting boxes in Lethbridge, Alberta; and a cleanup and replanting project in Smiths Falls, Ontario made necessary by the ice storm earlier in the year.

#### Health and Safety

During 1998, we continued to refine Canadian Tire's program for Health and Safety Management Systems. Health and safety structures were reviewed and enhanced, with ongoing training and compliance remaining a priority; the promotion of personal health through our Wellness Program was also an important initiative. The construction health and safety program, launched in our Real Estate operations during 1997, was extended in 1998 to include a pre-qualification screening process regarding occupational health and safety for new contractors.

Canadian Tire's Material Safety Data Sheet Faxback program is a free service that enables employees or customers to request automated health and safety information on chemical products sold in Associate Stores. The Environmental and Product Safety Department sent out approximately 8,000 data sheets to customers in 1998.

The 35,000 employees of Canadian Tire and the Associate Dealers take deep pride in their active involvement in the communities we serve across Canada. Together, we support many philanthropic and humanitarian activities, both nationally and locally. The Corporation's objective is to commit one percent of pre-tax profits on a trailing three-year average to encourage worthy projects for improvement of community welfare, education, health, sports and culture and the environment. Associate Dealers and their employees, as well as Canadian Tire Financial Services and its employees, are also very generous in supporting their local charities, hospitals, food banks, sporting events and special community projects.

Since 1993, we have given a substantial amount of attention and funding to the activities of the Canadian Tire Child Protection Foundation. The Foundation has supported six national programs – in some cases providing the startup funding – that are dedicated to childhood safety and prevention of injury. While Canadian Tire will maintain its commitment to child protection, and continues to endorse the programs sponsored by its partners, during 1998 we received extensive input from customers that convinced us of the need for a new mandate for the Foundation's charitable activities.

In the coming year, we will formally launch a new charitable foundation, the Canadian Tire Foundation for Families. Recent natural disasters such as the flooding of the Red and Saguenay rivers, the ice storm in eastern Canada and forest fires in British Columbia have made obvious the need to be prepared to provide relief to our fellow Canadians in times of crisis. Through the Foundation for Families, we will lend a helping hand to families and communities when they need it most. The Foundation will have four major initiatives: national campaigns to collect and distribute goods that provide basic needs; fundraising promotions to raise funds that support community needs; major disaster response for relief and recovery; and local programs initiated and run by Canadian Tire employees to help communities and families.

In times of community crisis, Canadians often turn to Canadian Tire to help with the basics of life. It is our duty, and our privilege, to be of assistance during their time of need. With these new emergency response programs, and the continuing work of employees in cities and towns across Canada, the Foundation for Families will enable us to do an even better job of supporting those who have supported Canadian Tire for more than three quarters of a century.

CANADIAN TIRE  
CORPORATION, LIMITED

*DIRECTORS*

**Stephen E. Bachand**

President and  
Chief Executive Officer  
of the Corporation

**Gilbert S. Bennett**

Chairman of the Board  
of the Corporation,  
Corporate Director and Consultant

**Martha G. Billes**<sup>1,4</sup>

Chairman, Governance Committee,  
President of Tire 'N' Me Pty. Ltd.,  
an investment holding company

**Gordon F. Cheesbrough**<sup>2,4</sup>

President and Chief Executive Officer,  
Altamira Investment Services Inc.,  
an investment management  
company

**Lilia C. Clemente**<sup>2,3</sup>

Chairman and Chief Executive Officer,  
Clemente Capital, Inc.,  
a New York-based  
investment management company

**Austin E. Curtin**<sup>2,3</sup>

President, Austin Curtin Sales Ltd.,  
which operates Canadian Tire  
Associate Stores

**James D. Fisher**<sup>2,3</sup>

President,  
Thalemacus Corporation Limited,  
an investment and  
consulting company

**H. Earl Joudrie**<sup>1,4</sup>

Chairman, Management Resources  
and Compensation Committee,  
Chairman of the Board,  
Gulf Canada Resources Limited,  
an international, independent  
oil and gas exploration  
and production company

**Donald C. Lowe**<sup>1,3</sup>

Corporate Director

**Rémi Marcoux, FCA**<sup>1,3</sup>

Chairman of the Board and  
Chief Executive Officer,  
GTC Transcontinental Group Ltd.,  
a company holding interests in  
printing and publishing companies

**Ronald Y. Oberlander**<sup>1,4</sup>

Operating Chairman of the Board,  
Abitibi-Consolidated Inc.,  
a producer of newsprint  
and uncoated groundwood papers

