# FIRST QUARTER

# 2015

RONA

MANAGEMENT'S DISCUSSION
AND ANALYSIS AND
CONSOLIDATED FINANCIAL
STATEMENTS

RONA

# MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FIRST QUARTER OF 2015

13-week period ended March 29, 2015

RONA inc. is a major Canadian distributor and retailer of hardware, building materials and home renovation products. The Corporation operates a network of over 500 corporate, franchise and independent affiliated stores of complementary formats. With its nine distribution centres, RONA serves its own network as well as many independent dealers operating under different banners, including Ace for which RONA owns the licensing rights and is the exclusive distributor in Canada. With the help of its nearly 24,000 employees, the Corporation generates annual consolidated sales of $4.1 billion. For more information, visit rona.ca.

RONA's sales include:

- Retail sales generated by its retail corporate stores;
- Royalties on franchise retail sales;
- Retail sales of stores in which RONA has a controlling interest;
- Wholesale sales generated by franchise stores (net of RONA's share in these stores);
- Wholesale sales generated by affiliate dealer-owned stores;
- Installation services and delivery of goods.

## INTERIM FINANCIAL STATEMENTS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes for the 13-week period ended March 29, 2015. The unaudited interim condensed consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") (the "financial statements"). The amounts in these financial statements are expressed in thousands of Canadian dollars, unless otherwise indicated. The terms "RONA," "we," "us," "our" and the "Corporation" mean RONA inc. and its subsidiaries, unless otherwise indicated. RONA has filed its financial statements with the Canadian Securities Administrators and they can be viewed online at the Corporation's website at www.rona.ca or at the SEDAR website at www.sedar.com.

## FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and usually have 13 weeks.

## NON-IFRS PERFORMANCE MEASURES

RONA presents certain performance measures which are not prescribed by IFRS. Management's view is that these measures are useful in the analysis of the Corporation's operational performance. These performance measures must not be considered separately or as a substitute for other performance measures calculated in compliance with IFRS, but rather as additional information.

EBITDA, as defined by the Corporation, represents operating profit before finance costs, income tax expense and depreciation, amortization and impairment of non-financial assets. This measure is widely used in financial circles to measure the profitability of operations.

Same-store sales is a metric used by management and is common throughout the retail industry. This metric identifies sales growth generated by the existing corporate and franchisee store network and is adjusted to reflect the effect of acquisitions, store closures and openings.

The term "organic" is a metric used by management to illustrate the change in items on the consolidated statement of income that can be attributed to the existing store network, in both the distribution and retail segments. This metric excludes the impact of closed stores, acquisitions and new stores.

Management also uses the following non-IFRS performance measures: adjusted EBITDA; adjusted EBITDA margin; adjusted gross margin; adjusted selling, general and administrative expenses; adjusted depreciation, amortization and impairment of non-financial assets; adjusted finance costs; adjusted net income attributable to participating shares; adjusted basic and diluted net income per share attributable to owners of RONA inc. and debt net of cash. These measures reflect the inclusion or exclusion of certain amounts that are viewed as not representative of the Corporation's sustainable financial performance.

As noted above, EBITDA and adjusted EBITDA are measures that have no standardized meaning prescribed by IFRS standards and therefore may not be comparable to similar measures presented by other issuers. In this context, the following table presents a reconciliation of net loss to EBITDA and adjusted EBITDA from operations for the first quarters of 2015 and 2014.

## Reconciliation of net loss to EBITDA and adjusted EBITDA

| (in thousands of Canadian dollars) | Quarters ended March 29, 2015 | March 30, 2014 | Change $ |
|---|---|---|---|
| Net loss | (9,707) | (14,619) | 4,912 |
| Finance costs | 4,096 | 4,457 | (361) |
| Depreciation, amortization and impairment of non-financial assets | 21,247 | 23,374 | (2,127) |
| Income tax recovery | (3,515) | (5,339) | 1,824 |
| EBITDA | 12,121 | 7,873 | 4,248 |
| Restructuring costs and other charges [1] | 74 | 2,131 | (2,057) |
| Adjusted EBITDA | 12,195 | 10,004 | 2,191 |

[1] Refer to Note 3.4 *Restructuring costs, impairment of non-financial assets and other charges* to RONA's financial statements for more details.

The tables below summarize the impact of each adjustment on non-IFRS performance measures for the first quarters of 2015 and 2014. The "Consolidated results" section and the "Segment results" section provide more detailed information on each adjustment by non-IFRS performance measures for the first quarters of 2015 and 2014.

### RECONCILIATION OF ADJUSTMENTS – FIRST QUARTER OF 2015

| (in thousands of Canadian dollars, unless otherwise indicated) | Quarter ended March 29, 2015 | Restructuring costs, impairment of non-financial assets and other charges[1] | Adjusted quarter ended March 29, 2015 |
|---|---|---|---|
| Gross margin | 209,856 | – | 209,856 |
| Selling, general and administrative expenses | 197,735 | 74 | 197,661 |
| EBITDA | 12,121 | (74) | 12,195 |
| Depreciation, amortization and impairment of non-financial assets | 21,247 | – | 21,247 |
| Finance costs | 4,096 | 640 | 3,456 |
| Loss before income taxes | (13,222) | (714) | (12,508) |
| Income tax recovery | (3,515) | (190) | (3,325) |
| Non-controlling interests | (319) | – | (319) |
| Net loss attributable to owners of RONA inc. | (9,388) | (524) | (8,864) |
| Dividends on preferred shares | 2,317 | – | 2,317 |
| Net loss attributable to participating shares | (11,705) | (524) | (11,181) |
| Basic and diluted net loss per share (in dollars) | (0.11) | (0.01) | (0.10) |
| Weighted average number of shares outstanding (in thousands) | 110,160 | | 110,160 |

[1] Refer to Note 3.4 *Restructuring costs, impairment of non-financial assets and other charges* to RONA's financial statements for more details.

### RECONCILIATION OF ADJUSTMENTS – FIRST QUARTER OF 2014

| (in thousands of Canadian dollars, unless otherwise indicated) | Quarter ended March 30, 2014 | Restructuring costs, impairment of non-financial assets and other charges[1] | Adjusted quarter ended March 30, 2014 |
|---|---|---|---|
| Gross margin | 198,456 | – | 198,456 |
| Selling, general and administrative expenses | 190,583 | 2,131 | 188,452 |
| EBITDA | 7,873 | (2,131) | 10,004 |
| Depreciation, amortization and impairment of non-financial assets | 23,374 | 36 | 23,338 |
| Finance costs | 4,457 | 768 | 3,689 |
| Loss before income taxes | (19,958) | (2,935) | (17,023) |
| Income tax recovery | (5,339) | (785) | (4,554) |
| Non-controlling interests | (354) | – | (354) |
| Net loss attributable to owners of RONA inc. | (14,265) | (2,150) | (12,115) |
| Dividends on preferred shares | 2,264 | – | 2,264 |
| Net loss attributable to participating shares | (16,529) | (2,150) | (14,379) |
| Basic and diluted net loss per share (in dollars) | (0.14) | (0.02) | (0.12) |
| Weighted average number of shares outstanding (in thousands) | 120,449 | | 120,449 |

[1] Refer to Note 3.4 *Restructuring costs, impairment of non-financial assets and other charges* to RONA's financial statements for more details.

## UPDATE ON THE CORPORATION'S STRATEGIC ORIENTATION

The Corporation's strategy is still based on the financial priorities set just over three years ago. In the medium term, the goal is to achieve a higher than 10% return on capital. To achieve this, RONA has focused on increasing traffic to stores and generating higher store sales. For three consecutive quarters, RONA has had positive growth in same-store sales, despite ongoing competition and difficult market conditions in some regions. RONA attributes this growth to successful implementation of the initiatives introduced last year, namely improving its merchandising strategy for contractors, introducing new products and repositioning its banners, and making seasonal products available earlier in the season.

In 2015, RONA will pursue the same direction as last year, improving the positioning of its banners and its merchandising strategy while taking a careful but strategic approach to network development and new store openings. RONA will continue to be disciplined, exercising firm control over its property, plant and equipment expenses and implementing appropriate strategies to optimize its capital structure. RONA completed close to 90% of its share repurchasing program, thereby maximizing value for shareholders.

The following tables show the steady changes in certain key indicators and value items since the start of fiscal 2014:

### Changes in key indicators quarter on quarter (considering adjustments)

| (in thousands of Canadian dollars) | First Quarter 2014 (1) | Second Quarter 2014 (1) | Third Quarter 2014 (1) | Fourth Quarter 2014 (1) | First Quarter 2015 (1) |
|---|---|---|---|---|---|
| Same-store sales (Retail) | (3.4%) | (0.7%) | 2.0% | 6.0% | 5.0% |
| **Organic change** | | | | | |
| Consolidated revenues | (34,201) | (6,655) | 46,283 | 53,364 | 24,926 |
| Consolidated gross margin | (15,014) | (2,949) | 4,864 | 16,141 | 13,916 |
| Adjusted Selling, general and administrative expenses | (18,086) | (7,971) | (6,531) | 5,743 | 8,643 |
| Adjusted EBITDA | 3,072 | 5,022 | 11,395 | 10,398 | 5,273 |
| **Consolidated change** | | | | | |
| Adjusted Selling, general and administrative expenses (in basis points) | (200) | (140) | (170) | (160) | 70 |
| As a percentage of sales | 24.7 | 18.6 | 18.0 | 21.6 | 25.4 |
| Adjusted EBITDA (in basis points) | 110 | 140 | 110 | 160 | 30 |
| As a percentage of sales | 1.3 | 7.5 | 7.2 | 5.4 | 1.6 |

1) Quarterly analyses are based on each store's status at the time the analyses are prepared. If a store's status changes during the year, then the year-to-date data will take the store's new status into account.

### Changes in value items (considering adjustments)

| (in thousand of Canadian dollars, unless otherwise indicated) | First Quarter 2014 | Second Quarter 2014 | Third Quarter 2014 | Fourth Quarter 2014 | First Quarter 2015 |
|---|---|---|---|---|---|
| Adjusted net income (loss) per share | (0.12) | 0.35 | 0.33 | 0.15 | (0.10) |
| Difference in adjusted net income per share (year-over-year) | 0.03 | 0.07 | 0.08 | 0.11 | 0.02 |
| Change in % (year-over-year change) | 20.0 | 25.0 | 32.0 | 275.0 | 16.7 |
| Net operating profit after tax(1) | 77 | 86 | 95 | 103 | 106 |
| Average capital | 1,917 | 1,888 | 1,854 | 1,854 | 1,869 |
| Return on capital in % | 4.0 | 4.6 | 5.1 | 5.6 | 5.7 |
| Growth in basis point (year-over-year) | (50) | 70 | 130 | 210 | 170 |

1) Net operating profit after tax is defined as the EBITDA less depreciation and amortization less tax.

## CONSOLIDATED RESULTS FOR THE FIRST QUARTER OF 2015

Unless otherwise indicated, the results analyzed in this section are for the 13-week period ended March 29, 2015 and, when compared, are compared to the results for the 13-week period ended March 30, 2014.

