RONA

*MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS*

*THIRD QUARTER 2012*

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RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. The Corporation operates a network of close to 800 corporate, franchise and affiliate stores of various sizes and formats under several banners, and a network of 14 hardware and construction materials distribution centres which are flexible and perfectly adapted to the diverse needs of its clientele. RONA is also a leader in the specialized plumbing and HVAC market, primarily serving commercial and professional customers with a network of close to 60 sales outlets and four distribution centres across the country.

In total, RONA supplies nearly 1,500 sales outlets, of which more than 830 are under one of its banners, as well as close to 600 clients, independent dealers, in its distribution network. With nearly 30,000 employees working under its family of banners in every region of Canada, the RONA store network generates consolidated sales of $4.8 billion and over $6 billion taking into account the total impact of the retail sales of franchise dealers, affiliates and other independent dealers who buy their supplies at RONA. For more information, please visit rona.ca.

RONA's sales include:

- Retail sales generated by its retail corporate stores
- Royalties on franchise retail sales
- A share of retail sales generated by franchise stores in which RONA holds an interest
- Wholesale sales generated by franchise stores (net of RONA's share in these stores)
- Wholesale sales generated by affiliate dealer-owned stores

### FINANCIAL STATEMENTS

This *Management's Discussion and Analysis* should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and related notes for the 13-week and 39-week periods ending September 23, 2012. These interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). The monetary amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated. RONA has filed its consolidated financial statements with the Canadian Securities Administrators and they can be viewed online at www.sedar.com or on RONA's website at www.rona.ca.

### NON-GAAP PERFORMANCE MEASURES

In this report, as in its internal management, RONA uses the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interests" (EBITDA). RONA also uses the concept of "adjusted gross margin," which corresponds to revenues less the cost of goods sold, plus adjustments for network support.

While EBITDA does not have a definition that is standardized by IFRS, it is widely used in our industry and in financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Adjusted gross margin is used by RONA's management to analyze the profitability of our network, after adjustments for network support. Given that these measures are not standardized, EBITDA and adjusted gross margin cannot be compared from one company to the next. Still, we establish them in the same way for each of the segments identified, and, unless expressly mentioned, our method does not change over time. EBITDA and adjusted gross margin must not be considered separately or as a substitute for other performance measures calculated according to IFRS, but rather as additional information.

The following tables show the reconciliation of these two measures to IFRS:

## Reconciliation of non-GAAP measures

| (Unaudited, in thousands of dollars, except margins in %) | Quarters ended September 23, 2012 | Quarters ended September 25, 2011 | $ change from 2011 | % change from 2011 |
|---|---|---|---|---|
| Revenues | 1,336,560 | 1,347,135 | (10,575) | (0.8%) |
| Cost of sales | (976,832) | (968,696) | (8,136) | (0.8%) |
| Gross profit | 359,728 | 378,439 | (18,711) | (4.9%) |
| Gross margin (gross profit/revenues) | 26.91% | 28.09% | - | -118 b.p. |
| Adjustments for network support[(1)] | 29,621 | 33,850 | (4,229) | (12.5%) |
| Adjusted gross profit | 389,349 | 412,289 | (22,940) | (5.6%) |
| Adjusted gross margin (adjusted gross profit/revenues) | 29.13% | 30.60% | - | -147 b.p. |
| Adjusted gross profit (excluding unusual items) | 392,029 | 412,289 | (20,260) | (4.9%) |
| Adjusted gross margin (adjusted gross profit/revenues) (excluding unusual items) | 29.33% | 30.60% | - | -127 b.p. |
| Adjusted selling, general and administrative expenses | (347,830) | (306,873) | (40,957) | (13.3%) |
| Adjusted selling, general and administrative expenses (excluding unusual items) | (324,840) | (306,873) | (17,967) | (5.9%) |
| Adjusted selling, general and administrative expenses (excluding unusual items and non-recurring items) | (312,364) | (306,873) | (5,491) | (1.8%) |
| Rent | 38,970 | 39,536 | (566) | (1.4%) |
| EBITDA before rent | 80,489 | 144,952 | (64,463) | (44.5%) |
| EBITDA before rent (excluding unusual items) | 106,159 | 144,952 | (38,793) | (26.8%) |
| EBITDA before rent (excluding unusual items and non-recurring items) | 118,635 | 144,952 | (26,317) | (18.2%) |
| EBITDA margin before rent (EBITDA before rent/revenues) | 6.02% | 10.76% | - | -474 b.p. |
| EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items) | 7.94% | 10.76% | - | -282 b.p. |
| EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items and non-recurring items) | 8.88% | 10.76% | - | -188 b.p. |
| EBITDA | 41,519 | 105,416 | (63,897) | (60.6%) |
| EBITDA (excluding unusual items) | 67,189 | 105,416 | (38,227) | (36.3%) |
| EBITDA (excluding unusual items and non-recurring items) | 79,665 | 105,416 | (25,751) | (24.4%) |
| EBITDA margin (EBITDA/revenues) | 3.11% | 7.83% | - | - 472 b.p. |
| EBITDA margin (EBITDA/revenues, excluding unusual items) | 5.03% | 7.83% | - | -280 b.p. |
| EBITDA margin (EBITDA/revenues, excluding unusual items and non-recurring items) | 5.96% | 7.83% | - | -187 b.p. |
| Finance income | (1,481) | (1,486) | 5 | 0.3% |
| Amortization, depreciation and impairment of non-financial assets | (25,224) | (26,947) | 1,723 | 6.4% |
| Amortization, depreciation and impairment of non-financial assets (excluding unusual items) | (25,181) | (26,947) | 1,766 | 6.6% |
| Operating profit | 14,814 | 76,983 | (62,169) | (80.8%) |
| Operating profit (excluding unusual items) | 40,527 | 76,983 | (36,456) | (47.4%) |
| Operating profit (excluding unusual items and non-recurring items) | 53,003 | 76,983 | (23,980) | (31.1%) |
| Net income attributable to participating shares | 5,126 | 47,750 | (42,624) | (89.3%) |
| Net income attributable to participating shares (excluding unusual items) | 23,948 | 47,750 | (23,802) | (49.8%) |
| Net income attributable to participating shares (excluding unusual items and non-recurring items) | 33,080 | 47,750 | (14,670) | (30.7%) |

(1) Corresponds to other costs incurred in bringing the inventory to its present location and condition.

