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CANADIAN TIRE CORPORATION, LIMITED offers a unique mix of products and services through three distinct yet inter-dependent businesses. Together, these businesses form a very competitive package of location, price, service and assortment that meets the needs of our customers for total value.

With 430 stores across the country, CANADIAN TIRE RETAIL and the Associate Dealers are Canada's leading hardgoods retailer. Retail offers customers the convenience of three specialty stores under one roof – Automotive, Sports and Leisure, and Home Products – each with a very competitive assortment of merchandise and everyday low prices. CANADIAN TIRE FINANCIAL SERVICES is engaged primarily in financing and administering credit card accounts for retail and petroleum customers. Financial Services also supports our retail activities by managing our *Options*[®] loyalty program, operating *Canadian Tire Auto Club*[™] and marketing other financial and telecommunications products to our customers. CANADIAN TIRE PETROLEUM is the country's largest independent retailer of gasoline. Petroleum enhances our competitive offering to customers with merchandise cross-promotions, the issuance of Canadian Tire 'Money' and the convenience of on-site Petroleum products.

The 34,000 employees of Canadian Tire and the Associate Dealers share a common vision:

TO BE THE BEST AT WHAT OUR CUSTOMERS VALUE MOST.

strategy

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Our vision and mission have formed the foundation for every strategy and tactic which Canadian Tire has considered, tested and rolled out since 1993. They will continue to define Canadian Tire's unique strategic agenda for the future; a future that we believe is a very promising one for our customers, employees and shareholders.



1

I know what I want and at Canadian Tire they have what I want. I have a wide selection of products in different price ranges.

Mary, a Canadian Tire customer

2

What do customers want when they go to Canadian Tire? We want to know. That's why Canadian Tire Marketing conducts qualitative and quantitative research with thousands of consumers each year. By listening to understand the perceptions, attitudes, habits and usage of Canadian Tire customers, we can use this very detailed "drill-down" information to design new marketing strategies and merchandising concepts that meet their expectations. Our desire to truly understand the specific needs of shoppers in every product line we offer led to very successful tests of numerous strategies in the past two years, including our "parts store within a store", "tire store within a store" and Auto PartSource concepts. During 1998, Marketing will roll out the strategic concepts

on listening

developed for our Sports and Leisure categories and begin the drill-down process in Hardware and Home Improvement lines. We'll be listening for the response.

3

Canadian consumers are very knowledgeable. They're looking for the ultimate value as they define it, be it price, quality, brands, service, convenience or some combination of these. That's why we're using in-depth research to learn about, and then deliver, what each customer group really values.

Wayne Sales,

Senior Vice-President, Marketing





NATIONAL AND RETAIL BRANDS GIVE CUSTOMERS THE CHOICE THEY TELL US THEY EXPECT AT CANADIAN TIRE.



1 At Canadian Tire, when they advertise stock on sale I expect them to have it.

Aweys, a Canadian Tire customer

2

When people shop at Canadian Tire, they expect the products they want will be available at a price they are willing to pay. Thanks to a very cooperative partnership between Canadian Tire and its vendors, higher service levels to Canadian Tire stores ensured more "product when you want it" throughout 1997. The Supply Chain team also reduced the time to pick up and receive new inventory and increased the number of vendors wired to Canadian Tire through electronic

commerce. These and other process improvements set the stage for a Supply Chain and Information Technology team to roll out a leading-edge electronic inventory forecasting and replenishment system. Enhancements like these lead not only to ensuring more products on the shelves when customers want them, but also to lower costs across the entire supply chain. And that means customers can expect to find lower everyday prices at Canadian Tire.

3

When an item is advertised in the flyer, customers expect us to have product when they want it any time during the sale event. We've made big gains in the past three years in ensuring they're satisfied.

*Ray McDonald,
Senior Vice-President,
Supply Chain*





REDUCED CYCLE TIME IN THE SUPPLY CHAIN MEANS MORE PRODUCT ON THE SHELVES FOR CUSTOMERS.



1

I can go to Canadian Tire on a whim because it's in my neighbourhood. It's inviting. I know where everything is.