### ECONOMIC ENVIRONMENT

Key statistics on the renovation and construction industry
(Change ending March 31, 2015 compared to the same period in 2014)

| | Single-family housing starts | | Home resales | | Average selling price of homes | |
|---|---|---|---|---|---|---|
| | Q1 2014 | Q1 2015 | Q1 2014 | Q1 2015 | Q1 2014 | Q1 2015 |
| Western Canada | 4.4% | (1.6%) | 12.7% | (0.4%) | 9.3% | 2.6% |
| Ontario | (14.0%) | (15.4%) | (2.2%) | 10.1% | 7.7% | 6.5% |
| Québec | (16.0%) | (19.6%) | (2.5%) | 3.2% | 0.2% | 1.6% |
| Atlantic provinces | (9.0%) | (0.3%) | (5.8%) | (1.1%) | 1.5% | (0.1%) |
| Total – Canada | (4.0%) | (7.2%) | 2.7% | 4.4% | 8.2% | 7.0% |

Sources: Canada Mortgage and Housing Corporation (CMHC) and Canadian Real Estate Association.

In terms of key statistics for the renovation and construction industry for the first quarter of 2015, the only negative Canadian indicator was single-family housing starts, which were down 7.2% compared to the same period in 2014. Across the country, the decline in housing starts on a quarterly basis is steeper than for the same period a year ago. This decline is sharpest in Québec (-19.6%) and Ontario (-15.4%) where RONA generates most of its sales. Québec had very poor weather in the first quarter, which also delayed housing starts.

In home resales, the numbers for Canada were up 4.4%, supported by 10.1% growth in Ontario and 3.2% in Québec. The Atlantic provinces were down 1.1% compared to the same period a year ago. Western Canada remained relatively stable in the first quarter (-0.4%). However, the trend is positive, with an increase of 8.2% in March, following declines of 11.3% and 3.0% in January and February. Except in Western Canada, where home resales have trended down, in the other regions the quarterly figures have improved compared to a year ago.

For the country as a whole, the average selling price of homes was up 7.0%. The strongest growth was in Ontario (6.5%); in Québec it rose 1.6% and in Western Canada it was up 2.6%.

### CONSOLIDATED REVENUES

| | Quarters ended | | Change | | Weighting | |
|---|---|---|---|---|---|---|
| (in thousands of Canadian dollars) | March 29, 2015 | March 30, 2014 | $ | % | % 2015 | % 2014 |
| **Segment revenues** | | | | | | |
| Retail | 528,961 | 501,044 | 27,917 | 5.6 | 50 | 49 |
| Distribution | 529,413 | 531,850 | (2,437) | (0.5) | 50 | 51 |
| **Total** | 1,058,374 | 1,032,894 | 25,480 | 2.5 | 100 | 100 |
| **Intersegment revenues and royalties** | | | | | | |
| Retail | (1,150) | (2,518) | 1,368 | 54.3 | – | 1 |
| Distribution | (278,454) | (266,084) | (12,370) | (4.6) | 100 | 99 |
| **Total** | (279,604) | (268,602) | (11,002) | (4.1) | 100 | 100 |
| **Revenues from external clients** | | | | | | |
| Retail | 527,811 | 498,526 | 29,285 | 5.9 | 68 | 65 |
| Distribution | 250,959 | 265,766 | (14,807) | (5.6) | 32 | 35 |
| **Total** | 778,770 | 764,292 | 14,478 | 1.9 | 100 | 100 |

A detailed analysis of segment variances is provided in the *Segment results* of this document, and the following table provides a detailed variance analysis of consolidated revenues:

Consolidated segment revenues rose to $1,058.4 million in 2015, up $25.5 million or 2.5% from $1,032.9 million in 2014. After intersegment eliminations of $ 279.6 million in 2015 and $268.6 million in 2014, which were primarily revenues from distributions to RONA's corporate store network, revenues rose to $778.8 million in 2015 compared to $764.3 million in 2014. The increase of $14.5 million (+1.9%), stems from an increase of $29.3 million (+5.9%) in the retail segment and a decrease of $14.8 million (-5.6%) in the distribution segment. Given the higher revenues in the retail segment and the lower revenues in the distribution segment, the weighting of the retail segment went from 65% of total sales in 2014 to 68% in 2015. This increase had a positive impact on the Corporation's overall profitability, since the gross margins in the retail segment are significantly higher than in the distribution segment, despite the change with respect to clients and product mix. The decrease in the distribution segment is partly due to the postponement of sales to affiliates due to adverse weather conditions in Québec in the first quarter of 2015.

Variance analysis – Consolidated revenues from external customers

| (in thousands of Canadian dollars) | | |
|---|---|---|
| Consolidated revenues – First quarter of 2014 | 764,292 | |
| New stores and acquisitions, net of disposals | 1,912 | |
| Closed stores | (3,163) | |
| Recruitment, net of dealer-owner closures and departures | (9,197) | 14,478 |
| Organic change | 24,926 | |
| Consolidated revenues – First quarter of 2015 | 778,770 | |

The retail network's development activities (i.e. new store openings and acquisitions, net of disposals) added $1.9 million to consolidated revenues in 2015. The closed stores represented a $3.2 million decrease in revenues. Lastly, recruitment, net of dealer-owner closures and departures, represented a $9.2 million decline in revenues.

Excluding all these items, organic sales grew by $24.9 million in the first quarter. The growth comes from the successful initiatives rolled out in the past 12 months: improving the merchandising strategy for contractors, introducing new products and repositioning our banners, as well as making seasonal products available earlier in the season. Except for the Atlantic provinces, which were particularly hard hit by a poor winter, all regions of Canada had positive same-store sales in the retail segment. Growth was, however, partly mitigated by a delay in purchases by our independent dealers given the poor winter weather that affected construction in Québec, where most of them operate.

CONSOLIDATED GROSS MARGIN

| | Quarters ended | | Change | |
|---|---|---|---|---|
| (in thousands of Canadian dollars) | March 29, 2015 | March 30, 2014 | $ | % |
| Gross margin | 209,856 | 198,456 | 11,400 | 5.7 |
| Gross margin / Revenues (%) | 27,0 | 26.0 | | |

Gross margin was $209.9 million in 2015, up $11.4 million or 5.7% from $198.5 million in 2014. Gross margin as a percentage of sales rose 100 basis points, from 26.0% in 2014 to 27.0% in 2015, mainly from improved procurement strategies and higher revenues in the retail segment, whose weighting rose from 65% of total sales in 2014 to 68% in 2015, generating higher gross margins.

Variance analysis – gross margin

| (in thousands of Canadian dollars) | | |
|---|---|---|
| Gross margin – First quarter of 2014 | 198,456 | |
| New stores and acquisitions, net of disposals | 483 | |
| Closed stores | (1,528) | |
| Recruitment, net of dealer-owner closures and departures | (1,471) | 11,400 |
| Organic change | 13,916 | |
| Gross margin – First quarter of 2015 | 209,856 | |

The retail network's development activities (i.e. new store openings and acquisitions, net of disposals) added $0.5 million to the gross margin in 2015. The stores closed in the normal course of business reduced the margin by $1.5 million, but also reduced operating costs. Lastly, recruitment, net of dealer-owner closures and departures, represented a decrease of $1.5 million.

Organic gross margin rose $13.9 million in 2015, due to the $24.9 million increase in same-store sales, including an increase of $30.1 million in the retail segment where the margins are higher than those in the distribution segment. The higher volume of same-store sales accounted for $11.0 million of the increase in organic gross margin, while the improved pricing strategy and product mix added $2.9 million.

## CONSOLIDATED SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| (in thousands of Canadian dollars) | Quarters ended March 29, 2015 | March 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Selling, general and administrative expenses | 197,735 | 190,583 | 7,152 | 3.8 |
| Restructuring costs and other charges[1] | 74 | 2,131 | (2,057) | (96.5) |
| Adjusted selling, general and administrative expenses | 197,661 | 188,452 | 9,209 | 4.9 |
| Adjusted selling, general and administrative expenses / Revenues (%) | 25.4 | 24.7 | | |

[1] Refer to Note 3.4 *Restructuring costs, impairment of non-financial assets and other charges* to RONA's financial statements for more details.

Selling, general and administrative expenses amounted to $197.7 million in the first quarter of 2015, up $7.2 million over $190.6 million for the same period in 2014. Considering the adjustments, selling, general and administrative expenses for the first quarter of 2015 rose $9.2 million, or 4.9%, compared to the same period in 2014.

### Variance analysis – Adjusted selling, general and administrative expenses

| (in thousands of Canadian dollars) | | |
|---|---|---|
| Adjusted selling, general and administrative expenses – First quarter of 2014 | 188,452 | |
| New stores and acquisitions, net of disposals | 1,946 | 9,209 |
| Closed stores | (250) | |
| Recruitment, net of dealer-owner closures and departures | (981) | |
| Change in net gains on disposal of assets | (149) | |
| Organic change | 8,643 | |
| Adjusted selling, general and administrative expenses – First quarter of 2015 | 197,661 | |

Retail network development activities (i.e. new store openings and acquisitions, net of disposals) added $1.9 million to selling, general and administrative expenses in 2015. This $1.9 million increase compared to the sales contribution for the same amount of $1.9 million from new stores stems from higher costs to start up new stores, namely pre-opening costs (including labor) and advertising expenses. The stores closed last year and this year represented a $0.3 million reduction in selling, general and administrative expenses. Recruitment, net of dealer-owner closures and departures, decreased operating costs by $1.0 million. Lastly, the organic change in adjusted selling, general and administrative expenses was up $8.6 million in 2015. This increase stems mainly from an increase of $4.4 million in the cost of share units related to the long-term incentive plan due to the rise in RONA's share price during the quarter, an increase in marketing expenses in the first quarter due to more frequent flyer publication, as well as network development costs and banner integrations. Note that at the start of the second quarter, RONA set up a hedging program for its share-based payment program that will limit the impact of changes in the share price.

## CONSOLIDATED EARNINGS BEFORE FINANCE COSTS, INCOME TAX EXPENSE, DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF NON-FINANCIAL ASSETS (EBITDA)

### Reconciliation EBITDA and adjusted EBITDA

| (in thousands of Canadian dollars) | Quarters ended March 29, 2015 | March 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| EBITDA | 12,121 | 7,873 | 4,248 | 54.0 |
| EBITDA margin (%) | 1.6 | 1.0 | | |
| Restructuring costs and other charges[1] | ( 74) | (2,131) | 2,057 | 96.5 |
| Adjusted EBITDA | 12,195 | 10,004 | 2,191 | 21.9 |
| Adjusted EBITDA margin (%) | 1.6 | 1.3 | | |

[1] Refer to Note 3.4 *Restructuring costs, impairment of non-financial assets and other charges* to RONA's financial statements for more details.

For the first quarter of 2015, EBITDA amounted to $12.1 million, up $4.2 million (+54%) from $7.9 million in 2014. Considering the adjustments recorded in 2014, EBITDA was $12.2 million, up $2.2 million (+22%) from $10.0 million for the same period in 2014. Adjusted EBITDA margin rose from 1.3% in 2014 to 1.6% in 2015, up 30 basis points or 23%.