## Reconciliation of non-GAAP measures

| (Unaudited, in thousands of dollars, except margins in %) | Year to date September 23, 2012 | September 25, 2011 | $ change from 2011 | % change from 2011 |
|---|---|---|---|---|
| Revenues | 3,688,631 | 3,635,392 | 53,239 | 1.5% |
| Cost of sales | (2,684,118) | (2,610,562) | (73,556) | (2.8%) |
| Gross profit | 1,004,513 | 1,024,830 | (20,317) | (2.0%) |
| Gross margin (gross profit/revenues) | 27.23% | 28.19% | - | -96 b.p. |
| Adjustments for network support[1] | 81,065 | 84,066 | (3,001) | (3.6%) |
| Adjusted gross profit | 1,085,578 | 1,108,896 | (23,318) | (2.1%) |
| Adjusted gross margin (adjusted gross profit/revenues) | 29.43% | 30.50% | - | -107 b.p. |
| Adjusted gross profit (excluding unusual items) | 1,093,826 | 1,108,896 | (15,070) | (1.4%) |
| Adjusted gross margin (adjusted gross profit/revenues) (excluding unusual items) | 29.65% | 30.50% | - | -85 b.p. |
| Adjusted selling, general and administrative expenses | (946,366) | (905,530) | (40,836) | (4.5%) |
| Adjusted selling, general and administrative expenses (excluding unusual items) | (920,944) | (905,530) | (15,414) | (1.7%) |
| Adjusted selling, general and administrative expenses (excluding unusual items and non-recurring items) | (908,468) | (905,530) | (2,938) | (0.3%) |
| Rent | 118,334 | 121,352 | (3,018) | (2.5%) |
| EBITDA before rent | 257,546 | 324,718 | (67,172) | (20.7%) |
| EBITDA before rent (excluding unusual items) | 291,216 | 324,718 | (33,502) | (10.3%) |
| EBITDA before rent (excluding unusual items and non-recurring items) | 303,692 | 324,718 | (21,026) | (6.5%) |
| EBITDA margin before rent (EBITDA before rent/revenues) | 6.98% | 8.93% | - | -195 b.p. |
| EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items) | 7.89% | 8.93% | - | -104 b.p. |
| EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items and non-recurring items) | 8.23% | 8.93% | - | -70 b.p. |
| EBITDA | 139,212 | 203,366 | (64,154) | (31.5%) |
| EBITDA (excluding unusual items) | 172,882 | 203,366 | (30,484) | (15.0%) |
| EBITDA (excluding unusual items and non-recurring items) | 185,358 | 203,366 | (18,008) | (8.9%) |
| EBITDA margin (EBITDA/revenues) | 3.77% | 5.59% | - | -182 b.p. |
| EBITDA margin (EBITDA/revenues, excluding unusual items) | 4.69% | 5.59% | - | -90 b.p. |
| EBITDA margin (EBITDA/revenues, excluding unusual items and non-recurring items) | 5.03% | 5.59% | - | -56 b.p. |
| Finance income | (3,954) | (4,197) | 243 | 5.8% |
| Amortization, depreciation and impairment of non-financial assets | (77,752) | (79,306) | 1,554 | 2.0% |
| Amortization, depreciation and impairment of non-financial assets (excluding unusual items) | (72,723) | (79,306) | 6,583 | 8.3% |
| Operating profit | 57,506 | 119,863 | (62,357) | (52.0%) |
| Operating profit (excluding unusual items) | 96,205 | 119,863 | (23,658) | (19.7%) |
| Operating profit (excluding unusual items and non-recurring items) | 108,681 | 119,863 | (11,182) | (9.3%) |
| Net income attributable to participating shares | 25,963 | 67,209 | (41,246) | (61.4%) |
| Net income attributable to participating shares (excluding unusual items) | 54,291 | 67,209 | (12,918) | (19.2%) |
| Net income attributable to participating shares (excluding unusual items and non-recurring items) | 63,423 | 67,209 | (3,786) | (5.6%) |

[1] Corresponds to other costs incurred in bringing the inventory to its present location and condition.

### 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 have 13 weeks. The fiscal year ended December 25, 2011, had 52 weeks of operations, while the year ending December 30, 2012 will have 53 weeks.

### UPDATE ON THE CORPORATION'S STRATEGIC ORIENTATION

Announced in February 2012, the theme of RONA's 2012-2014 business plan is *New Realities, New Solutions*. The plan addresses the need to adapt the offering in our industry to new expectations and changes in the behaviour of many consumers. For a number of years RONA has foreseen the emergence in the market of proximity stores that meet the demands of consumers who want a higher level of service. RONA pioneered in this area by reinventing the proximity store in the early 2000s. The success of several generations of this new format confirms RONA's market analyses. The new plan capitalizes on our ongoing market research, including studies on consumer expectations and behaviours, as well as our continual experimentation with new store formats and new retail sales approaches. Below is an update on the plan's results since the start of the fiscal year.

## *New Realities, New Solutions* Plan
## Update – Fiscal year to date at November 7, 2012

### 1. Set up new integrated digital platform

- Launch of the website rona.ca, consumers and businesses.
- Marked increase in online sales to an average basket of more than $200.
- Strong growth in traffic on the RONA digital platforms: rona.ca, online flyer, coupons.rona.ca, ronamag, Facebook, YouTube, etc.
- More than 1.3 million subscribers to the RONA email newsletter.
- Launch of integrated pre-Olympic and Olympic advertising campaign on multiple platforms.
- Launch of new RONA mobile app in early August, with close to 50,000 downloads to date.

### 2. Redeployment of sales volume to proximity and satellite stores in close to 20% of the corporate-store network

- Closures of four of the ten big-box stores slated for closure in 2012: the stores in Brampton, Mississauga and Whitby, in Ontario, and Calgary North, and phased closure of the big-box store in Edmonton West, Alberta. The process of transferring customers and sales volume to other stores in the network is underway.
- Transfer of customers and sales volume from our conventional store in Peterborough, Ontario, to that of the existing Millwork store recruited in this area.
- Thirteen prime sites being negotiated, two sites secured and six leases signed for the redeployment of sales volume from big-box stores to proximity and satellite stores.
- Opening in October and June of satellite stores in the communities of New Westminster, British Columbia, and Douglasdale, Alberta.
- Early August opening of first new-concept proximity store in Edmonton West, Alberta. This store is generating an average basket that is 20% higher than that of the big-box store it replaces.
- Expansion of satellite store in Georgetown, Ontario, from 4,800 square feet to 7,100 square feet, just one year after it opened.
- Consolidation of a RONA and a TOTEM proximity store in Medicine Hat, Alberta.
- Consolidation of TOTEM and RONA contractor yards in Calgary and Edmonton, Alberta.

### 3. Further development of the commercial and professional segment

- Optimized recent investments: acquisitions of Don Park, MPH and Décoration 25 (20 outlets in total), addition of five outlets, 175,000-square-foot expansion of the Concord distribution centre in Ontario, and 23,000-square-foot expansion of the Montreal distribution centre, in Quebec.
- Changed the management and operating structure and implemented an efficiency improvement plan.

### 4. Ongoing development of the RONA dealer-owner network

- Recruitment of two important dealers in Ontario: Kemptville Building Center in November and Millwork in May.
- Expansion projects of more than $40 million to date and another $50 million scheduled for 2013.
- New dealer support team that combines the best aspects of RONA and TruServ Canada.

### 5. Anticipated annual recurring benefit of $10 million in 2012, $30 million in 2013 and $40 million in 2014

- Deliberate postponement of the closure of five big-box stores, to ensure closures are aligned with the opening of new proximity and satellite stores.
- Postponement decreases annual recurring benefit to $6 million for 2012 and $25 million for 2013.
- Still well positioned to achieve anticipated annual benefits of more than $40 million in 2014.

### 6. Planned investment of $70 million in property, plant and equipment, financed from the sale of non-strategic assets

- Planned investments of less than $20 million in property, plant and equipment for 2012 and $50 million for 2013.
- Sale of $10.9 million in non-strategic assets since the start of the fiscal year.
- More than $25 million in assets held for sale in the short-term and more than $75 million identified for the longer term.

### 7. Planned restructuring costs of $110 million related to redeployment of the sales volume in 20% of the corporate-store network

- $38.7 million recognized since the plan was put in place in February 2012.
- Given the postponement in store closures and in the reduction of the square-footage of certain stores, anticipated costs are now $50 million for 2012 and $60 million for 2013.

Note that in addition to positioning RONA in the forefront of its industry, the *New Realities, New Solutions* plan was designed to address the three main financial priorities announced by the Corporation in the third quarter of 2011: to improve efficiency, optimize capital structure and increase return on capital. The plan will provide important leverage in improving return on capital. When it was introduced, it was expected that it would generate an estimated annualized contribution to EBITDA of $10 million starting in the fourth quarter 2012, more than $30 million for fiscal 2013, and more than $40 million starting in 2014.

The current situation does not make it easy to implement our plan; but implement we must to ensure a solid and sustainable financial performance for RONA and our shareholders. To make sure the closures are appropriately coordinated with the sales volume being redeployed to new proximity and satellite stores in targeted regions and to minimize the financial impact on RONA, we have deliberately postponed the closing of five big-box stores. This postponement decreases the annual recurring benefit to $6 million for 2012 and to $25 million for 2013. We are, however, still in a good position to achieve anticipated annualized benefits of more than $40 million in 2014.