**Frank Potter**<sup>2,3</sup>

Chairman,  
Social Responsibility Committee,  
Chairman,  
Emerging Market Advisors Inc.,  
a consulting firm dealing  
with foreign direct investment

**Gordon C. Reid**<sup>3,4</sup>

Retired Canadian Tire  
Associate Dealer,  
President, Gencon Investments Ltd.,  
an investment holding company

**Maureen J. Sabia**<sup>1,2</sup>

Chairman, Audit Committee,  
President,  
Maureen Sabia International,  
a consulting firm

**Graham W. Savage**<sup>2,4</sup>

Managing Director,  
Savage Walker Capital Inc.,  
a merchant banking company

**John M. Stransman**<sup>1,4</sup>

Partner,  
Stikeman, Elliott,  
Barristers & Solicitors  
a Canadian law firm

*BOARD COMMITTEES*

<sup>1</sup> **Management Resources and  
Compensation Committee**

Chairman, H. Earl Joudrie

<sup>2</sup> **Audit Committee**

Chairman, Maureen J. Sabia

<sup>3</sup> **Social Responsibility Committee**

Chairman, Frank Potter

<sup>4</sup> **Governance Committee**

Chairman, Martha G. Billes

*DIRECTORS AND OFFICERS (continued)*

*CANADIAN TIRE  
CORPORATION, LIMITED*

*OFFICERS*

**Gilbert S. Bennett**

Chairman of the Board

**Stephen E. Bachand**

President and Chief Executive Officer

**Gerald S. Kishner**

Executive Vice-President,  
Finance and Administration  
and Chief Financial Officer

**Wayne C. Sales**

Executive Vice-President,  
Canadian Tire Retail

**A. Mark Foote**

Vice-President,  
Information Technology and  
Chief Information Officer

**Thomas K. Gauld**

President,  
Canadian Tire Acceptance, Limited

**Alan B. Goddard**

Vice-President,  
Corporate Affairs

**Robert Law, Q.C.**

Secretary and General Counsel

**Raymond J. McDonald**

Senior Vice-President,  
Direct Marketing Businesses

**Stanley W. Pasternak**

Vice-President and Treasurer

**John J. Rankin**

Senior Vice-President,  
Organizational Development

**Jim Ryan**

Senior Vice-President,  
Dealer Relations

**Ralph E. Trott**

Senior Vice-President,  
New Business Development

**Andrew T. Wnek**

Vice-President, Canadian Tire Retail  
Finance and Administration

**Glenn A. Barrett**

Assistant Treasurer

**QUARTERLY INFORMATION**  
**FISCAL 1998**

(Dollars in thousands except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter*	Total
<b>Gross operating revenue</b>	\$ 855,507	\$ 1,244,036	\$ 1,110,648	\$ 1,137,092	\$ 4,347,283
<b>Operating expenses</b>	814,078	1,179,401	1,036,461	1,067,631	4,097,571
<b>Earnings before income taxes</b>	41,429	64,635	74,187	69,461	249,712
<b>Income taxes</b>	12,615	20,363	24,309	25,445	82,732
<b>Net earnings</b>	\$ 28,814	\$ 44,272	\$ 49,878	\$ 44,016	\$ 166,980
<b>Net earnings per share</b>	\$ 0.35	\$ 0.55	\$ 0.63	\$ 0.56	\$ 2.09

**FISCAL 1997**

Gross operating revenue	\$ 833,484	\$ 1,099,890	\$ 1,039,561	\$ 1,114,867	\$ 4,087,802
Operating expenses	797,223	1,045,933	975,452	1,059,696	3,878,304
Earnings before income taxes	36,261	53,957	64,109	55,171	209,498
Income taxes	10,559	16,084	19,577	14,707	60,927
Net earnings	\$ 25,702	\$ 37,873	\$ 44,532	\$ 40,464	\$ 148,571
Net earnings per share	\$ 0.30	\$ 0.45	\$ 0.54	\$ 0.50	\$ 1.79