Variance analysis – Adjusted EBITDA

| (in thousands of Canadian dollars) | | |
|---|---|---|
| Adjusted EBITDA – First quarter of 2014 | 10,004 | |
| New stores and acquisitions, net of disposals | (1,463) | |
| Change in net gains on disposal of assets | 149 | |
| Closed stores | (1,278) | 2,191 |
| Recruitment, net of dealer-owner closures and departures | (490) | |
| Organic change | 5,273 | |
| Adjusted EBITDA – First quarter of 2015 | 12,195 | |

The retail network's development activities had a negative impact of $1.5 million on adjusted EBITDA in the first quarter of 2015. The stores closures led to a decreased in the adjusted EBITDA by $1.3 million. Recruitment, net of dealer-owner closures and departures, reduced adjusted EBITDA by $0.5 million.

In 2015, the organic growth in RONA's operations raised adjusted EBITDA by $5.3 million. For 2015, the increase in the organic adjusted EBITDA stems mainly from the increase in same-store sales, which raised the organic gross margin by $13.9 million, partially offset by a $8.6 million increase in organic selling, general and administrative expenses, of which $4.4 million is attributable to an increase in the cost of share units related to the long-term incentive plan due to the rise in the RONA share price during the quarter.

## Consolidated finance costs, depreciation, amortization and impairment of non-financial assets

Finance costs, depreciation, amortization and impairment of non-financial assets

| | Quarters ended | | Change | |
|---|---|---|---|---|
| (in thousands of Canadian dollars) | March 29, 2015 | March 30, 2014 | $ | % |
| Finance costs | 4,096 | 4,457 | (361) | (8.1) |
| Accretion expense on onerous contracts[1] | 640 | 768 | (128) | (16.7) |
| Adjusted finance costs | 3,456 | 3,689 | (233) | (6.3) |
| Depreciation, amortization and impairment of non-financial assets | 21,247 | 23,374 | (2,127) | (9.1) |
| Impairment of non-financial assets[1] | – | 36 | (36) | (100.0) |
| Adjusted depreciation, amortization and impairment of non-financial assets | 21,247 | 23,338 | (2,091) | (9.0) |

(1) Refer to Note 3.4 *Restructuring costs, impairment of non-financial assets and other charges* to RONA's financial statements for more details.

Finance costs amounted to $4.1 million in 2015, down $0.4 million from $4.5 million in 2014. Restructuring costs and other charges, as presented in the Corporation's financial statements in Note 3.4, decreased the variation in finance costs by $0.6 million in 2015. Considering this adjustment, finance costs were $3.5 million in 2015, down $0.2 million or 6.3% from $3.7 million in 2014. The $0.2 million decrease stems mainly from the decrease in the credit facility's average interest rate after the credit facility was amended in August 2014, partially offset by an increase in the average utilization of the credit facility.

Adjusted depreciation, amortization and impairment of non-financial assets was $21.2 million in 2015, down $2.1 million from $23.4 million in 2014, due to our banner repositioning strategy, primarily for Réno-Dépôt, which required the write-down of certain asset items in 2014. The Corporation continues to be highly selective in its investments in property, plant and equipment, which are kept at a level that is lower than amortization and depreciation expenses.

### CONSOLIDATED NET LOSS

**Net loss attributable to owners of RONA inc.**

| (in thousands of Canadian dollars) | Quarters ended March 29, 2015 | March 30, 2014 | Change $ | % |
|---|---|---|---|---|
| Net loss | (9,388) | (14,265) | 4,877 | 34.2 |
| Dividends on preferred shares, including income taxes | 2,317 | 2,264 | 53 | 2.3 |
| Net loss attributable to participating shares | (11,705) | (16,529) | 4,824 | 29.2 |
| Restructuring costs, impairment of non-financial assets and other charges, net of taxes | (524) | (2,150) | 1,626 | 75.6 |
| Adjusted net loss attributable to participating shares | (11,181) | (14,379) | 3,198 | 22.2 |

**Net loss per share attributable to owners of RONA inc.**

| | Quarters ended March 29, 2015 | March 30, 2014 | Change $ | % |
|---|---|---|---|---|
| Basic and diluted net loss per share (in dollars) | (0.11) | (0.14) | 0.03 | 21.4 |
| Adjusted basic and diluted net loss per share (in dollars) | (0.10) | (0.12) | 0.02 | 16.7 |

For the first quarter of 2015, the net loss attributable to participating shares was $11.7 million compared to a net loss of $16.5 million in 2014. These results were affected by after-tax adjustments of $0.5 million in 2015 and $2.2 million in 2014.

Considering the above adjustments, the adjusted net loss attributable to participating shares was $11.2 million in 2015, compared to a net loss of $14.4 million for the same period in 2014. As noted in the EBITDA analysis above, this increase stems mainly from the higher gross margin due to the increase in same-store sales.

The basic and diluted net loss per share attributable to owners of RONA inc. was $0.11, compared to a net loss of $0.14 in 2014. The adjusted basic and diluted net loss attributable to owners of RONA inc. was $0.10 in 2015, compared to a net loss of $0.12 in 2014. Note that the weighted average number of shares outstanding used to calculate the net loss per share attributable to owners of RONA inc. decreased from 120.4 million shares in the first quarter of 2014 to 110.2 million shares in the first quarter of 2015, following share repurchases under the normal course issuer bids set up by the Corporation in November 2014 and November 2015.

## SEGMENT RESULTS

This section presents an analysis of segment results for the quarter ended March 29, 2015, which are compared with the results for the quarter ended March 30, 2014, unless otherwise indicated. RONA has two reportable segments: retail and distribution.

### RETAIL SEGMENT

**Retail segment results**

| (in thousands of Canadian dollars) | Quarters ended March 29, 2015 | March 30, 2014 | Change $ | % |
|---|---|---|---|---|
| Revenues | 527,811 | 498,526 | 29,285 | 5.9 |
| EBITDA | 3,673 | (4,300) | 7,973 | 185.4 |
| EBITDA / Revenues (%) | 0.7 | (0.9) | | |
| Restructuring costs and other charges[(1)] | (74) | (2,131) | 2,057 | 96.5 |
| Adjusted EBITDA | 3,747 | (2,169) | 5,916 | 272.8 |
| Adjusted EBITDA / Revenues (%) | 0.7 | (0.4) | | |

(1) Refer to Note 3.4 *Restructuring costs, impairment of non-financial assets and other charges* to RONA's financial statements for more details.

Retail segment revenues rose from $498.5 million in 2014 to $527.8 million in 2015, up 5.9%, mainly due to a 5.0% increase in same-store sales.

Retail segment EBITDA rose $8.0 million or 185.4%. Considering the adjustments, segment adjusted EBITDA rose from -$2.2 million in 2014 to $3.7 million in 2015, which improved the adjusted EBITDA margin by 110 basis points, from -0.4% in 2014 to 0.7% in 2015.

Variance analysis – Retail segment

| (in thousands of Canadian dollars) | Revenues | | Adjusted EBITDA | |
|---|---|---|---|---|
| Results - First quarter of 2014 | 498,526 | | (2,169) | |
| New stores and acquisitions, net of disposals | 2,302 | 29,285 | (1,438) | 5,916 |
| Change in net gains on disposal of assets | – | | 149 | |
| Closed stores | (3,163) | | (1,278) | |
| Comparable change | 30,146 | | 8,483 | |
| Results – First quarter of 2015 | 527,811 | | 3,747 | |

Retail network development activities contributed $2.3 million to segment revenues in 2015, derived from $2.2 million for store acquisitions, $2.7 million to open four new stores (including three Réno-Dépôt stores in Ontario, Alberta and Québec), offset by disposals of $2.6 million. The impact of closed stores reduced revenues by $3.2 million.

Growth in same-store sales contributed $30.1 million to first-quarter results. The 5.0% increase in same-store sales compares favourably with the 3.4% decrease in same-store sales for the same period in 2014. As noted in the analysis of consolidated results, revenues from our networks in Western Canada, Ontario and Québec all reported higher same-store sales in the first quarter of 2015. This performance is based on continuity and the improved merchandising strategy for contractors, the introduction of new products, and banner repositioning. The increase in same-store sales in Western Canada stems primarily from the decisions to make seasonal products available in-store earlier in the season and to good weather conditions. The increase in Ontario stems mainly from higher sales to contractors following the introduction of new programs designed specifically for them. In Québec, the increase in sales is largely due to the good performance of the Réno-Dépôt stores. For the network as a whole, the number of transactions has risen, as has the average basket.

Retail segment adjusted EBITDA rose from -$2.2 million in 2014 to $3.7 million in 2015, an increase of $5.9 million. This improved the adjusted EBITDA margin by 110 basis points (from -0.4% in 2014 to 0.7% in 2015), which reflects the positive impact of higher volume during the smallest quarter of the fiscal year, a period in which it is hard to reduce costs while preparing the network for the high season. Retail segment development activities (i.e. new store openings and acquisitions, net of disposals) had a negative impact of $1.4 million on adjusted EBITDA in 2015. The stores that were closed also had a negative impact of $1.3 million on EBITDA. Considering these items and $0.1 million from the net gains on disposal of assets, comparable adjusted EBITDA rose $8.5 million in 2015. This improvement shows the positive impact of same-store sales growth leverage despite the increase in selling, general and administrative expenses.

## DISTRIBUTION SEGMENT

Distribution segment results

| | Quarters ended | | Change | |
|---|---|---|---|---|
| (in thousands of Canadian dollars) | March 29, 2015 | March 30, 2014 | $ | % |
| Revenues | 250,959 | 265,766 | (14,807) | (5.6) |
| EBITDA | 8,448 | 12,173 | (3,725) | (30.6) |
| EBITDA / Revenues (%) | 3.4 | 4.6 | | |

Distribution segment revenues declined from $265.8 million in 2014 to $251.0 million in 2015, down 5.6%. Distribution segment EBITDA fell from $12.2 million in 2014 to 8.4 million in 2015, down $3.7 million. The EBITDA margin was down 120 basis points, from 4.6% in 2014 to 3.4% in 2015. The decrease in distribution segment EBITDA stems mainly from an increase in selling, general and administrative expenses, namely an increase in the cost of share units related to the long-term incentive plan due to the increase in RONA's share price during the quarter, as well as higher marketing expenses related to more frequent flyer publication.

Variance analysis – Distribution segment

| (in thousands of Canadian dollars) | Revenues | | EBITDA | |
|---|---|---|---|---|
| Results - First quarter of 2014 | 265,766 | | 12,173 | |
| Recruitment, net of dealer-owner closures and departures | (9,197) | (14,807) | (490) | (3,725) |
| Organic change | (5,610) | | (3,235) | |
| Results – First quarter of 2015 | 250,959 | | 8,448 | |

The $14.8 million decrease in distribution segment sales stems mainly from the closures and departures of existing dealer-owners, which reduced revenues by $9.2 million. The $5.6 million decrease in organic sales stems from, among other things, a delay in dealer-owner purchases due to poor winter weather in Québec.
Recruitment, net of dealer-owner closures and departures, resulted in a decrease of $0.5 million in EBITDA. Considering these items, EBITDA for the distribution segment was down $3.2 million.