Our actions are always dictated by our three financial priorities. This disciplined approach is focused on achieving a greater than 10% return on capital in the medium term. We made steady progress in this area during the four consecutive quarters ending on June 24, 2012. This upward trend was interrupted in the last quarter, as a sharp deterioration in market conditions and a change in our sales mix in favour of lower-margin products affected our operating income. However, the continuation of our capital structure optimization initiatives, namely a higher inventory turnover rate and disciplined investment management, allowed us to mitigate the impact of the decrease on our return on capital and protect our strong balance sheet.

Given the highly promotional and competitive environment, the expected pressure on same-store sales and the impact of inflation on operating and administrative costs, new operational initiatives and efficiency measures are being implemented to address these elements and limit the decrease in profitability in coming quarters. Moreover, our New Realities, New Solutions plan will continue to have an increasingly positive impact.

The following table shows achievements since the Corporation's three financial priorities were adopted in the third quarter of 2011.

| FINANCIAL PRIORITIES | ACHIEVEMENTS VS PRIORITIES (excluding unusual and non-recurring items) | | | | | |
|---|---|---|---|---|---|---|
| | Q3-2011 | Q4-2011 | Q1-2012 | Q2-2012 | Q3-2012 | |
| 1. IMPROVE EFFICIENCY | | | | | | |
| Same-store sales trending upward | ✓ | ✓ | ✓ | ✓ | -1% | × |
| Increase in adjusted gross margin in dollars | ✓ | ✓ | ✓ | ✓ | -$20.3 M | × |
| Decrease in comparable SG&A | ✓ | ✓ | ✓ | ✓ | +$2.2 M | × |
| Increase in EBITDA margin | ✓ | ✓ | ✓ | ✓ | -187 b.p. | × |
| 2. OPTIMIZE CAPITAL STRUCTURE | | | | | | |
| Sale of assets | ✓ | ✓ | ✓ | ✓ | $0.0 M | × |
| CAPEX/Amortization and depreciation | ✓ | ✓ | ✓ | ✓ | 0.8X | ✓ |
| Inventory turnover | ✓ | ✓ | ✓ | ✓ | 3.54 vs 3.39 | ✓ |
| Share repurchase | ✓ | ✓ | ✓ | ✓ | N/A* | n/a* |
| 3. INCREASE RETURN ON CAPITAL | | | | | | |
| After-tax EBIT | ✓ | ✓ | ✓ | ✓ | -$15.9 M | × |
| Disciplined capital management (1) | ✓ | ✓ | ✓ | ✓ | -$24.1 M | ✓ |
| Return on capital (2) | ✓ | ✓ | ✓ | ✓ | 4.8% vs 5.4% | × |

(1) Capital equals net working capital plus property, plant and equipment and intangible assets plus non-current assets held for sale plus goodwill plus current projects plus other financial and non-current assets plus deferred income tax assets minus other non-current liabilities minus deferred tax liabilities.
(2) Average return on capital equals after-tax EBIT, excluding unusual and non-recurring items/average capital.
* The Corporation was prohibited from trading for most of the quarter due to the unsolicited acquisition proposal received from U.S.-based Lowe's.

## CONSOLIDATED RESULTS FOR THIRD QUARTER 2012

*The results analyzed in this section are for the 13 weeks ended September 23, 2012 and, when compared, are compared to the results for the 13 weeks ended September 25, 2011, unless otherwise indicated.*

RONA has two reportable segments: (1) distribution and (2) retail and commercial.

The retail and commercial segment groups RONA's corporate and franchised stores ("Retail"), and its Commercial and Professional Market division ("Commercial").

The table below summarizes the Corporation's segment results.

| Key segment figures | Quarters ended | | | |
|---|---|---|---|---|
| (in thousands of dollars) | September 23, 2012 | September 25, 2011 | $ change from 2011 | % change from 2011 |
| **Segment revenues** | | | | |
| Retail and commercial | 1,026,174 | 1,045,115 | (18,941) | (1.8%) |
| Distribution | 626,191 | 607,200 | 18,991 | 3.1% |
| Total | 1,652,365 | 1,652,315 | 50 | 0.0% |
| **Intersegment revenues and royalties** | | | | |
| Retail and commercial | (4,305) | (7,206) | 2,901 | 40.3% |
| Distribution | (311,500) | (297,974) | (13,526) | (4.5%) |
| Total | (315,805) | (305,180) | (10,625) | (3.5%) |
| **Revenues** | | | | |
| Retail and commercial | 1,021,869 | 1,037,909 | (16,040) | (1.5%) |
| Distribution | 314,691 | 309,226 | 5,465 | 1.8% |
| Total | 1,336,560 | 1,347,135 | (10,575) | (0.8%) |
| **EBITDA (before unusual items and non-recurring items)** | | | | |
| Retail and commercial | 60,741 | 85,288 | (24,547) | (28.8%) |
| Distribution | 18,924 | 20,128 | (1,204) | (6.0%) |
| Total | 79,665 | 105,416 | (25,751) | (24.4%) |
| **EBITDA margin (before unusual items and non-recurring items)** | | | | |
| Retail and commercial | 5.94% | 8.22% | - | -228 b.p. |
| Distribution | 6.01% | 6.51% | - | -50 b.p. |
| Total | 5.96% | 7.83% | - | -187 b.p. |
| **EBITDA (before unusual items)** | | | | |
| Retail and commercial | 51,627 | 85,288 | (33,661) | (39.5%) |
| Distribution | 15,562 | 20,128 | (4,566) | (22.7%) |
| Total | 67,189 | 105,416 | (38,227) | (36.3%) |
| **EBITDA margin (before unusual items)** | | | | |
| Retail and commercial | 5.05% | 8.22% | - | -317 b.p. |
| Distribution | 4.95% | 6.51% | - | -156 b.p. |
| Total | 5.03% | 7.83% | - | -280 b.p. |
| **EBITDA** | | | | |
| Retail and commercial | 25,957 | 85,288 | (59,331) | (69.6%) |
| Distribution | 15,562 | 20,128 | (4,566) | (22.7%) |
| Total | 41,519 | 105,416 | (63,897) | (60.6%) |
| **EBITDA margin** | | | | |
| Retail and commercial | 2.54% | 8.22% | - | -568 b.p. |
| Distribution | 4.95% | 6.51% | - | -156 b.p. |
| Total | 3.11% | 7.83% | - | -472 b.p. |

After achieving, for four consecutive quarters, results consistent with its three financial priorities, which are to improve efficiency, optimize the capital structure and increase the return on capital, RONA saw its progress interrupted in a quarter marked by a decline in the Canadian hardware-renovation industry as a whole. The drop in sales, coupled with more intense competition, put pressure on profit margins. In this adverse environment, RONA used dynamic promotions to limit to nearly 1% the pull back in the network's consolidated and same-store sales. While countering the effects of the market slowdown, RONA continued to manage its capital with rigour and discipline. Indeed, the cash flows generated by the Corporation's operations almost doubled versus the same period in 2011, to $149.4 million.

*Revenues*

Consolidated revenues for the third quarter 2012 stood at $1,336.6 million, down $10.6 million or 0.8%, year over year. The decrease stems from the 1% decrease in same-store sales, partially offset by the opening of new stores and dealer recruitment.

*Same-store sales*

As reported in the second quarter of 2012, the purpose of the new method of calculating same-store sales is to better represent the performance of the RONA network as a whole. The calculation now includes same-store distribution sales to RONA affiliate dealer-owners, who account for more than 25% of total sales. Note that same-store sales for the past nine quarters were restated in Management's Discussion and Analysis. After improving from February to June, market conditions during the quarter reflected renewed consumer caution, or even reluctance, with respect to spending. In response to this attitude, all industry stakeholders, including RONA, intensified their promotional activities, which exerted downward pressure on prices. RONA's prompt response to the re-emergence of this difficult environment limited to 1% the decrease in same-store sales across the RONA network. For the retail and commercial segment alone, same-store sales were down 1.8%, while same-store distribution sales to all RONA dealers grew 3.8%.