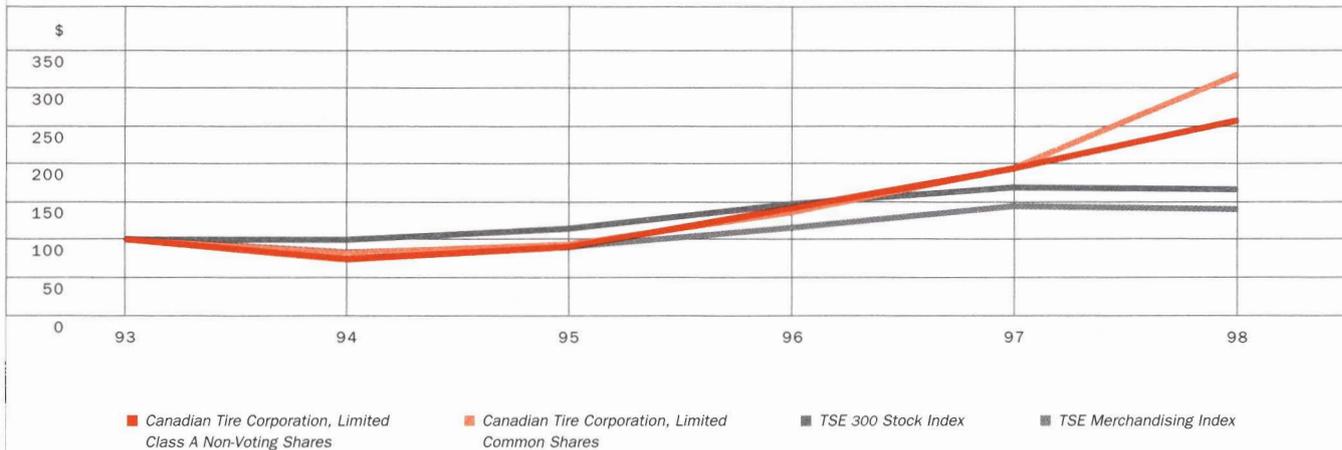
\* 4th quarter results reflect a 13-week period in 1998 compared to a 14-week period in 1997.

**STOCK PERFORMANCE CHART**

The following graph assumes that \$100 was invested over a five-year period commencing on the last day of December 1993, and compares the yearly percentage change in the cumulative total shareholder return over those five years on the Corporation's Common and Class A Non-Voting Shares with the cumulative total returns of the TSE 300 Stock Index and the TSE Merchandising Index, respectively, assuming in each case reinvestment of dividends at 100 percent of the market price on a quarterly basis.

**CUMULATIVE TOTAL SHAREHOLDER RETURN**

December 1993 through December 1998  
(assuming \$100 invested in December 1993)



## SHAREHOLDER AND CORPORATE INFORMATION

### HOME OFFICE

#### Canadian Tire Corporation, Limited

2180 Yonge Street  
P.O. Box 770, Station K  
Toronto, Ontario M4P 2V8  
Telephone (416) 480-3000  
Fax (416) 544-7715  
Web site: [www.canadiantire.ca](http://www.canadiantire.ca)

### CORPORATE AND SHAREHOLDER INFORMATION

#### Alan B. Goddard

Vice-President, Corporate Affairs  
Telephone (416) 480-3660

#### Robert J. Tait

Director, Investor Relations  
Telephone (416) 480-3207

### ANNUAL MEETING OF SHAREHOLDERS

Royal York Hotel  
Canadian Room  
100 Front Street West  
Toronto, Ontario  
Thursday, May 6, 1999  
at 10:00 A.M.

### EXCHANGE LISTINGS

The Toronto Stock Exchange  
The Montreal Exchange  
Common Shares (CTR)  
Class A Non-Voting Shares (CTR.A)

### SOLICITORS

Cassels, Brock & Blackwell

### AUDITORS

Deloitte & Touche LLP  
Chartered Accountants

### BANKERS

Canadian Imperial Bank of Commerce  
Bank of Montreal  
Royal Bank of Canada  
The Toronto-Dominion Bank

### REGISTRAR AND TRANSFER AGENT

Montreal Trust Company Of Canada  
Head Office  
151 Front Street West, 8th Floor  
Toronto, Ontario M5J 2N1  
Telephone (416) 981-9633

To change your address, eliminate multiple mailings, transfer Canadian Tire shares, inquire about our Dividend Reinvestment Program or for other shareholder account inquiries, please contact the principal offices of Montreal Trust in Halifax, Montreal, Toronto, Winnipeg, Calgary or Vancouver.

### TRADEMARKS IN THIS ANNUAL REPORT

Auto PartSource  
Canadian Tire Auto Club  
Canadian Tire Receivables Trust  
MasterCard  
Options  
Professional Dispatch Group

### RECYCLING

This report has been printed on recyclable acid-free papers. The uncoated paper contains 20% post-consumer waste.

### VERSION FRANÇAISE DU RAPPORT

Pour obtenir la version française du rapport annuel de Canadian Tire, veuillez vous adresser au Service des relations extérieures en composant le (416) 480-3660 ou écrire à :  
La Société Canadian Tire  
C.P. 770, succursale K  
Toronto (Ontario) M4P 2V8



*Still the right place*