## CASH FLOWS AND FINANCIAL POSITION

### Main cash flows

| (in thousands of Canadian dollars) | Quarters ended March 29, 2015 | Quarters ended March 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Cash flows used for operating activities excluding net change in working capital | (9,519) | (13,891) | 4,372 | 31.5 |
| Net change in working capital | (100,294) | (98,268) | (2,026) | (2.1) |
| Cash flows used for operating activities | (109,813) | (112,159) | 2,346 | 2.1 |
| Maintenance investments in property, plant and equipment and intangible assets | (4,690) | (2,973) | (1,717) | (57.8) |
| Dividends on preferred shares | (2,264) | (2,264) | – | – |
| Free cash flow [1] | (116,767) | (117,396) | 629 | 0.5 |
| Growth investments in property, plant and equipment and intangible assets | (6,904) | (7,863) | 959 | 12.2 |
| Dividends on common shares | (7,562) | (8,429) | 867 | 10.3 |
| Share repurchase in normal course of business | (77,433) | (7,864) | (69,569) | (884.7) |
| Debt change | (208,666) | (141,552) | (67,114) | (47.4) |

[1] Free cash flow = cash flows from operating activities less maintenance investments in property, plant and equipment and intangible assets and dividends on preferred shares.

For the first quarter ended March 29, 2015, cash flows used for operating activities excluding the net change in working capital amounted to -$9.5 million in 2015 compared to -$13.9 million in the first quarter of 2014. The net change in working capital, which is in line with the seasonal nature of operations, was -$100.3 million in the first quarter de 2015. This change stems mainly from a $40.5 million increase in trade and other receivables, a $141.6 million increase in inventory due to the seasonal nature of operations, partially offset by a $77.9 million increase in trade and other payables.

The net change in working capital was down $2.0 million compared to the same period in 2014. This stems mainly from a $23.1 million decrease in the change in trade and other receivables, and a $19.0 million decrease in the change in inventory, partially offset by a $49.0 million decrease in the change in trade and other payables compared to the same period in 2014.

Cash flows used for operating activities stood at -$109.8 million in the first quarter of 2015, compared to -$112.2 million for the corresponding period of 2014.

The Corporation continued to exercise disciplined financial management and tightly controlled its investments in property, plant and equipment and intangible assets. For the first quarter of 2015, RONA invested $4.7 million in maintenance on property, plant and equipment and $6.9 million in growth of property, plant and equipment, for a total investment of $11.6 million, up $0.8 million from 2014. In 2015, the $1.7 million increase in maintenance investment in property, plant and equipment, was partially offset by a $1.0 million decrease in growth investments in property, plant and equipment.

In the first quarter of 2015, RONA repurchased and cancelled 5,638,100 shares at an average price of $13.73 for a total of $77.4 million under its normal course issuer bid put in place in November 2014. This program allows the Corporation to repurchase, in the normal course of its activities between November 18, 2014 and November 17, 2015, up to 9.2 million common shares, representing 10% of its 92.1 million public float, or 7.94% of its 116.0 million common shares issued and outstanding at November 11, 2014.

Given the seasonal nature of its operations in the first quarter of 2015, the Corporation generated $116.8 million of negative free cash flows in 2015, compared to negative free cash flows of $117.4 million for the same period in 2014. In 2015, the credit facility was used to finance the $6.9 million investment in growth of property, plant and equipment and intangible assets and the repurchase in the normal course of business of $77.4 million of common shares.

### LONG-TERM DEBT

RONA has access to a $700.0 million credit facility, extendable yearly. At the close of the first quarter of 2015, $276.8 million had been drawn on this facility, including letters of guarantee. RONA thus has access to $423.2 million, subject to the maintenance of certain financial ratios. These ratios were met during the 13-week periods ended March 29, 2015 and March 30, 2014. The maturing of this facility and the maturing of unsecured debentures, which form the major portion of long-term debt, are expected in 2016 and 2017 respectively.

Given the cash flows generated by the Corporation and the funds available from the credit facility, the Corporation deems it has access to sufficient liquidity to pursue its operations and growth.

### CONTRACTUAL OBLIGATIONS

The table below presents a synopsis of the Corporation's contractual obligations as at March 29, 2015, including the off-balance-sheet arrangements used in the normal course of business.

Contractual obligations
(in thousands of Canadian dollars)

| | Payments by term | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term loans and credit facility | 403,416 | 6,802 | 396,598 | 16 | – |
| Obligations under finance leases | 344 | 202 | 142 | – | – |
| Operating leases | 749,654 | 122,600 | 223,692 | 171,452 | 231,910 |
| Other long-term obligations | 21,931 | 20,762 | 1,169 | – | – |
| Total | 1,175,345 | 150,366 | 621,601 | 171,468 | 231,910 |

The Corporation has also concluded other off-balance-sheet arrangements, such as inventory buyback agreements, which do not appear in the table. Pursuant to the terms of inventory repurchase agreements, the Corporation has made a commitment to financial institutions to buy back the inventory of certain customers at an average of 65% of the cost of the inventories to a maximum of $48.6 million. In the event of recourse, this inventory would be sold in the normal course of the Corporation's operations. These agreements have undetermined periods. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, letters of credit for imports totalling $6.9 million were outstanding as at March 29, 2015 for the purchase of various, mainly seasonal, products.

### CAPITAL STRUCTURE

| (in thousands of Canadian dollars) | As at March 29, 2015 | As at March 30, 2014 |
|---|---|---|
| (Cash) | (14,228) | (25,555) |
| Credit facility | 275,593 | 207,400 |
| Debentures | 116,526 | 116,377 |
| Other debt | 24,433 | 13,232 |
| Debt | 416,552 | 337,009 |
| Debt net of cash | 402,324 | 311,454 |
| Equity | 1,509,583 | 1,640,081 |
| Total capital (Debt net of cash + Equity) | 1,911,907 | 1,951,535 |
| Ratio of net debt to total capital | 0.21x | 0.16x |
| Ratio of net debt to adjusted EBITDA | 1.7x | 1.6x |

RONA continues to maintain a solid financial position. As of March 29, 2015, the total debt amounted to $416.6 million, compared to $337.0 million in 2014. The Corporation's debt net of cash was $402.3 million compared to $311.5 million at March 30, 2014. The ratio of net debt to total capital was 0.21x in 2015, compared to 0.16x in 2014. The ratio of net debt to adjusted EBITDA rose from 1.6x in 2014 to 1.7x in 2015.

On November 20, 2014, DBRS confirmed RONA's credit rating at BB (high) and changed the outlook from negative to stable. This change reflects the improvement in the Corporation's operating performance. The positive trend in same-store sales resulting from the improved merchandising strategy, the repositioning of banners and the closure of underperforming stores, paired with the sustained focus of the reorganization and the cost-savings plan have translated into a marked improvement in EBITDA and played a key role in the improved DBRS outlook.

Credit rating

| | As at March 29, 2015 | As at March 30, 2014 |
|---|---|---|
| Senior unsecured medium term notes due in 2016 | | |
| DBRS | BB (high) | BB (high) |
| Outlook | Stable | Negative |
| Standard and Poor's | BB + | BB + |
| Outlook | Stable | Stable |
| Series 6 Class A Preferred Shares | | |
| DBRS | Pfd-4 (high) | Pfd-4 (high) |
| Outlook | Stable | Negative |
| Standard and Poor's | P4 (high) | P4 (high) |

## SUMMARY OF QUARTERLY RESULTS

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation and construction activities. The strongest period of the year is from spring to fall, and over 80% of the Corporation's annual net income is generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation and construction sectors during the winter. Poor weather conditions can also have a major impact on sales. With the increase in the proportion of our activities related to the retail sector, the seasonal impact of the first quarter has been more pronounced than in previous years. The second quarter is normally the strongest of the year, followed by the third quarter.

Consolidated quarterly financial results [1]
(in millions of Canadian dollars, except per share amounts)

| | 2015 | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4[1] | Q3[1] | Q2[1] | Q1[1] |
| Revenues | 778.8 | 971.3 | 1,167.3 | 1,193.5 | 764.3 | 941.1 | 1,169.2 | 1,249.0 | 832.9 |
| EBITDA | 12.1 | 31.9 | 83.7 | 88.2 | 7.9 | 30.0 | 70.7 | 0.2 | (21.8) |
| Adjusted EBITDA | 12.2 | 52.5 | 83.8 | 89.1 | 10.0 | 36.1 | 70.7 | 76.6 | 1.6 |
| Net income (loss) attributable to participating shares | (11.7) | 1.7 | 38.0 | 42.0 | (16.5) | (1.1) | 30.0 | (38.7) | (36.1) |
| Adjusted net income (loss) attributable to participating shares | (11.2) | 17.3 | 38.5 | 42.0 | (14.4) | 4.6 | 30.0 | 33.6 | (18.3) |
| Basic and diluted net income (loss) per share | (0.11) | 0.02 | 0.32 | 0.35 | (0.14) | (0.01) | 0.25 | (0.32) | (0.30) |
| Adjusted basic and diluted net income (loss) per share | (0.10) | 0.15 | 0.33 | 0.35 | (0.12) | 0.04 | 0.25 | 0.28 | (0.15) |

[1] Results for the Commercial and Professional Market Division, presented as "Net loss from discontinued operations" were subtracted from the results for continuing operations.

Annual change in same-store sales

| | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Retail segment | +5.0% | 6.0% | 2.0% | -0.7% | -3.4% | -3.1% | -2.3% | -0.7% | -3.7% |

## RISKS AND UNCERTAINTIES

There has been no major change since the publication of the annual Management's Discussion and Analysis for the fiscal year ended December 28, 2014.

## DIVIDEND ON PREFERRED SHARES

At its meeting on May 11, 2015, RONA's Board of Directors declared a quarterly dividend of $0.3281 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on June 30, 2015 to shareholders of record on June 15, 2015.

## SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

There has been no major change since the publication of the annual Management's Discussion and Analysis for the fiscal year ended December 28, 2014.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA has evaluated the design of internal control over financial reporting as of March 29, 2015 in accordance with the MI 52-109 guidelines. This evaluation has allowed the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer to conclude that the Corporation's internal control over financial reporting is adequate and provides reasonable assurance that the Corporation's financial reporting is reliable and that its consolidated financial statements are prepared in compliance with IFRS.

## FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Corporation may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Corporation believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Forward-looking statements do not take into account the impact that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Corporation's business. For example, they do not include the impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that would cause the Corporation's actual results to differ from current expectations please refer to the Corporation's public filings available at www.rona.ca and www.sedar.com. In particular, further details and descriptions of these and other factors are disclosed in this MD&A under the "Risks and uncertainties" section.

The forward-looking statements in this MD&A reflect the Corporation's expectations as at May 11, 2015, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

## ADDITIONAL INFORMATION

This MD&A was prepared as of May 11, 2015. The reader will find additional information concerning RONA, including the Corporation's Annual Information Form, on the Corporation's website at www.rona.ca and on the SEDAR website at www.sedar.com.