*Unusual and non-recurring items*

As announced upon release of fiscal 2011 year-end results, unusual items totalling $25.7 million were recognized under the program to redeploy sales volume from the network of big-box stores to proximity and satellite stores. A portion of these items, $2.7 million, was deducted from gross margin. The remaining $23.0 million was recognized in the Corporation's selling, general and administrative expenses. The total net after-tax amount of these items was $18.8 million, or $0.16 per share. These items required a cash outlay of $3.1 million. Note that these unusual items are presented separately under Restructuring costs, impairment of non-financial assets and other charges in the consolidated income statement. In the third quarter, the Corporation also recorded other non-recurring items, namely costs incurred following the non-binding and unsolicited offer by Lowe's, severance payments related to an administrative-services reorganization in July 2012 and the one-time increase in advertising expense for the Olympic campaign. These costs, totalling $12.5 million, were recognized in selling, general and administrative expenses. The total net after-tax amount of these items was $9.2 million, or $0.07 per share.

The table below summarizes RONA's performance including and excluding unusual items and non-recurring items.

| | Quarters ended | | | |
|---|---|---|---|---|
| | September 23, 2012 | September 25, 2011 | $ change from 2011 | % change from 2011 |
| EBITDA | 41.5 | 105.4 | (63.9) | (60.6%) |
| EBITDA excluding unusual items | 67.2 | 105.4 | (38.2) | (36.3%) |
| EBITDA excluding unusual items and non-recurring items | 79.7 | 105.4 | (25.7) | (24.4%) |
| EBITDA margin | 3.11% | 7.83% | - | -472 b.p. |
| EBITDA margin excluding unusual items | 5.03% | 7.83% | - | -280 b.p. |
| EBITDA margin excluding unusual items and non-recurring items | 5.96% | 7.83% | - | -187 b.p. |
| Diluted net earnings per share | $0.04 | $0.36 | ($0.32) | (88.9%) |
| Diluted net earnings per share excluding unusual items | $0.20 | $0.36 | ($0.16) | (44.4%) |
| Diluted net earnings per share excluding unusual items and non-recurring items | $0.27 | $0.36 | ($0.09) | (25.0%) |

*Gross margin*

Gross margin amounted to 26.91%, down 118 basis points from the third quarter of 2011. Adjusted gross margin excluding unusual items was down 127 basis points to 29.33%. This decrease stems mainly from intensified competition, which led to an increase in promotional activities and downward pressure on prices in several product categories, coupled with higher costs for certain construction materials, such as lumber. The decrease also stems from a major increase in sales of building materials that had a lower margin than hardware products.

*Selling, general and administrative expenses*

Adjusted selling, general and administrative expenses rose by $41.0 million in the third quarter, from $306.9 million in 2011 to $347.8 million in 2012. More than 85% of this increase is due to unusual or non-recurring items. The remainder stems mainly from expenses related to development of the Commercial and Professional Market division network, as observed since the beginning of the year, and store acquisitions and openings.

*EBITDA*

In the third quarter, EBITDA before unusual and non-recurring items amounted to $79.7 million, versus $105.4 million in the third quarter of 2011, a decrease of $25.7 million, or 24.4%. The change is mainly due to the decrease in adjusted gross profit and increased selling, general and administrative expenses.

The one-time increase of $3.2 million in operating costs in the Commercial and Professional Market division associated with the network expansion, had a negative impact on EBITDA. Although the network expansion is on track to realizing its full potential, a major efficiency improvement plan has been put in place in this division to quickly reduce operating costs to a level more in line with the division's historical performance.

EBITDA margin before unusual and non-recurring items was down 187 basis points, from 7.83% in third quarter 2011 to 5.96% in 2012. The decrease is primarily due to significant downward pressure on the Corporation's gross margin given the change in product mix, customers and particularly difficult market conditions.

EBITDA after unusual and non-recurring items amounted to $41.5 million, compared to $105.4 million in 2011. EBITDA margin after unusual and non-recurring items fell from 7.83% in the third quarter of 2011 to 3.11% in 2012.

*Interest, amortization, depreciation and impairment*
Interest expense on long-term debt and bank loans was down $1.4 million, or 21.8%, for the quarter. The decrease is due to the interest savings generated by the $283 million debenture repurchase at the end of 2011, and to strict management of the balance sheet and spending on property, plant and equipment, partially offset by greater use of credit facilities versus the corresponding quarter of 2011. Amortization, depreciation and impairment of non-financial assets expenses before unusual items were also down for the quarter, from $26.9 million to $25.2 million, a decrease of $1.7 million, or 6.6%, stemming from a significant reduction in capital investments in 2011 and 2012, as well as the asset write-downs at the end of fiscal 2011.

*Net income*
Although the decrease in EBITDA was partially offset by the decrease in financial expenses and amortization and depreciation expense, net income before unusual and non-recurring items attributable to participating shares after the dividend on preferred shares was down from $47.8 million, or $0.36 per share (diluted) in 2011 to $33.1 million, or $0.27 per share (diluted).

After recognition of unusual and non-recurring items totalling $28.0 million after tax, net income attributable to participating shares after the dividend on preferred shares declined from $47.8 million to $5.1 million. Diluted net earnings per share went from $0.36 to $0.04. Note that the average number of shares outstanding used to calculate net earnings per share decreased from 131.1 million shares in third quarter 2011 to 121.4 million shares in third quarter 2012 following the share repurchases made under the share repurchase in the normal course of business plan put in place by the Corporation in November 2011. To date the average purchase price is $9.47 per share.

## CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 23, 2012

*The results analyzed in this section are for the 39-week period ending September 23, 2012 and, when compared, are compared to the results for the 39-week period ending September 25, 2011, unless otherwise indicated.*

| Key segment figures | Year to date | | | |
|---|---|---|---|---|
| (in thousands of dollars) | September 23, 2012 | September 25, 2011 | $ change from 2011 | % change from 2011 |
| Segment revenues | | | | |
| Retail and commercial | 2,763,412 | 2,753,952 | 9,460 | 0.3% |
| Distribution | 1,891,805 | 1,818,432 | 73,373 | 4.0% |
| Total | 4,655,217 | 4,572,384 | 82,833 | 1.8% |
| Intersegment revenues and royalties | | | | |
| Retail and commercial | (12,729) | (20,836) | 8,107 | 38.9% |
| Distribution | (953,857) | (916,156) | (37,701) | (4.1%) |
| Total | (966,586) | (936,992) | (29,594) | (3.2%) |
| Revenues | | | | |
| Retail and commercial | 2,750,683 | 2,733,116 | 17,567 | 0.6% |
| Distribution | 937,948 | 902,276 | 35,672 | 4.0% |
| Total | 3,688,631 | 3,635,392 | 53,239 | 1.5% |
| EBITDA (before unusual items and non-recurring items) | | | | |
| Retail and commercial | 129,970 | 154,677 | (24,707) | (16.0%) |
| Distribution | 55,388 | 48,689 | 6,699 | 13.8% |
| Total | 185,358 | 203,366 | (18,008) | (8.9%) |
| EBITDA margin (before unusual items and non-recurring items) | | | | |
| Retail and commercial | 4.73% | 5.66% | - | -93 b.p. |
| Distribution | 5.91% | 5.40% | - | 51 b.p. |
| Total | 5.03% | 5.59% | - | -56 b.p. |
| EBITDA (before unusual items) | | | | |
| Retail and commercial | 120,856 | 154,677 | (33,821) | (21.9%) |
| Distribution | 52,026 | 48,689 | 3,337 | 6.9% |
| Total | 172,882 | 203,366 | (30,484) | (15.0%) |
| EBITDA margin (before unusual items) | | | | |
| Retail and commercial | 4.39% | 5.66% | - | -127 b.p. |
| Distribution | 5.55% | 5.40% | - | 15 b.p. |
| Total | 4.69% | 5.59% | - | -90 b.p. |
| EBITDA | | | | |
| Retail and commercial | 87,186 | 154,677 | (67,491) | (43.6%) |
| Distribution | 52,026 | 48,689 | 3,337 | 6.9% |
| Total | 139,212 | 203,366 | (64,154) | (31.5%) |
| EBITDA margin | | | | |
| Retail and commercial | 3.17% | 5.66% | - | -249 b.p. |
| Distribution | 5.55% | 5.40% | - | 15 b.p. |
| Total | 3.77% | 5.59% | - | -182 b.p. |

### *Revenues*

Consolidated revenues for the first nine months of 2012 rose to $3,688.6 million, up $53.2 million, or 1.5%, over the corresponding quarter in 2011. The increase stems from an 8.4% increase in sales in the Commercial and Professional Market Division, new store openings, the recruiting of new dealer-owners and higher same-store sales in the RONA network, particularly in distribution sales to affiliate dealers.