Ronald, a Canadian Tire customer

2

on convenience

We know that one of the things customers value most is the ease with which they can get to a Canadian Tire store. We are making sure that this competitive advantage remains an important feature of shopping

at Canadian Tire during the roll-out of our new-format stores. With nearly all of these larger stores located in mature markets, our Real Estate team has done an excellent job of securing exceptionally well-located replacement or expansion sites. The team again met an aggressive schedule of store planning and construction, opening 36 new-format stores in 1997 and bringing the total to 103 stores. Real Estate also built and opened three Auto PartSource test stores and completed ten major projects upgrading selected stores to the new-format "look and merchandising presentation." By the end of 1998, the Real Estate team expects to complete another 31 new-format stores, all with the same convenience of location customers have come to rely on from Canadian Tire.

3

Our goal with the new-format store program is to ensure that our stores are in prime locations in all markets. The convenient locations of our stores are a big part of the value we offer to customers.

*Ken Silver,
Vice-President,*





NINETY PERCENT OF CANADIANS LIVE WITHIN A CONVENIENT 15-MINUTE DRIVE OF AT LEAST ONE CANADIAN TIRE STORE.



1

Canadian Tire stands behind what they sell. Their satisfaction guaranteed policy reassures me about shopping at Canadian Tire.

Walter, a Canadian Tire customer

2

Does customer service ever get too good?

We believe service excellence is a process of incremental improvement that never ends. The Associate Dealers agree. To improve service, Dealers sponsor surveys of customer perceptions of their in-store service experience at Canadian Tire. The ongoing surveys canvas nearly 100,000 shoppers a year and cover all 430 Associate Stores across Canada. Dealers share their store-specific data at regional meetings in order to help each other improve their

customer service. The results to date are gratifying. In a 1997 survey, 89 percent of Canadian Tire shoppers said they were satisfied or very satisfied with the in-store service. That's a significant accomplishment by Associate Dealers and their staff, and one more step down the road to being the best at what our customers value most.

3

Dealers are really committed to improving the in-store experience for customers. That's one reason why Dealer Relations helped survey a record number of customers last year.

*Jim Ryan,
Senior Vice-President,
Dealer Relations*





IN STORES AND IN INTERVIEWS, ASSOCIATE DEALERS ARE LISTENING FOR MORE WAYS TO SATISFY CUSTOMERS.



1

Whether it's your first apartment, home or renovation, the first place you're going is Canadian Tire. Why? You know the prices are right.

Marjorie, a Canadian Tire customer

2

on value

Petroleum provides customers with the most value they can find at the pumps. We offer gasoline at everyday low prices that are competitive with any retailer in our markets, then add value with special offers and discounts. Like Canadian Tire 'Money' that allows cash buyers to save even more on in-store purchases. Like coupons available only at Canadian Tire gas bars offering deep discounts on selected in-store merchandise or like

GasAdvantage, which gives credit customers instant discounts at the pump based on their previous month's purchases at our gas bars and Associate Stores. During 1998, Petroleum will continue to add value for its customers through a planned multi-year program to renovate Petroleum gas bar sites for greater customer convenience.

3

I think their gasoline prices are competitive with just about anybody. It's Canadian Tire 'Money' and those discount coupons for special products that make their gas a really good deal.

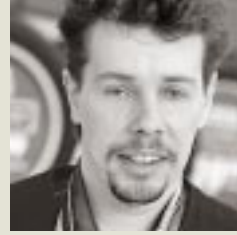
Steve, a Canadian Tire customer





4

VALUE AT CANADIAN TIRE PUMPS MEANS A LOT MORE THAN JUST COMPETITIVELY PRICED GASOLINE.



I like Canadian Tire because when you shop there, you get extras like Canadian Tire Money.
 Dennis, a Canadian Tire customer

1

2

Financial Services believes that if we are the best at what our customers value most, we will have customers for life. Financial Services is an important team player in our efforts to create lifetime loyalty with Canadian Tire customers. How? By offering Canadians more value for the things that are important to them. More value in credit options, with the traditional Canadian Tire credit card and new Options MasterCard. More value for purchases, with Canadian Tire 'Money' and Options reward points. More value in family protection, with insurance products for accidents and work disruption.