*(s) Dominique Boies*

Dominique Boies
Executive Vice President and Chief Financial Officer

*(s) Robert Sawyer*

Robert Sawyer
President and Chief Executive Officer

**RONA inc.**

**INTERIM CONSOLIDATED STATEMENTS OF INCOME AND INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Thirteen-week periods ended March 29, 2015 and March 30, 2014

(Unaudited and in thousands of Canadian dollars, except per share amounts)

## CONSOLIDATED STATEMENTS OF INCOME

| | *Notes* | | 2015 | | 2014 |
|---|---|---|---|---|---|
| Revenues | | **$** | **778,770** | $ | 764,292 |
| Earnings before interest, taxes, depreciation, amortization, impairment of non-financial assets, restructuring costs and other charges | *3.1* | **$** | **12,195** | $ | 10,004 |
| Restructuring costs and other charges | *3.4* | | **74** | | 2,131 |
| Depreciation, amortization and impairment of non-financial assets | *3.2* | | **21,247** | | 23,374 |
| Operating loss | | | **(9,126)** | | (15,501) |
| Finance costs | | | **4,096** | | 4,457 |
| Loss before income taxes | | | **(13,222)** | | (19,958) |
| Income tax recovery | *5* | | **(3,515)** | | (5,339) |
| Net loss | | **$** | **(9,707)** | $ | (14,619) |
| Net loss attributable to: | | | | | |
| Owners of RONA inc. | | **$** | **(9,388)** | $ | (14,265) |
| Non-controlling interests | | | **(319)** | | (354) |
| | | **$** | **(9,707)** | $ | (14,619) |
| Basic and diluted net loss per share attributable to owners of RONA inc. | *14* | **$** | **(0.11)** | $ | (0.14) |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Net loss | **$** | **(9,707)** | $ | (14,619) |
| Other comprehensive loss, net of taxes: | | | | |
| Items that will be reclassified subsequently to net income | | | | |
| Cash flow hedges | | | | |
| – Gain for the period | | **6,211** | | 1,855 |
| – Reclassification to net income | | **(5,908)** | | 165 |
| Impact of foreign currency translation related to the net investment in an associate | | **–** | | 130 |
| | | **303** | | 2,150 |
| Items that will not be reclassified subsequently to net income | | | | |
| Remeasurements of net defined benefit liability | | **(1,340)** | | (487) |
| Other comprehensive (loss) income | | **(1,037)** | | 1,663 |
| Comprehensive loss | **$** | **(10,744)** | $ | (12,956) |
| Comprehensive loss attributable to: | | | | |
| Owners of RONA inc. | **$** | **(10,425)** | $ | (12,602) |
| Non-controlling interests | | **(319)** | | (354) |
| | **$** | **(10,744)** | $ | (12,956) |

The related notes form an integral part of these interim consolidated financial statements.

**RONA inc.**
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
Thirteen-week periods ended March 29, 2015 and March 30, 2014
(Unaudited and in thousands of Canadian dollars)

| | Notes | Share capital | Retained earnings | Contributed surplus | Accumulated other comprehensive income | Total attributable to owners of RONA inc. | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance, December 28, 2014 | | **$ 731,129** | **$ 862,997** | **$ 14,088** | **$ 2,634** | **$ 1,610,848** | **$ 15,557** | **$ 1,626,405** |
| Transactions with owners: | | | | | | | | |
| Issuance of share capital in exchange of cash | | **20** | **–** | **–** | **–** | **20** | **–** | **20** |
| Repurchase of common shares for cancellation | *10* | **(27,672)** | **(49,761)** | **–** | **–** | **(77,433)** | **–** | **(77,433)** |
| Dividends declared on common shares | | **–** | **(7,562)** | **–** | **–** | **(7,562)** | **–** | **(7,562)** |
| Dividends declared on preferred shares, including taxes | | **–** | **(2,317)** | **–** | **–** | **(2,317)** | **–** | **(2,317)** |
| Compensation cost relating to stock option plan | *11* | **–** | **–** | **331** | **–** | **331** | **–** | **331** |
| Deposits on common share subscriptions received | | **164** | **–** | **–** | **–** | **164** | **–** | **164** |
| Deposits on common share subscriptions refunded | | **(60)** | **–** | **–** | **–** | **(60)** | **–** | **(60)** |
| Purchase of non-controlling interest | *15* | **–** | **(2,653)** | **–** | **–** | **(2,653)** | **(16,568)** | **(19,221)** |
| Total transactions with owners | | **(27,548)** | **(62,293)** | **331** | **–** | **(89,510)** | **(16,568)** | **(106,078)** |
| Net loss | | **–** | **(9,388)** | **–** | **–** | **(9,388)** | **(319)** | **(9,707)** |
| Other comprehensive income, net of taxes: | | | | | | | | |
| Cash flow hedges | | | | | | | | |
| – Gain for the period | | **–** | **–** | **–** | **6,211** | **6,211** | **–** | **6,211** |
| – Reclassification to net income | | **–** | **–** | **–** | **(5,908)** | **(5,908)** | **–** | **(5,908)** |
| Remeasurements of net defined benefit liability | | **–** | **(1,340)** | **–** | **–** | **(1,340)** | **–** | **(1,340)** |
| Other comprehensive (loss) income | | **–** | **(1,340)** | **–** | **303** | **(1,037)** | **–** | **(1,037)** |
| Balance, March 29, 2015 | | **$ 703,581** | **$ 789,976** | **$ 14,419** | **$ 2,937** | **$ 1,510,913** | **$ (1,330)** | **$ 1,509,583** |

| | Notes | Share capital | Retained earnings | Contributed surplus | Accumulated other comprehensive loss | Total attributable to owners of RONA inc. | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance, December 29, 2013 | | $ 765,203 | $ 879,415 | $ 12,972 | $ (2,158) | $ 1,655,432 | $ 15,570 | $ 1,671,002 |
| Transactions with owners: | | | | | | | | |
| Issuance of share capital under stock option plan | | 215 | – | (40) | – | 175 | – | 175 |
| Repurchase of common shares for cancellation | *10* | (3,146) | (4,718) | – | – | (7,864) | – | (7,864) |
| Dividends declared on common shares | | – | (8,429) | – | – | (8,429) | – | (8,429) |
| Dividends declared on preferred shares, including taxes | | – | (2,317) | – | – | (2,317) | – | (2,317) |
| Compensation cost relating to stock option plan | *11* | – | – | 331 | – | 331 | – | 331 |
| Deposits on common share subscriptions received | | 184 | – | – | – | 184 | – | 184 |
| Deposits on common share subscriptions refunded | | (45) | – | – | – | (45) | – | (45) |
| Total transactions with owners | | (2,792) | (15,464) | 291 | – | (17,965) | – | (17,965) |
| Net loss | | – | (14,265) | – | – | (14,265) | (354) | (14,619) |
| Other comprehensive income, net of taxes: | | | | | | | | |
| Cash flow hedges | | | | | | | | |
| – Gain for the period | | – | – | – | 1,855 | 1,855 | – | 1,855 |
| – Reclassification to net income | | – | – | – | 165 | 165 | – | 165 |
| Impact of foreign currency translation related to the net investment in an associate | | – | – | – | 130 | 130 | – | 130 |
| Remeasurements of net defined benefit liability | | – | (487) | – | – | (487) | – | (487) |
| Other comprehensive income | | – | (487) | – | 2,150 | 1,663 | – | 1,663 |
| Balance, March 30, 2014 | | $ 762,411 | $ 849,199 | $ 13,263 | $ (8) | $ 1,624,865 | $ 15,216 | $ 1,640,081 |

The related notes form an integral part of these interim consolidated financial statements.

**RONA inc.**
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
Thirteen-week periods ended March 29, 2015 and March 30, 2014
(Unaudited and in thousands of Canadian dollars)

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before income taxes | | **$ (13,222)** | $ (19,958) |
| Adjustments: | | | |
| Depreciation, amortization and impairment of non-financial assets | *3.2* | **21,247** | 23,374 |
| Net change in provision for restructuring costs | *8* | **(12,805)** | (12,720) |
| Change in fair value of derivative financial instruments | | **(8,461)** | (2,537) |
| Net gains on disposal of assets | *3.1* | **(680)** | (531) |
| Share of equity-accounted investees | | **221** | (3) |
| Share-based payment | *11* | **5,670** | 1,306 |
| Defined benefit plan contributions, net of expense | | **(20)** | (121) |
| Other | | **(103)** | 47 |
| | | **(8,153)** | (11,143) |
| Net change in working capital | | **(100,294)** | (98,268) |
| | | **(108,447)** | (109,411) |
| Interest received | | **494** | 1,076 |
| Income taxes paid | | **(1,860)** | (3,824) |
| Cash flows used for operating activities | | **(109,813)** | (112,159) |
| **INVESTING ACTIVITIES** | | | |
| Business combination | *6* | **(4,180)** | – |
| Acquisition of property, plant and equipment | | **(7,027)** | (6,861) |
| Acquisition of intangible assets | | **(4,567)** | (3,975) |
| Proceeds on disposal of property, plant and equipment and non-current assets held for sale | | **947** | 604 |
| Proceeds on disposal of intangible assets | | **2,382** | 47 |
| Net change in other financial assets | | **1,379** | 1,563 |
| Interest received | | **97** | 208 |
| Cash flows used for investing activities | | **(10,969)** | (8,414) |
| **FINANCING ACTIVITIES** | | | |
| Bank loans | | **125** | (306) |
| Net change in credit facility | | **210,362** | 162,440 |
| Repayment of other long-term debt | | **(69)** | (598) |
| Proceeds from issuance of common shares | | **124** | 314 |
| Repurchase of common shares | *10* | **(77,433)** | (7,864) |
| Dividends on common shares | | **(7,562)** | (8,429) |
| Dividends on preferred shares | | **(2,264)** | (2,264) |
| Interest paid | | **(5,215)** | (5,410) |
| Cash flows from financing activities | | **118,068** | 137,883 |
| **Net (decrease) increase in cash during the period** | | **(2,714)** | 17,310 |
| Cash, beginning of period | | **16,942** | 8,245 |
| Cash, end of period | | **$ 14,228** | $ 25,555 |

The related notes form an integral part of these interim consolidated financial statements.