### *Same-store sales*

Same-store sales for the RONA network as a whole (retail, commercial and distribution) remained at the same level as in 2011. This performance stems from a 6.2% increase in same-store distribution sales to affiliate dealer-owners. Same-store sales in the retail and commercial segment were, for their part, down 1.2%, given the negative impact of the mix of products sold and consumers' return to a more cautious approach as of late May.

*Unusual and non-recurring items*

Unusual items totalling $38.7 million were recognized during the first three quarters under the program to redeploy sales volume from the big-box store network to proximity and satellite stores, as anticipated when fiscal 2011 year-end results were released. A portion of these items, amounting to $8.2 million, was deducted from gross profit. Another portion, $25.5 million, was recognized in the Corporation's selling, general and administrative expense, and the remaining $5 million was recognized in amortization, depreciation and impairment of non-financial assets expenses. The net total after-tax amount of these items was $28.3 million, or $0.23 per share. These items entailed a cash outflow of $3.8 million. Note that these unusual items are presented separately under Restructuring costs, impairment of non-financial assets and other charges in the consolidated income statement. In the first nine months of the fiscal year, the Corporation also recorded non-recurring items due to costs resulting from the unsolicited, non-binding proposal from Lowe's, severance payments related to an administrative-services reorganization in July 2012 and the temporary increase in advertising expense for the Olympic advertising campaign. These costs of $12.5 million were recognized under selling, general and administrative expenses. The total net after-tax amount of these items was $9.2 million, or $0.07 per share (diluted).

*Gross margin*

Gross margin amounted to 27.23%, down 96 basis points from 2011; adjusted gross margin excluding unusual items was down 85 basis points to 29.65%. As mentioned in the third-quarter analysis, the decrease stems mainly from intensified competition, which led to an increase in promotional activities and downward pressure on prices in several categories, especially building supplies. The decrease is also due to a major increase in sales of building materials that had a lower margin than hardware products. Gross margin was also affected by the higher cost of some products, such as lumber. These items were partially offset by various efficiency improvement initiatives.

*Selling, general and administrative expenses*

Adjusted selling, general and administrative expenses rose by $40.9 million in the first nine months of fiscal 2012, from $905.5 million in 2011 to $946.4 million in 2012. The increase was recorded in the third quarter of 2012, since in the first two quarters of the fiscal year the Corporation reduced its comparable selling, general and administrative expenses. The increase is due to unusual or non-recurring items, expenses related to development of the Commercial and Professional Market division network, and store acquisitions and openings. On a comparable basis, selling general and administrative expenses were down $13.4 million since the start of the fiscal year.

*EBITDA*

For the nine months ended September 23, 2012, EBITDA before unusual and non-recurring items amounted to $185.4 million, compared to $203.4 million in 2011, a decrease of $18.0 million, or 8.9%. This decrease stems mainly from the lower adjusted gross margin, along with:

- higher selling, general and administrative expenses in the third quarter of fiscal 2012;
- additional operating costs in the Commercial and Professional Market division since the start of the fiscal year, which stems from network expansion in the process of achieving its full potential.

An efficiency improvement plan has been put in place in this division to reduce operating costs to a level more in line with the division's historical performance.

EBITDA margin before unusual and non-recurring items was down 56 basis points, from 5.59% in 2011 to 5.03% in 2012. The decrease is primarily due to the significant downward pressure on the Corporation's gross margin given the change in product mix, customers and particularly difficult market conditions.

EBITDA after unusual and non-recurring items amounted to $139.2 million, compared to $203.4 million in 2011. EBITDA margin after unusual and non-recurring items went from 5.59% in 2011 to 3.77% in 2012.

*Interest, amortization, depreciation and impairment*

Interest expense on long-term debt and bank loans was down $4.8 million, or 24.7%, since the start of the year. The decrease is due to the interest savings generated by the $283 million debenture repurchase at the end of 2011, and to strict management of the balance sheet and spending on property, plant and equipment, partially offset by greater use of credit facilities than in 2011. Amortization, depreciation and impairment of non-financial assets expenses before unusual items were also down, from $79.3 million in 2011 to $72.7 million in 2012. As mentioned above, an amount of $5 million representing an impairment charge for non-financial assets was recognized in depreciation, amortization and impairment of non-financial assets. Including this amount, amortization, depreciation and impairment expense in 2012 amounted to $77.7 million.

*Net income*

The decrease in EBITDA before unusual and non-recurring items was almost entirely offset by a decrease in financial and amortization and depreciation expense, such that net income before unusual and non-recurring items attributable to participating shares, net of the dividend on preferred shares, went from $67.2 million in 2011 to $63.4 million in 2012. Diluted net earnings per share before unusual and non-recurring items rose, from $0.51 in 2011 to $0.52 in 2012, due to the Corporation's share repurchases.

After recognition of unusual items and non-recurring items totalling $37.5 million after tax, net income attributable to participating shares, net of the dividend on preferred shares, declined from $67.2 million to $26.0 million. Net earnings per share (diluted) declined from $0.51 to $0.21. Note that the average number of shares outstanding used to calculate net earnings per share decreased from 131.1 million shares in third quarter 2011 to 122.9 million shares in 2012 following the share repurchases made under the share repurchase in the normal course of business plan put in place by the Corporation in November 2011.

## CASH FLOWS AND FINANCIAL POSITION FOR THE THIRD QUARTER 2012

For the third quarter of 2012, cash flows from operating activities before net change in working capital, interest received and income taxes paid stood at $58.4 million compared to $97.0 million in 2011. The net change in working capital was $92.1 million in 2012, compared to negative change of $16.8 million in 2011. This significant variation is due to changes in the product mix as well as better management of inventories and customer accounts. After the net change in working capital, interest received and income taxes paid, operating activities thus generated $149.4 million in 2012, compared to $77.3 million for the same period in 2011.

The Corporation continued to exercise disciplined financial management and strictly controlled its investments in property, plant and equipment. For third quarter 2012, RONA invested $19.3 million in property, plant and equipment and intangible assets, which was $6.5 million, or 25.1%, less than in 2011. Amounts were invested in continuous improvement of the Corporation's information systems to increase operational efficiency, and in maintenance work. Note that the level of investment in property, plant and equipment and intangible assets -- excluding investments related to the *New Realities, New Solutions* plan, which will be financed through the sale of surplus assets – is lower than amortization and depreciation expense before unusual items of $25.2 million in third quarter 2012.

In fiscal 2011 and to date, RONA has taken a number of steps to optimize its capital structure. Also, in November 2011, the Corporation set up a program to repurchase, in the normal course of its activities between November 11, 2011 and November 10, 2012, up to 11,016,854 common shares, representing 10% of its 110,168,541 public float or 8.4% of its 130,520,489 common shares issued and outstanding on October 31, 2011. Shareholders may obtain, free of charge, copies of the repurchase documents filed with the Toronto Stock Exchange by writing to RONA's secretary. In the third quarter of 2012, RONA was unable to repurchase its shares since the Corporation was prohibited from trading due to the acquisition proposal received from U.S.-based Lowe's. Since the repurchase program was instituted in November 2011, the Corporation has bought back 10.4 million shares at an average price of $9.47 per share for a total of $98.5 million at November 7, 2012. These shares were cancelled.