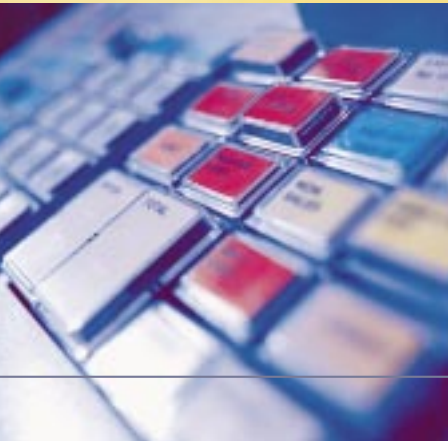
More value in everyday necessities, with a long-distance savings plan and roadside emergency services. More value in service, with a passion to deliver the highest quality of customer service. We believe that's the kind of value that creates customers for life.

on rewards

3 Whether it's Canadian Tire Money, or Options reward points, or everyday low prices, or choice of how you can pay, it's all part of the made better proposition that Canadian Tire offers.

*Tom Gauld,
 President,
 Canadian Tire Acceptance Limited*





CANADIAN TIRE HAS PAYMENT OPTIONS AND LOYALTY REWARDS TO MEET THE NEEDS OF EVERY CUSTOMER.



GILBERT S. BENNETT
Chairman of the Board



STEPHEN E. BACHAND
President and Chief Executive Officer

Nineteen ninety-seven was a year of strategic accomplishment throughout Canadian Tire, with financial performance to match. Consolidated gross operating revenue for the 53-week period increased four percent to a record \$4.06 billion. Consolidated net earnings per share reached \$1.79, an 18 percent improvement over last year's \$1.51. We are pleased with these results because they demonstrate the success of our strategies in repositioning Canadian Tire in the retail hardgoods marketplace.

Last year also marked the fifth consecutive year of increased consolidated net earnings from continuing operations. Over those five years, shareholder value as measured by market valuation increased by more than \$1.5 billion, suggesting that investors as well as customers have taken note of the changes at Canadian Tire.

The specifics that underlie the Company's achievements during 1997 are detailed in Management's Discussion and Analysis of Operations and elsewhere in this report. However, shareholders may want to know why we believe Canadian Tire will be able to follow the successes of its recent past with continuing growth in the future.

That belief begins with our vision.

To Be the Best

By now, Canadian Tire's vision has become second nature to all employees and at least familiar to most shareholders. That vision is "to be the best at what our customers value most." This deceptively simple statement drives the mission for our retail operations: "to be the first choice for Canadians in automotive, sports and leisure, and home products, providing total customer value through customer-driven service, focused assortments and competitive operations."

These touchstones are more relevant than ever in an increasingly competitive retail marketplace. The truth is that our vision and mission have formed the foundation for every strategy and tactic that we have considered, tested and rolled out since 1993. They will continue to define Canadian Tire's unique strategic agenda for the future; a future that we believe is a very promising one for our customers, employees and shareholders. We have at least six reasons for our confidence.

First, Canadian Tire is a permanent "work in progress" because we are not complacent with what we have accomplished. We continually refer to our vision by asking ourselves the questions, "What *do* customers value most today?" and "What will customers value *tomorrow*?" Our answers have resulted in almost constant change as we have implemented dozens of strategic and tactical programs to ensure our merchandising and processes meet customers' needs for value in all aspects of the shopping experience. The past five years have shown that this organization can handle many difficult demands simultaneously. Out of this success in managing change has come a sense of "controlled urgency" at Canadian Tire. We are impatient for change. We want more of it so we can get closer and closer to making our vision a reality for customers.

A second reason for our optimism is our enterprise-wide commitment to thinking and acting like an "integrated retailer". We are a team-based organization. We have a changing roster of cross-functional teams in place to tackle all the key elements in our strategy. Corporate employees, Associate Dealers and their employees and vendors are actively involved with well-defined roles that are helping us to deliver what customers value.

- *Consolidated gross operating revenue for the 53-week period ended January 3, 1998, increased 4.0 percent to \$4.06 billion; this compared to revenue of \$3.90 billion for the 52-week period ended December 28, 1996.*
- *Consolidated net earnings rose 12.6 percent in 1997 to \$148.6 million (\$1.79 per share) from \$131.9 million (\$1.51 per share) in 1996.*
- *In a very competitive market, Canadian Tire Retail achieved higher revenue and improved productivity, increasing operating earnings by 7.2 percent to \$161.2 million in 1997.*
- *Operating earnings for Canadian Tire Financial Services decreased 11.7 percent to \$43.0 million in 1997.*
- *Strong expense controls and stable margins in 1997 enabled Petroleum to produce operating earnings of \$5.4 million compared to a \$3.1 million operating loss for the prior year.*

This cooperative manner of doing things is breaking down organizational barriers and encouraging a cross-fertilization of ideas which results in better decisions.