**RONA inc.**
**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
As at March 29, 2015, March 30, 2014 and December 28, 2014
(Unaudited and in thousands of Canadian dollars)

| | *Notes* | **As at March 29, 2015** | As at March 30, 2014 | As at December 28, 2014 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current | | | | |
| Cash | | **$ 14,228** | $ 25,555 | $ 16,942 |
| Trade and other receivables | | **305,832** | 318,842 | 263,389 |
| Other financial assets | | **1,582** | 4,036 | 2,066 |
| Current tax assets | | **12,603** | 23,834 | 12,276 |
| Inventory | *4* | **964,671** | 899,351 | 819,677 |
| Prepaid expenses | | **21,440** | 15,491 | 17,089 |
| Derivative financial instruments | | **4,079** | 1,036 | 3,602 |
| Current assets | | **1,324,435** | 1,288,145 | 1,135,041 |
| Non-current | | | | |
| Investments in equity-accounted investees | | **12,181** | 15,531 | 12,403 |
| Other financial assets | | **6,768** | 6,789 | 7,663 |
| Property, plant and equipment | | **666,878** | 711,784 | 677,885 |
| Non-current assets held for sale | *7* | **3,703** | 3,165 | – |
| Goodwill | | **298,963** | 298,963 | 298,963 |
| Intangible assets | | **114,735** | 128,233 | 118,884 |
| Other non-current assets | | **4,775** | 7,045 | 4,934 |
| Deferred tax assets | | **86,108** | 120,081 | 80,336 |
| Total assets | | **$ 2,518,546** | $ 2,579,736 | 2,336,109 |
| **LIABILITIES** | | | | |
| Current | | | | |
| Bank loans | | **$ 1,180** | $ 2,227 | $ 1,055 |
| Trade and other payables | | **490,620** | 479,077 | 410,446 |
| Dividends payable | | **2,264** | 2,264 | 2,265 |
| Derivative financial instruments | | **78** | 215 | 14 |
| Provisions | *8* | **36,091** | 38,440 | 46,596 |
| Instalments on long-term debt | | **21,296** | 7,903 | 2,082 |
| Current liabilities | | **551,529** | 530,126 | 462,458 |
| Non-current | | | | |
| Long-term debt | | **394,076** | 326,879 | 183,739 |
| Other non-current liabilities | | **39,609** | 29,612 | 37,949 |
| Provisions | *8* | **23,046** | 31,295 | 25,141 |
| Deferred tax liabilities | | **703** | 21,743 | 417 |
| Total liabilities | | **1,008,963** | 939,655 | 709,704 |
| **EQUITY** | | | | |
| Share capital | *10* | **703,581** | 762,411 | 731,129 |
| Retained earnings | | **789,976** | 849,199 | 862,997 |
| Contributed surplus | | **14,419** | 13,263 | 14,088 |
| Accumulated other comprehensive income (loss) | | **2,937** | (8) | 2,634 |
| Total equity attributable to owners of RONA inc. | | **1,510,913** | 1,624,865 | 1,610,848 |
| Non-controlling interests | | **(1,330)** | 15,216 | 15,557 |
| Total equity | | **1,509,583** | 1,640,081 | 1,626,405 |
| Total liabilities and equity | | **$ 2,518,546** | $ 2,579,736 | $ 2,336,109 |

The related notes form an integral part of these interim consolidated financial statements.

On behalf of the Board,

*(s) Réal Brunet*

**Réal Brunet**
Chairman of the Audit Committee

*(s) Robert Chevrier*

**Robert Chevrier**
Executive Chairman of the Board

## 1. REPORTING ENTITY AND NATURE OF OPERATIONS

RONA inc., a corporation headquartered at 220 Chemin du Tremblay, Boucherville, Québec, Canada was incorporated under by the *Business Corporations Act* (Québec). The common shares are listed on the Toronto Stock Exchange under the trading symbol RON.

The Corporation's interim consolidated financial statements for the thirteen-week periods ended March 29, 2015 and March 30, 2014 include financial data for RONA inc. and its subsidiaries (collectively referred to as the "Corporation" and individually referred to as the "Corporation's entities").

The Corporation is a major Canadian distributor and retailer of hardware, building materials and home renovation products in Canada.

## 2. BASIS OF PRESENTATION

### (A) GENERAL INFORMATION AND DECLARATION OF CONFORMITY

The unaudited interim condensed consolidated financial statements have been prepared in compliance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). Since they are condensed financial statements, certain information and notes disclosures normally included in annual financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"), have been voluntarily omitted or summarized.

The preparation of financial statements in compliance with IAS 34 requires the use of certain accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 2(D) of the Corporation's audited consolidated financial statements for the year ended December 28, 2014. There has not been any major change in significant judgments and estimates or assumptions since then. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 28, 2014, which are included in the Corporation's 2014 annual report.

The unaudited interim condensed consolidated financial statements for the thirteen-week period ended March 29, 2015 (including comparative figures) were approved by the Board of Directors on May 11, 2015.

### (B) SEASONAL FLUCTUATIONS

The interim period results of operations do not necessarily reflect results for the full year because of seasonal fluctuations that characterize the hardware, building materials and home renovation products industry in Canada. Sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation and construction sectors during the winter. The second quarter is normally the strongest of the year, followed by the third quarter. Since the seasonal fluctuations result in significant variances for certain assets and liabilities, a statement of financial position as at March 30, 2014 is also presented for comparative purposes.

### (C) EFFECT OF NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of these interim consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been adopted earlier by the Corporation.

Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's interim consolidated financial statements is provided below. Certain other new standards, amendments and interpretations have been issued but are not expected to have a material impact on the Corporation's interim consolidated financial statements.

#### (I) FINANCIAL INSTRUMENTS

In July 2014, the IASB published IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted.

#### (II) REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers.

IFRS 15 supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other interpretations related to revenue recognition. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This standard is effective for annual reporting periods beginning on or after January 1, 2017 with earlier adoption permitted.

The Corporation has not yet assessed the impact of these new standards, amendments and interpretations of existing standards on its interim consolidated financial statements.

(Unaudited and in thousands of Canadian dollars, except shares and per share amounts)

## 3. SUPPLEMENTAL INFORMATION ON CONSOLIDATED STATEMENT OF INCOME

### 3.1 EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION, AMORTIZATION, IMPAIRMENT OF NON-FINANCIAL ASSETS, RESTRUCTURING COSTS AND OTHER CHARGES

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Revenues | | **$ 778,770** | $ 764,292 |
| Cost of sales | 4 | **568,914** | 565,836 |
| Gross margin | | **209,856** | 198,456 |
| Selling, general and administrative expenses | | | |
| Employee benefits expense | 3.3 | **120,792** | 116,431 |
| Rent and occupancy costs | | **57,195** | 59,313 [b] |
| Net gains on disposal of assets | | **(680)** | (531) |
| Share of equity-accounted investees | | **221** | (3) |
| Finance income | | **(853)** | (1,684) |
| Other income | | **(4,221)** | (3,339) |
| Other[a] | | **25,207** | 18,265 [b] |
| | | **197,661** | 188,452 |
| Earnings before interest, taxes, depreciation, amortization, impairment of non-financial assets, restructuring costs and other charges | | **$ 12,195** | $ 10,004 |

[a] Includes advertising and selling expenses, information technology expenses, professional fees and doubtful accounts expense.
[b] Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

### 3.2 DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF NON-FINANCIAL ASSETS

| | Note | 2015 | 2014 |
|---|---|---|---|
| Depreciation of property, plant and equipment | | **$ 14,032** | $ 15,557 |
| Amortization of intangible assets | | **7,065** | 7,650 |
| Amortization of other non-current assets | | **150** | 131 |
| Depreciation and amortization of non-financial assets | | **21,247** | 23,338 |
| Impairment of non-financial assets | 3.4 | **–** | 36 |
| Total depreciation, amortization and impairment of non-financial assets | | **$ 21,247** | $ 23,374 |

### 3.3 EMPLOYEE BENEFITS EXPENSE

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Salaries | | **$ 105,497** | $ 101,708 |
| Share-based payment | | **5,670** | 1,306 |
| Defined contribution plans expense | | **2,104** | 1,753 |
| Defined benefit plans expense | | **479** | 298 |
| Other fringe benefits | | **23,640** | 25,506 |
| Total employee benefits expense | | **$ 137,390** | $ 130,571 |
| Included in restructuring costs and other charges | 3.4 | **$ 54** | $ (188) |
| Included in cost of sales | | **16,544** | 14,328 |
| Included in selling, general and administrative expenses | 3.1 | **120,792** | 116,431 |
| Total employee benefits expense | | **$ 137,390** | $ 130,571 |

### 3.4 RESTRUCTURING COSTS AND OTHER CHARGES, IMPAIRMENT OF NON-FINANCIAL ASSETS AND FINANCE COSTS

This note reflects the financial impacts of a series of initiatives which were approved by the Board of Directors of the Corporation to improve financial performance and to accelerate value creation for the stakeholders.

Total restructuring costs and other charges, impairment of non-financial assets and finance costs incurred in relation to the above were as follows:

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Items related to selling, general and administrative expenses: | | | |
| Severance | 3.3 | **$ 54** | $ (188) |
| Onerous contracts | 8 | **(44)** | 1,066 |
| Other charges | | **64** | 1,253 |
| Restructuring costs and other charges | | **74** | 2,131 |
| Impairment of non-financial assets | 3.2 | **–** | 36 |
| Finance costs − Accretion expense on onerous contracts | 8 | **640** | 768 |
| | | **$ 714** | $ 2,935 |

(Unaudited and in thousands of Canadian dollars, except shares and per share amounts)

## 4. INVENTORY

For the thirteen-week period ended March 29, 2015, an amount of $568,914 of purchases, net of changes in inventory, was expensed in the consolidated statement of income ($565,836 in 2014).

For the thirteen-week period ended March 29, 2015, a net inventory write-down charge of $4,538 ($5,532 in 2014) was recognized in the consolidated statement of income.

## 5. INCOME TAXES

The consolidated effective tax rate was 26.58% (26.75% in 2014) for the thirteen-week period ended March 29, 2015.

In the interim periods, the income tax provision is based on an estimate of the earnings that will be generated in a full year, by jurisdiction. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings by jurisdiction. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods.

## 6. BUSINESS COMBINATION

On January 19, 2015, the Corporation acquired the assets of a dealer located in Ontario, operating in the retail segment.

The results of operations of this business are consolidated from its acquisition date.

The consideration paid for this acquisition amounted to $4,180. Direct acquisition costs of $310 were also recognized in selling, general and administrative expenses for the thirteen-week period ended March 29, 2015. The Corporation financed this acquisition from its available cash and existing credit facility.

The preliminary purchase price allocation of this acquisition was established as follows:

| | | **2015** |
|---|---|---|
| Trade and other receivables | **$** | **2,511** |
| Inventory | | **3,430** |
| Property, plant and equipment and intangibles assets | | **318** |
| Current liabilities | | **(310)** |
| Goodwill [(a)] | | **(1,769)** |
| Cost of acquisition and cash consideration paid | **$** | **4,180** |

[(a)] The preliminary purchase price allocation of the 2015 acquisition is subject to adjustment pending completion of the final valuation. In the statement of income, the impact of preliminary negative goodwill from the transaction was offset by the recording of charges related to the acquired business.

## 7. NON-CURRENT ASSETS HELD FOR SALE

The Corporation intends to dispose of non-current assets held for sale within one year. These are primarily land and buildings in the retail segment which are no longer used in operations and for which the Corporation has established a detailed plan to sell.