Despite a slight increase in leveraging, RONA's balance sheet remains strong. As at September 23, 2012, the Corporation's total debt was $395.4 million compared to $455.9 million in 2011. The Corporation's net debt amounted to $345.0 million, compared to $259.6 million at September 25, 2011. The ratio of total net debt to capital was 15.4%, compared to 10.8% in 2011. The ratio of total debt to EBITDA (past 12 months) remained stable at 1.7.

The table below presents a synopsis of the Corporation's contractual obligations as at September 23, 2012, including off-balance-sheet operating lease agreements used in the normal course of business. The Corporation has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed bank loans), which do not appear in the table. The Corporation has guaranteed a bank loan amounting to $1.2 million. The loan has an indefinite term and no assets have been given as security. 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 $46.3 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 but may be cancelled by the Corporation on 30 days' notice. 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 $12.1 million were outstanding as at September 23, 2012 for the purchase of various, mainly seasonal, products.

## Contractual obligations by term
## (as at September 23, 2012)

| Contractual obligations | Payments by term (thousands of dollars) | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-2 years | 3-4 years | 5 or more years |
| Long-term loans and credit facilities | 368,408 | 5,409 | 6,942 | 351,863 | 4,194 |
| Obligations under finance leases | 1,033 | 313 | 489 | 231 | - |
| Operating leases | 976,872 | 139,251 | 249,568 | 198,860 | 389,193 |
| Other long-term obligations | 14,474 | 7,678 | 5,250 | 400 | 1,146 |
| Total | 1,360,787 | 152,651 | 262,249 | 551,354 | 394,533 |

## Outstanding shares
## (as at October 31, 2012)

| | |
|---|---|
| Common shares | 121,403,186 |
| Unexercised options | 1,857,500 |
| Total | 123,260,686 |

### 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 net annual earnings are 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 in 2010, 2011 and 2012 than in previous years. The second quarter is always the strongest of the year, followed by the third quarter.

## Consolidated quarterly financial results
## (in millions of dollars, except earnings per share)

| | 2012 | | | 2011 | | | | 2010 | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Revenues | 1,336.6 | 1,417.1 | 934.9 | 1,169.2 | 1,347.1 | 1,370.0 | 918.2 | 1,139.2 | 1,319.2 |
| EBITDA | 41.5 | 86.6 | 11.1 | 37.2 | 105.4 | 89.9 | 8.1 | 64.8 | 103.7 |
| EBITDA excluding unusual items | 67.2 | 94.6 | 11.1 | 65.9 | 105.4 | 89,9 | 8.1 | 64.8 | 103.7 |
| EBITDA excluding unusual items and non-recurring items | 79.7 | 94.6 | 11.1 | 65.9 | 105.4 | 89.9 | 8.1 | 64.8 | 103.7 |
| Net income (loss) attributable to participating shares | 5.1 | 34.1 | (13.3) | (153.6) | 47.8 | 37.0 | (17.6) | 20.0 | 48.0 |
| Net income (loss) attributable to participating shares (excluding unusual items) | 23.9 | 43.6 | (13.3) | 19.7 | 47.8 | 37.0 | (17.6) | 20.0 | 48.0 |
| Net income (loss) attributable to participating shares (excluding unusual items and non-recurring items) | 33.1 | 43.6 | (13.3) | 19.7 | 47.8 | 37.0 | (17.6) | 20.0 | 48.0 |
| Diluted net earnings (loss) per share $ | 0.04 | 0.28 | (0.10) | (1.19) | 0.36 | 0.28 | (0.13) | 0.15 | 0.36 |
| Diluted net earnings (loss) per share $ (excluding unusual items) | 0.20 | 0.36 | (0.10) | 0.15 | 0.36 | 0.28 | (0.13) | 0.15 | 0.36 |
| Diluted net earnings (loss) per share $ (excluding unusual items and non-recurring items) | 0.27 | 0.36 | (0.10) | 0.15 | 0.36 | 0.28 | (0.13) | 0.15 | 0.36 |

## Annual growth in same-store sales
## Last nine quarters

| | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 | Q1 2011 | Q4 2010 | Q3 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Retail and Commercial Sector | -1.8% | -0.9% | -0.8% | -2.3% | -5.1% | -9.6% | -12.6% | -6.4% | -2.3% |
| Total RONA Network | -1.0% | +1.0% | -0.3% | -1.2% | -4.2% | -9.3% | -11.5% | -6.6% | -3.1% |

Note: To better represent the performance of the RONA network as a whole, the concept of same-store sales was revised during the quarter and now includes same-store distribution sales to RONA affiliate dealer-owners, who account for more than 25% of total sales.

### DIVIDENDS ON PREFERRED SHARES

At its meeting on November 6, 2012, RONA's Board of Directors declared a quarterly dividend of $0.3300 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on December 31, 2012 to holders of record on December 17, 2012.

### ACQUISITION PROPOSAL FROM U.S.-BASED LOWE'S

On July 8, 2012, the Corporation received an unsolicited, non-binding proposal from U.S.-based Lowe's regarding the acquisition of all of RONA's issued and outstanding shares at a price of $14.50 per share. On July 26, 2012, RONA informed Lowe's that the RONA Board of Directors had unanimously determined that this proposal was not in the best interests of RONA and its stakeholders. The July 31, 2012 press release details these events and states that RONA's strategic focus is to execute its business plan with a view to capturing the significant opportunities it sees for the business.

### OUTLOOK

- In the coming quarters, we will pursue implementation of our *New Realities, New Solutions* plan and continue our highly disciplined management in line with our three financial priorities: to improve efficiency, optimize the capital structure and increase the return on capital. Particular effort will be devoted to improving the efficiency of our Commercial and Professional Market Division and to adapting the TOTEM banner stores in Alberta to the new RONA proximity store model. As mentioned above, the Corporation deliberately postponed the closing of five big-box stores to ensure the closures are aligned with the opening of new proximity and satellite stores. This postponement decreases the annual recurring benefit from $10 million to $6 million for 2012 and from $30 million to $25 million for 2013. The Corporation is still in a good position to achieve anticipated annualized benefits of more than $40 million in 2014.

- The market is still in a period of uncertainty and ambivalence. Although conditions were favourable for renovation projects in the spring, we have seen that consumers have returned to a cautious approach since the end of May. Housing starts have also slowed in recent months, particularly in Quebec, where RONA generates close to half its sales.

- Given the highly promotional and competitive environment, the expected pressure on same-store sales and the impact of inflation on operating and administrative costs, new operational initiatives and efficiency measures are being implemented to address these elements and limit the decrease in profitability in coming quarters. Moreover, our New Realities, New Solutions plan will continue to have an increasingly positive impact.

### RISKS AND UNCERTAINTIES

No major change has occurred since the publication of *Management's Discussion and Analysis* for second quarter 2012.

### CHANGES IN ACCOUNTING POLICIES

There has been no major change since the publication of the annual *Management's Discussion and Analysis* for the fiscal year ended December 25, 2011.

### SIGNIFICANT ACCOUNTING ESTIMATES

There has been no major change since the publication of the annual *Management's Discussion and Analysis* for the fiscal year ended December 25, 2011.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA has evaluated the effectiveness of internal control over financial reporting as at September 23, 2012 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 effective and provides reasonable assurance that the Corporation's financial reporting is reliable and that its consolidated financial statements are prepared in accordance with International Financial Reporting Standards.

## 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.sedar.com and www.rona.ca. In particular, further details and descriptions of these and other factors are disclosed in this MD&A under the "Risks and Uncertainties" section and in the "Risk Factors" section of the Corporation's current Annual Information Form.