Third, we have a clear focus on Canadian Tire's strategic agenda. The great value of Canadian Tire's vision and mission is that they give us very clear guidelines for understanding where we are headed as an enterprise as well as for implementing tactical programs that enhance customer-driven service, bring more focus to our offering or make our operations more competitive. In this sense, the "controlled" aspect of "controlled urgency" for change is ensuring that all our tactical plans and resource allocations are aligned with our strategies. Whether our decisions involve people, facilities or procedures, we make certain that everyone at Canadian Tire is able to understand and act on our strategies.

What Customers Value Most

The fourth reason is that we have encouraged a common view of the customer. Our vision is unequivocal: we will be *the best* at what our customers value most. To get ever-closer to achieving that objective, it was necessary to deepen our understanding of what customers *actually* value. Using a process we call "strategic drill-down," we use extensive consumer research to gain a comprehensive insight into what customers expect in their shopping experience. This process underpins the success of our new strategies for categories such as auto parts and tires. Moreover, these successes, and our continual feedback from customers, have given us an appetite for innovative retail concepts that will improve the in-store experience as well as our bottom-line performance.

Dealers, too, are listening to their customers by surveying over 65,000 shoppers each year on customer service. It is making a difference. In a mid-1997 survey, for example, 89 percent of Canadian Tire shoppers indicated they were satisfied or very satisfied with their overall shopping experience. This is gratifying but just one more step in a very long journey of satisfying our customers.

The fifth reason that will help us maintain momentum is the organization's ability to balance "getting on with it" and "getting it right." In 1993, we realized that we were required to "get on with" fundamental change – focusing assortments, investing in stores, improving service and lowering expenses and prices. Though it was a significant challenge for a then-71-year-old company, incremental change alone would not have enabled Canadian Tire to improve its performance in the new competitive environment. With much of that essential work now well underway, Canadian Tire is rolling out its own strategic agenda. We are "getting it right" by fine-tuning our strategies and tactics, listening closely to customers and working as an integrated team to deliver what customers want today.

Finally, we believe the core strengths that will sustain Canadian Tire's performance include the behaviour and values we have developed as a company. Put simply, our people have embraced the effort required to think, feel and act in new ways because they believe they have a goal worth aspiring to and a job worth doing: to be the best at what our customers value most.

These values and behaviours – controlled urgency, team-based leadership, clear strategic focus, common view of the customer, balance of fundamental and incremental change, and a winning attitude – are no guarantee of future performance. But, in our minds, they are the tools that create future revenues, earnings and longevity, which in turn are the basic ingredients of long-term growth in value for shareholders.

Common Share Ownership Change

In August 1997, Martha G. Billes acquired an additional 1,400,767 Common Shares of the Corporation pursuant to a private agreement with her brothers, Alfred Billes and David Billes. With this acquisition, Ms. Billes owns, controls or directs 61.2 percent of the Common Shares of the Corporation, as well as 724,049 Class A Non-Voting Shares.

Board of Directors Changes

During 1997, Alfred W. Billes and David G. Billes stepped down from the Board. Alfred Billes had been a member of Canadian Tire's Board of Directors since 1966 and served on the Board's Management Resources and Compensation, Audit, Social Responsibility and Governance Committees. During his career, he also served as an Associate Dealer. Mr. David Billes had served on the Board for a total of 26 years and was a member of the Board's Audit and Social Responsibility Committees. We thank both Alfred and David for their dedicated service and significant contributions to the Corporation over the years.

To fill the vacancies, the Board appointed two new Directors. In February, Ms. Lilia C. Clemente was appointed a Director of the Corporation. Ms. Clemente is Chairman and Chief Executive Officer of Clemente Capital, Inc., a New York-based investment management firm. In March, 1998, Mr. Graham W. Savage was appointed to the Board. Mr. Savage is a founder of Parkview Capital Partners Inc., a merchant bank.

The Year Ahead

We expect that 1998 will be a year of more: more competition, more hard work, more innovation, more opportunities and more exhilaration in working together to achieve our vision. We will do our best to deliver more value to more customers and, with that as our first priority, deliver more growth in value for Canadian Tire shareholders.



GILBERT S. BENNETT
Chairman of the Board



STEPHEN E. BACHAND
President and Chief Executive Officer

March 12, 1998