The change in non-current assets held for sale is as follows:

| | | **As at March 29, 2015** | | As at March 30, 2014 |
|---|---|---|---|---|
| Balance, beginning of period | **$** | **–** | $ | – |
| Additions | | **3,703** | | 3,165 |
| Balance, end of period | **$** | **3,703** | $ | 3,165 |
| | | | | |
| Non-current assets held for sale | | | | |
| Land and parking lots | **$** | **3,703** | $ | 1,572 |
| Buildings | | **–** | | 1,593 |
| Total | **$** | **3,703** | $ | 3,165 |

(Unaudited and in thousands of Canadian dollars, except shares and per share amounts)

## 8. PROVISIONS AND CONTINGENT LIABILITIES

| | | | | Restructuring [a] | | |
|---|---|---|---|---|---|---|
| | **Litigation** | **Onerous contracts** | **Product warranties** | **Severance** | **Onerous contracts** | **Total** |
| Balance, December 28, 2014 | **$ 6,184** | **$ 127** | **$ 1,573** | **$ 521** | **$ 63,332** | **$ 71,737** |
| Provisions created | **1,247** | **–** | **18** | **–** | **–** | **1,265** |
| Provisions used | **(43)** | **(41)** | **–** | **(192)** | **(13,263)** | **(13,539)** |
| Provisions reversed | **(611)** | **–** | **(175)** | **(55)** | **–** | **(841)** |
| Change in estimates | **(254)** | **–** | **63** | **109** | **(44)** | **(126)** |
| Accretion expense | **–** | **1** | **–** | **–** | **640** | **641** |
| Balance, March 29, 2015 | **$ 6,523** | **$ 87** | **$ 1,479** | **$ 383** | **$ 50,665** | **$ 59,137** |
| Current | **$ 6,523** | **$ 81** | **$ 1,479** | **$ 383** | **$ 27,625** | **$ 36,091** |
| Non-current | **–** | **6** | **–** | **–** | **23,040** | **23,046** |
| Balance, March 29, 2015 | **$ 6,523** | **$ 87** | **$ 1,479** | **$ 383** | **$ 50,665** | **$ 59,137** |

[a] Refer to Note 3.4 for additional information.

| | | | | Restructuring [a] | | |
|---|---|---|---|---|---|---|
| | Litigation | Onerous contracts | Product Warranties | Severance | Onerous contracts | Total |
| Balance, December 29, 2013 | $ 4,967 | $ 567 | $ 1,846 | $ 4,351 | $ 70,960 | $ 82,691 |
| Provisions created | 1,039 | – | 60 | 40 | – | 1,139 |
| Provisions used | (141) | (361) | – | (3,166) | (11,200) | (14,868) |
| Provisions reversed | (169) | – | (299) | (142) | – | (610) |
| Change in estimates | – | (68) | (302) | (86) | 1,066 | 610 |
| Accretion expense | – | 5 | – | – | 768 | 773 |
| Balance, March 30, 2014 | $ 5,696 | $ 143 | $ 1,305 | $ 997 | $ 61,594 | $ 69,735 |
| Current | $ 5,696 | $ 143 | $ 1,305 | $ 997 | $ 30,299 | $ 38,440 |
| Non-current | – | – | – | – | 31,295 | 31,295 |
| Balance, March 30, 2014 | $ 5,696 | $ 143 | $ 1,305 | $ 997 | $ 61,594 | $ 69,735 |

[a] Refer to Note 3.4 for additional information

**LITIGATION**

Various claims and litigation arise in the course of the Corporation's activities and its insurers have taken up the Corporation's defence in some of these cases. The litigation period depends on the time required to obtain a judgment from the Court. Provisions are recognized based on best estimates of the resolution of the litigation. Management does not expect that the outcome of these claims and litigation will have a material and adverse effect on the Corporation's results and deemed its allowances adequate in this regard.

**ONEROUS CONTRACTS**

*Restructuring*

Following store closures in 2012 and in 2013, provisions for onerous contracts were recognized for non-cancellable operating leases for commercial stores which are no longer used or scheduled for closing. The provisions were estimated using contractual obligations at the time of initial recognition and sublease revenue assumptions based on market data and discounted using a weighted average discount rate of 3.65% (4.45% in 2014). For certain sites, the provision was estimated based on termination fees that are expected to be incurred. The remaining terms of these leases vary from one to fifteen years.

## 9. GUARANTEES

In the ordinary course of business, the Corporation reaches agreements that could meet the definition of "guarantees".

Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 65% of the cost of the inventories to a maximum of $48,551. In the event of recourse, this inventory would be sold in the ordinary course of the Corporation's operations. These agreements have undetermined periods. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

(Unaudited and in thousands of Canadian dollars, except shares and per share amounts)

## 10. SHARE CAPITAL

**AUTHORIZED**

Unlimited number of shares:

Common without par value;

Class A preferred shares, without par value, issuable in series:

Series 5, non-cumulative dividend equal to 70% of prime rate, redeemable at the Corporation's option at their issuance price;

Series 6, cumulative dividend of 5.25%, subject to approval by the Board of Directors, fixed for the first five years, redeemable at the Corporation's option at their issuance price;

Series 7, annual cumulative dividend at variable rate, redeemable at the Corporation's option at their issuance price;

Class B preferred shares, 6% non-cumulative dividend, redeemable at the Corporation's option at their par value of $1 each;

Class C preferred shares, issuable in series:

Series 1, non-cumulative dividend equal to 70% of prime rate, redeemable at the Corporation's option at their par value of $1,000 each;

Class D preferred shares, without par value, 4% cumulative dividend, redeemable at their issuance price over a maximum period of ten years from the sixth anniversary of their date of issuance, on the basis of 10% per year.

**ISSUED AND FULLY PAID:**

The following tables present changes in the number of outstanding shares and their carrying amounts:

| | **Common shares** | | **Preferred shares Class A, Series 6** | | **Deposits on common share subscriptions [a]** | | **Share capital** | |
|---|---|---|---|---|---|---|---|---|
| | **Number of shares** | **Amount** | **Number of shares** | **Amount** | **Number of shares** | **Amount** | **Number of shares** | **Amount** |
| Balance, December 28, 2014 | **113,595,635** | **$ 557,528** | **6,900,000** | **$ 172,500** | **–** | **$ 1,101** | **120,495,635** | **$ 731,129** |
| Issuance of share capital in exchange of cash | **1,397** | **20** | **–** | **–** | **–** | **–** | **1,397** | **20** |
| Issuance in exchange of common share subscription deposits | **72,438** | **1,040** | **–** | **–** | **–** | **(1,040)** | **72,438** | **–** |
| Repurchase of common shares for cancellation | **(5,638,100)** | **(27,672)** | **–** | **–** | **–** | **–** | **(5,638,100)** | **(27,672)** |
| Deposits on common share subscriptions received | **–** | **–** | **–** | **–** | **–** | **164** | **–** | **164** |
| Deposits on common share subscriptions refunded | **–** | **–** | **–** | **–** | **–** | **(60)** | **–** | **(60)** |
| Balance, March 29, 2015 | **108,031,370** | **$ 530,916** | **6,900,000** | **$ 172,500** | **–** | **$ 165** | **114,931,370** | **$ 703,581** |

[a] Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at March 29, 2015 the number of outstanding common shares would have increased by 10,364.

| | Common shares | | Preferred shares Class A, Series 6 | | Deposits on common share subscriptions [a] | | Share capital | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| Balance, December 29, 2013 | 120,743,836 | $ 591,173 | 6,900,000 | $ 172,500 | – | $ 1,530 | 127,643,836 | $ 765,203 |
| Issuance of share capital under stock option plan | 16,950 | 215 | – | – | – | – | 16,950 | 215 |
| Issuance in exchange of common share subscription deposits | 128,394 | 1,483 | – | – | – | (1,483) | 128,394 | – |
| Repurchase of common shares for cancellation | (642,300) | (3,146) | – | – | – | – | (642,300) | (3,146) |
| Deposits on common share subscriptions received | – | – | – | – | – | 184 | – | 184 |
| Deposits on common share subscriptions refunded | – | – | – | – | – | (45) | – | (45) |
| Balance, March 30, 2014 | 120,246,880 | $ 589,725 | 6,900,000 | $ 172,500 | – | $ 186 | 127,146,880 | $ 762,411 |

[a] Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at March 30, 2014, the number of outstanding common shares would have increased by 16,632.

On November 14, 2014, the Board of Directors and the Toronto Stock Exchange authorized the Corporation to purchase for cancellation in the normal course of its activities, from November 18, 2014 to November 17, 2015, up to 9.2 million of its common shares, representing 10% of its 92.1 million public float, or 7.94% of its 116.0 million common shares issued and outstanding on November 11, 2014. Under this issuer bid, the purchases will be made at market prices through the facility of the Toronto Stock Exchange or alternative Canadian trading platforms, in accordance with the requirements of the Toronto Stock Exchange. The common shares thereby purchased will be cancelled.

During the thirteen-week period ended March 29, 2015, the Corporation redeemed for cancellation a total of 5,638,100 common shares (642,300 common shares in 2014) at an average price of $13.73 for a total cost of $77,433 ($7,864 in 2014). Of the total cost, $27,672 ($3,146 in 2014) represents the stated value of common shares. The remaining $49,761 ($4,718 in 2014) was recorded against retained earnings.

(Unaudited and in thousands of Canadian dollars, except shares and per share amounts)

## 11. SHARE-BASED PAYMENT

**STOCK OPTION PLAN**

On October 24, 2002, the Board of Directors approved a stock option plan (the "2002 plan") for designated senior executives of the Corporation. The 2002 plan was approved by the shareholders of the Corporation on May 14, 2003. Limitations were put in place under the 2002 plan, notably that the total number of stock options, each exercisable for one common share which may be issued pursuant to the 2002 plan, will not exceed, without the approval of the shareholders, 10% of the common shares issued and outstanding. Option grants are vested over a four-year period following the anniversary date of the grants at 25% per year.

On March 12, 2015, the Board of Directors approved a new stock option plan (the "2015 plan") for designated senior executives of the Corporation, having essentially the same terms and conditions as the 2002 plan. The 2015 plan is expected to be approved by the shareholders of the Corporation at the annual meeting of shareholders to be held on May 12, 2015.

The maximum total number of common shares reserved for issuance under the 2015 plan, subject to certain adjustments is 3,922,940, being the 3,922,940 common shares that remained reserved for issuance under the 2002 plan, as at March 12, 2015, which were transferred to the 2015 plan. The 2002 plan will be terminated following the approval of the 2015 plan.

The weighted average fair value of stock options granted of $4.56 for the thirteen-week period ended March 29, 2015 ($3.54 in 2014) was estimated for each option tranche at the grant date using the Black-Scholes option pricing model on the basis of the following weighted average assumptions:

| | **2015** | 2014 |
|---|---|---|
| Share price at date of grant | **$ 15.01** | $ 11.51 |
| Risk-free interest rate | **1.01 to 1.36 %** | 1.92 to 2.40 % |
| Expected share price volatility [(a)] | **26.99 to 27.76 %** | 27.38 to 28.29 % |
| Expected annual dividend rate | **0.93 %** | 1.22 % |
| Expected term | **7 to 10 years** | 7 to 10 years |
| Exercise price at date of grant | **$ 14.51** | $ 11.55 |

[(a)] The expected volatility is estimated for each award tranche, taking into account the average historical volatility of the share price over the expected term of the options granted.

Compensation cost expensed with respect to this plan amounted to $331 for the thirteen-week period ended March 29, 2015 ($331 in 2014).