The forward-looking statements in this MD&A reflect the Corporation's expectations as at November 7, 2012, 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 on November 7, 2012. The reader will find additional information concerning RONA, including the Corporation's Annual Information Form, on the Corporation's website at www.rona.ca or on the SEDAR website at www.sedar.com.

*(s) Dominique Boies*
Dominique Boies
Executive Vice President and Chief Financial Officer

*(s) Robert Dutton*
Robert Dutton
President and Chief Executive Officer

# RONA inc.
## Consolidated Income Statements and Other Comprehensive Income
Thirteen and thirty-nine-week periods ended September 23, 2012 and September 25, 2011
(unaudited and in thousands of Canadian dollars, except per share amounts)

| | Third Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | $ 1,336,560 | $ 1,347,135 | $ 3,688,631 | $ 3,635,392 |
| Operating profit before restructuring costs, impairment of non financial assets and other charges (Note 3.1) | 40,527 | 76,983 | 96,205 | 119,863 |
| Restructuring costs, impairment of non-financial assets and other charges (Note 3.4) | (25,713) | - | (38,699) | - |
| Operating profit | 14,814 | 76,983 | 57,506 | 119,863 |
| Finance income | 1,481 | 1,486 | 3,954 | 4,197 |
| Finance costs | (5,101) | (6,519) | (14,718) | (19,557) |
| | (3,620) | (5,033) | (10,764) | (15,360) |
| Income before income tax expense | 11,194 | 71,950 | 46,742 | 104,503 |
| Income tax expense (Note 5) | (2,994) | (20,145) | (12,503) | (29,260) |
| Net income | $ 8,200 | $ 51,805 | $ 34,239 | $ 75,243 |
| Net income attribuable to: | | | | |
| Owners of RONA inc. | $ 7,265 | $ 50,113 | $ 32,742 | $ 72,848 |
| Non-controlling interests | 935 | 1,692 | 1,497 | 2,395 |
| | $ 8,200 | $ 51,805 | $ 34,239 | $ 75,243 |
| Net earnings per share attributable to owners of RONA inc. (Note 13) | | | | |
| Basic | $ 0.04 | $ 0.37 | $ 0.21 | $ 0.52 |
| Diluted | $ 0.04 | $ 0.36 | $ 0.21 | $ 0.51 |
| **Consolidated Statements of Other Comprehensive Income** | | | | |
| Net income | $ 8,200 | $ 51,805 | $ 34,239 | $ 75,243 |
| Other comprehensive income (loss), net of taxes: | | | | |
| Cash flow hedges | | | | |
| – income (loss) for the period | (1,999) | 2,341 | (1,971) | 1,655 |
| – reclassification to income | (84) | 39 | 786 | 2,391 |
| Actuarial losses (Note 15) | (1,421) | (1,437) | (3,856) | (2,381) |
| Total other comprehensive income | (3,504) | 943 | (5,041) | 1,665 |
| Total comprehensive income | $ 4,696 | $ 52,748 | $ 29,198 | $ 76,908 |
| Total comprehensive income attributable to: | | | | |
| Owners of RONA inc. | 3,761 | 51,056 | 27,701 | 74,513 |
| Non-controlling interests | 935 | 1,692 | 1,497 | 2,395 |
| | $ 4,696 | $ 52,748 | $ 29,198 | $ 76,908 |

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

RONA inc.

# Consolidated Statements of Changes in Equity

As at September 23, 2012 and September 25, 2011

(unaudited and in thousands of Canadian dollars)

| | Share Capital [a] | Retained earnings | Contributed surplus | Cash flow hedge reserve | Total attributable to owners of RONA inc. | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| Balance, December 25, 2011 | $ 793,416 | $ 1,115,801 | $ 11,386 | $ (505) | $ 1,920,098 | $ 35,526 | $ 1,955,624 |
| Transactions with owners | | | | | | | |
| Issuance in exchange for cash | 55 | - | - | - | 55 | - | 55 |
| Issuance under stock option plans | 3,480 | - | (35) | - | 3,445 | - | 3,445 |
| Repurchase of common shares (Note 10) | (34,257) | (32,510) | - | - | (66,767) | - | (66,767) |
| Dividends declared on common shares | - | (17,191) | - | - | (17,191) | - | (17,191) |
| Dividends declared on preferred shares, including related taxes | - | (6,779) | - | - | (6,779) | - | (6,779) |
| Compensation cost relating to stock option plans | - | - | 669 | - | 669 | - | 669 |
| Deposits on common share subscriptions received | 1,581 | - | - | - | 1,581 | - | 1,581 |
| Deposits on common share subscriptions refunded | (27) | - | - | - | (27) | - | (27) |
| Other | - | - | - | - | - | 32 | 32 |
| Total transactions with owners | (29,168) | (56,480) | 634 | - | (85,014) | 32 | (84,982) |
| Net income for the period | - | 32,742 | - | - | 32,742 | 1,497 | 34,239 |
| Other comprehensive income (loss): | | | | | | | |
| Cash flow hedges | | | | | | | |
| – loss for the period | - | - | - | (1,971) | (1,971) | - | (1,971) |
| – reclassification to income | - | - | - | 786 | 786 | - | 786 |
| Actuarial losses | - | (3,856) | - | - | (3,856) | - | (3,856) |
| Total other comprehensive loss for the period | - | (3,856) | - | (1,185) | (5,041) | - | (5,041) |
| Balance, September 23, 2012 | $ 764,248 | $ 1,088,207 | $ 12,020 | $ (1,690) | $ 1,862,785 | $ 37,055 | $ 1,899,840 |

(a) Additional detail of share capital is provided in Note 10.

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

RONA inc.

# Consolidated Statements of Changes in Equity

As at September 23, 2012 and September 25, 2011
(unaudited and in thousands of Canadian dollars)

| | Share Capital [a] | Retained earnings | Contributed surplus | Cash flow hedge reserve | Total attributable to owners of RONA inc. | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| Balance, December 26, 2010 | $ 632,614 | $ 1,233,454 | $ 11,137 | $ (1,217) | $ 1,875,988 | $ 35,809 | $ 1,911,797 |
| Transactions with owners | | | | | | | |
| Issuance in exchange for cash | 173,020 | - | - | - | 173,020 | - | 173,020 |
| Issuance under stock option plans | 1,406 | - | (295) | - | 1,111 | - | 1,111 |
| Dividends declared on common shares | - | (9,134) | - | - | (9,134) | - | (9,134) |
| Dividends declared on preferred shares, including related taxes | - | (5,639) | - | - | (5,639) | - | (5,639) |
| Fees related to issuance of preferred shares, net of related income tax recovery of $1,475 | - | (4,004) | - | - | (4,004) | - | (4,004) |
| Compensation cost relating to stock option plans | - | - | 775 | - | 775 | - | 775 |
| Deposits on common share subscriptions received | 1,868 | - | - | - | 1,868 | - | 1,868 |
| Deposits on common share subscriptions refunded | (75) | - | - | - | (75) | - | (75) |
| Repurchase of a non-controlling interest (Note 6) | - | - | (490) | - | (490) | - | (490) |
| Other | - | - | - | - | - | 28 | 28 |
| Total transactions with owners | 176,219 | (18,777) | (10) | - | 157,432 | 28 | 157,460 |
| Net income for the period | - | 72,848 | - | - | 72,848 | 2,395 | 75,243 |
| Other comprehensive income (loss): | | | | | | | |
| Cash flow hedges | | | | | | | |
| – income for the period | - | - | - | 1,655 | 1,655 | - | 1,655 |
| – reclassification to income | - | - | - | 2,391 | 2,391 | - | 2,391 |
| Actuarial losses (Note 15) | - | (2,381) | - | - | (2,381) | - | (2,381) |
| Total comprehensive income (loss) for the period | - | (2,381) | - | 4,046 | 1,665 | - | 1,665 |
| Balance, September 25, 2011 | $ 808,833 | $ 1,285,144 | $ 11,127 | $ 2,829 | $ 2,107,933 | $ 38,232 | $ 2,146,165 |

(a) Additional detail of share capital is provided in Note 10.