A summary of the situation of the Corporation's stock option plan and the changes that occurred during the period is presented below:

| | **As at March 29, 2015** | | As at March 30, 2014 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price** | Options | Weighted average exercise price |
| Outstanding, beginning of period | **1,769,685** | **$ 11.64** | 1,561,360 | $ 11.76 |
| Granted | **388,600** | **14.51** | 436,600 | 11.55 |
| Exercised | **–** | **–** | (16,950) | 10.33 |
| Forfeited | **(24,225)** | **12.91** | (59,000) | 12.06 |
| Outstanding, end of period | **2,134,060** | **12.15** | 1,922,010 | 11.72 |
| Options exercisable, end of period | **974,868** | **$ 12.04** | 688,359 | $ 12.75 |

There were no common shares acquired by option holders for the thirteen-week period ended March 29, 2015. The weighted average price of the common shares acquired by option holders having exercised 16,950 options for the thirteen-week period ended March 30, 2014 was $11.51.

The following table summarizes information relating to stock options outstanding as at March 29, 2015:

| Exercise price | Expiration date | Options outstanding | Options exercisable |
|---|---|---|---|
| $ 9.38 | March 5, 2022 | **183,275** | **136,975** |
| $ 9.97 | September 21, 2021 | **60,000** | **45,000** |
| $ 10.62 | March 11, 2019 | **102,600** | **102,600** |
| $ 10.78 | August 23, 2023 | **165,700** | **41,425** |
| $ 11.11 | March 28, 2023 | **443,900** | **221,950** |
| $ 11.33 | November 20, 2022 | **128,435** | **64,218** |
| $ 11.55 | March 3, 2024 | **406,925** | **102,875** |
| $ 14.18 | March 1, 2018 | **47,800** | **47,800** |
| $ 14.33 | March 7, 2021 | **105,350** | **105,350** |
| $ 14.51 | February 26, 2025 | **383,400** | **–** |
| $ 15.44 | March 9, 2020 | **75,825** | **75,825** |
| $ 23.58 | March 8, 2017 | **30,850** | **30,850** |
| | | **2,134,060** | **974,868** |

(Unaudited and in thousands of Canadian dollars, except shares and per share amounts)

## 11. SHARE-BASED PAYMENT (continued)

### SHARE UNIT PLAN FOR OFFICERS AND KEY EMPLOYEES

The Corporation offers a share unit plan to officers and key employees of the Corporation under which restricted share units ("RSUs") and performance share units ("PSUs") are granted. The RSUs are vested based on passage of time over a maximum term of three years. In addition to such vesting period, the vesting conditions of the PSUs are also linked to the achievement of performance targets. Officers and key employees who hold RSUs and PSUs will be credited with additional units whenever cash dividends are paid on common shares.

The RSUs and PSUs are revalued at fair market value at the end of each reporting period until the vesting date using the market price of the Corporation's common shares. Fair market value changes are recognized as compensation expense with a corresponding amount to trade and other payables in the consolidated statement of financial position. RSUs and PSUs that have been vested will be payable, at the Corporation's option, in cash or common shares, purchased on the secondary market, with an aggregate value equal to the amount that would have been paid in cash.

| | **As at March 29, 2015** | As at March 30, 2014 |
|---|---|---|
| Number of share units: | | |
| Outstanding, beginning of period | **1,681,774** | 1,494,823 |
| Granted | **427,245** | 474,666 |
| Forfeited | **(32,959)** | (45,983) |
| Paid | **(3,115)** | – |
| Outstanding, end of period | **2,072,945** | 1,923,506 |

The compensation expense recorded in the consolidated statement of income for the thirteen-week period ended March 29, 2015 amounted to $3,884 ($1,313 in 2014) and the compensation liability recorded, as at that date, in the consolidated statement of financial position amounted to $20,874 ($4,514 in 2014).

### SHARE UNIT PLAN FOR DIRECTORS

The Corporation offers a deferred share unit plan ("DSU") for outside directors. Pursuant to the DSU plan, outside directors may elect to receive in the form of DSUs any percentage, up to one hundred percent (100%), of their fees payable in respect of serving as director. Under the DSU plan, outside directors are granted, as of the last day of each fiscal quarter of the Corporation, a number of DSUs determined on the basis of the amount of deferred remuneration payable to directors in respect of such quarter divided by the value of a DSU, which is the fair market value of the underlying common shares. Directors who hold DSUs will be credited with additional DSUs whenever cash dividends are paid on common shares. DSUs granted under the DSU plan will be redeemable, and the value thereof payable, only after the holder of DSUs ceases to act as a director of the Corporation. Fair value changes are recognized as compensation expense with a corresponding amount to trade and other payables in the consolidated statement of financial position.

| | **As at March 29, 2015** | As at March 30, 2014 |
|---|---|---|
| Number of deferred share units: | | |
| Outstanding, beginning of period | **383,105** | 423,285 |
| Granted | **24,436** | 35,342 |
| Paid | **–** | (30,141) |
| Outstanding, end of period | **407,541** | 428,486 |

The compensation expense recorded in the consolidated statement of income for the thirteen-week period ended March 29, 2015 amounted to $1,455 (recovery of $338 in 2014) and the compensation liability recorded, as at that date, in the consolidated statement of financial position amounted to $7,186 ($4,791 in 2014).

## 12. FINANCIAL INSTRUMENTS

### FAIR VALUE

The following methods and assumptions were used to determine the estimated fair value for each class of financial instruments:

- The fair value of cash, trade and other receivables, trade and other payables and dividends payable approximates their carrying amount, given the short-term maturity of these instruments;
- The fair value of the bank loans, credit facility and obligations under finance leases is equal to their carrying amount since they bear interest at rates comparable to market rates at the end of the reporting period;
- The fair value of debentures is determined using their bid price at the end of the reporting period;
- The fair value of loans and advances, investment in common shares, mortgage loans and balances of purchase prices is determined based on discounted cash flows using effective interest rates available to the Corporation at the end of the reporting period for similar instruments;
- The fair value of derivative financial instruments is determined by comparing the original rates of the derivatives with rates prevailing at the revaluation date for contracts having similar characteristics (observable market data).

(Unaudited and in thousands of Canadian dollars, except shares and per share amounts)

## 12. FINANCIAL INSTRUMENTS

**FAIR VALUE (continued)**
The fair value hierarchy, carrying amounts and fair values of financial instruments are as follows:

| | | As at March 29, 2015 | | As at March 30, 2014 | |
|---|---|---|---|---|---|
| | **Level** | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| **LOANS AND RECEIVABLES** | | | | | |
| Cash | **2** | **$ 14,228** | **$ 14,228** | $ 25,555 | $ 25,555 |
| Trade and other receivables | **3** | **305,832** | **305,832** | 318,842 | 318,842 |
| Loans and advances | **3** | **7,261** | **7,261** | 10,825 | 10,825 |
| **AVAILABLE FOR SALE** | | | | | |
| Investment in common shares | **3** | **1,089** | **1,089** | – | – |
| **FINANCIAL ASSETS AT FAIR VALUE DESIGNATED AS CASH FLOW HEDGES** | | | | | |
| Derivative financial instruments | **2** | **4,079** | **4,079** | 1,036 | 1,036 |
| **OTHER FINANCIAL LIABILITIES** | | | | | |
| Bank loans | **2** | **1,180** | **1,180** | 2,227 | 2,227 |
| Trade and other payables [(a)] | **2** | **459,172** | **459,172** | 469,638 | 469,638 |
| Dividends payable | **2** | **2,264** | **2,264** | 2,264 | 2,264 |
| Debentures | **2** | **116,526** | **120,626** | 116,377 | 121,210 |
| Credit facility | **2** | **275,593** | **275,593** | 207,400 | 207,400 |
| Mortgage loans and balances of purchase prices | **2** | **22,938** | **22,113** | 10,507 | 9,998 |
| **FINANCIAL LIABILITIES AT FAIR VALUE DESIGNATED AS CASH FLOW HEDGES** | | | | | |
| Derivative financial instruments | **2** | **78** | **78** | 215 | 215 |
| **OTHER LIABILITIES** | | | | | |
| Obligations under finance leases | **2** | **$ 315** | **$ 315** | $ 498 | $ 498 |

[(a)] Includes trade accounts payable, accrued liabilities and certain payroll-related liabilities

**FAIR VALUE HIERARCHY**
The Corporation uses primarily the market approach for recurring fair value measurements of its financial instruments recognized at fair value. The three levels of inputs used for fair value measurements are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 13. SEGMENT INFORMATION

| | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| | *Notes* | **Retail** | **Distribution** | **Total** | Retail | Distribution | Total |
| Segment revenues | | **$ 528,961** | **$ 529,413** | **$ 1,058,374** | $ 501,044 | $ 531,850 | $ 1,032,894 |
| Intersegment revenues and royalties | | **1,150** | **278,454** | **279,604** | 2,518 | 266,084 | 268,602 |
| Revenues from external customers | | **527,811** | **250,959** | **778,770** | 498,526 | 265,766 | 764,292 |
| Earnings (loss) before interest, taxes, depreciation, amortization, impairment of non-financial assets, restructuring costs and other charges | | **3,747** | **8,448** | **12,195** | (2,169) | 12,173 | 10,004 |
| Restructuring costs and other charges | *3.4* | **74** | **–** | **74** | 2,131 | – | 2,131 |
| Earnings (loss) before interest, taxes, depreciation, amortization and impairment of non-financial assets | | **3,673** | **8,448** | **12,121** | (4,300) | 12,173 | 7,873 |
| Depreciation, amortization and impairment of non-financial assets | *3.2* | | | **21,247** | | | 23,374 |
| Operating loss | | | | **(9,126)** | | | (15,501) |
| Finance costs | | | | **4,096** | | | 4,457 |
| Loss before income taxes | | | | **$ (13,222)** | | | $ (19,958) |

(Unaudited and in thousands of Canadian dollars, except shares and per share amounts)

## 14. NET LOSS PER SHARE

The table below shows the calculation of basic and diluted net loss per share:

| | **2015** | 2014 |
|---|---|---|
| Net loss attributable to owners of RONA inc. | **$ (9,388)** | $ (14,265) |
| Dividends on preferred shares, including taxes | **(2,317)** | (2,264) |
| Net loss attributable to participating shares | **(11,705)** | (16,529) |
| Number of shares (in units): | | |
| Weighted average number of shares used to compute basic and diluted net loss per share attributable to owners of RONA inc. [a] | **110,159,912** | 120,448,681 |
| Basic and diluted net loss per share attributable to owners of RONA inc. | **$ (0.11)** | $ (0.14) |

(a) As at March 29, 2015, 2,134,060 stock options (1,922,010 options in 2014) were excluded from the calculation of diluted net loss per share attributable to owners of RONA inc. since these options have an antidilutive effect.

## 15. RELATED PARTY TRANSACTIONS

On December 29, 2014, the Corporation acquired for a consideration of $19,221 all the remaining non-controlling interests of a subsidiary, which is specialized in the sale of lumber and building materials to contractors operating in the retail segment. This transaction resulted in a $16,568 decrease in non-controlling interests and the excess of purchase price over net book value acquired of $2,653 was recorded against retained earnings. The balance of purchase price of $19,221 is included in instalments on long-term debt.