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

RONA inc.

# Consolidated Statements of Cash Flows

Thirteen and thirty-nine-week periods ended September 23, 2012 and September 25, 2011
(unaudited and in thousands of Canadian dollars)

| | Third Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Operating activities** | | | | |
| Income before income tax expense | $ 11,194 | $ 71,950 | $ 46,742 | $ 104,503 |
| Adjustments: | | | | |
| Depreciation, amortization and impairment of non-financial assets (Note 3.2) | 25,224 | 26,947 | 77,752 | 79,306 |
| Change in provision for restructuring costs | 21,349 | - | 23,027 | - |
| Change in fair value of derivative financial instruments | (257) | 38 | (16) | (202) |
| Net gains on disposal of assets | (139) | (134) | (3,184) | (1,262) |
| Stock-based compensation expense (recovery) (Note 11) | 1,021 | (73) | 2,722 | (3,221) |
| Difference between amounts paid for post-employment benefits and current period expenses | 1,639 | (678) | 3,358 | (1,619) |
| Other | (1,602) | (1,051) | (1,520) | 1,359 |
| | 58,429 | 96,999 | 148,881 | 178,864 |
| Net change in working capital | 92,148 | (16,778) | (79,397) | (24,699) |
| | 150,577 | 80,221 | 69,484 | 154,165 |
| Interest received | 1,121 | 1,123 | 2,969 | 3,081 |
| Income taxes paid | (2,288) | (4,081) | (23,525) | (30,814) |
| Cash flow from operating activities | 149,410 | 77,263 | 48,928 | 126,432 |
| **Investing activities** | | | | |
| Business acquisitions (Note 6) | (446) | (26,610) | (3,997) | (40,805) |
| Acquisition of property, plant and equipment | (7,914) | (16,967) | (25,492) | (51,165) |
| Acquisition of intangible assets | (11,370) | (8,781) | (36,544) | (23,689) |
| Acquisition of other financial assets | (166) | (2,184) | (4,146) | (6,404) |
| Proceeds on disposal of property, plant and equipment | 230 | 5,222 | 10,947 | 9,811 |
| Proceeds on disposal of other financial assets | 942 | 852 | 2,370 | 2,744 |
| Interest received | 207 | 583 | 629 | 1,082 |
| Cash flow from investing activities | (18,517) | (47,885) | (56,233) | (108,426) |
| **Financing activities** | | | | |
| Bank loans | 136 | (7,769) | 3,824 | (3,812) |
| Net change in credit facilities | (64,284) | - | 140,367 | - |
| Other long-term debt | - | 86 | 261 | 872 |
| Repayment of other long-term debt | (1,508) | (4,969) | (11,727) | (27,172) |
| Financing costs | - | - | (80) | - |
| Proceeds from issue of common shares | 649 | 1,079 | 5,054 | 3,423 |
| Proceeds from issue of preferred shares | - | - | - | 172,500 |
| Fees related to issue of preferred shares | - | - | - | (5,479) |
| Repurchase of common shares (Note 10) | - | - | (66,767) | - |
| Dividends on common shares | - | - | (8,692) | (9,121) |
| Dividends on preferred shares | (2,276) | (3,176) | (6,785) | (3,176) |
| Interest paid | (6,894) | (11,832) | (14,889) | (25,310) |
| Cash flow from financing activities | (74,177) | (26,581) | 40,566 | 102,725 |
| **Net increase in cash** | 56,716 | 2,797 | 33,261 | 120,731 |
| Cash (bank overdraft), beginning of period | (6,306) | 193,511 | 17,149 | 75,577 |
| Cash, end of period | $ 50,410 | $ 196,308 | $ 50,410 | $ 196,308 |

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

# RONA inc.
## Consolidated Statements of Financial Position
as at September 23, 2012, September 25, 2011 and December 25, 2011
(unaudited and in thousands of Canadian dollars)

| | 2012 September 23 | 2011 September 25 | 2011 December 25 |
|---|---|---|---|
| **Assets** | | | |
| Current | | | |
| Cash | $ 50,410 | $ 196,308 | $ 17,149 |
| Trade and other receivables | 428,761 | 391,193 | 370,094 |
| Other financial assets | 3,344 | 2,041 | 1,468 |
| Current tax assets | 15,286 | 419 | 7,616 |
| Inventory (Note 4) | 1,000,102 | 954,932 | 840,287 |
| Prepaid expenses | 30,169 | 29,222 | 20,836 |
| Derivative financial instruments | - | 3,871 | - |
| Current assets | 1,528,072 | 1,577,986 | 1,257,450 |
| Non-current | | | |
| Other financial assets | 14,287 | 14,846 | 13,617 |
| Property, plant and equipment | 824,025 | 899,968 | 874,246 |
| Non-current assets held for sale (Note 7) | 25,734 | 14,158 | 10,455 |
| Goodwill | 428,317 | 545,085 | 426,968 |
| Intangible assets | 143,529 | 129,739 | 126,968 |
| Other non-current assets | 3,901 | 1,545 | 5,435 |
| Deferred tax assets | 55,878 | 51,679 | 65,239 |
| Total assets | $ 3,023,743 | $ 3,235,006 | $ 2,780,378 |
| **Liabilities** | | | |
| Current | | | |
| Bank loans | $ 12,298 | $ 892 | $ 4,377 |
| Trade and other payables | 625,479 | 540,214 | 487,864 |
| Dividends payable | 10,589 | 11,414 | 2,527 |
| Derivative financial instruments | 2,312 | - | 691 |
| Provisions (Note 8) | 16,412 | 5,588 | 6,947 |
| Instalments on long-term debt | 13,382 | 25,675 | 20,257 |
| Current liabilities | 680,472 | 583,783 | 522,663 |
| Non-current | | | |
| Long-term debt | 369,769 | 429,308 | 232,073 |
| Other non-current liabilities | 35,612 | 33,200 | 33,653 |
| Provisions (Note 8) | 17,672 | 3,275 | 3,606 |
| Deferred tax liabilities | 20,378 | 39,275 | 32,759 |
| Total liabilities | 1,123,903 | 1,088,841 | 824,754 |
| **Equity** | | | |
| Share capital (Note 10) | 764,248 | 808,833 | 793,416 |
| Retained earnings | 1,088,207 | 1,285,144 | 1,115,801 |
| Contributed surplus | 12,020 | 11,127 | 11,386 |
| Accumulated other comprehensive income (loss) | (1,690) | 2,829 | (505) |
| Total equity attributable to owners of RONA inc. | 1,862,785 | 2,107,933 | 1,920,098 |
| Non-controlling interests | 37,055 | 38,232 | 35,526 |
| Total equity | 1,899,840 | 2,146,165 | 1,955,624 |
| Total liabilities and equity | $ 3,023,743 | $ 3,235,006 | $ 2,780,378 |

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

## 1. Reporting entity

RONA inc., a corporation headquartered at 220 Chemin du Tremblay, Boucherville, Quebec, Canada is regulated by the *Business Corporations Act* (Quebec) (formerly Part 1A of the Companies Act (Quebec)). The common shares are listed on the Toronto Stock Exchange.

The Corporation's consolidated financial statements for the thirteen and thirty-nine-week periods ended September 23, 2012 and September 25, 2011 include financial data for the Corporation and its subsidiaries (collectively referred to as the "Corporation" and individually referred to as the "Corporation's entities") and the Corporation's share of the jointly controlled entities.

The Corporation is a distributor and a retailer of hardware, home improvement and gardening products in Canada.

## 2. Basis of presentation

### (a) General information and declaration of conformity

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

The unaudited interim consolidated financial statements were prepared using the same accounting policies and methods as those used in the Corporation's consolidated financial statements for the year ended December 25, 2011, unless otherwise indicated.

The preparation of financial statements in accordance 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 of the Corporation's consolidated financial statements for the year ended December 25, 2011. There has not been any significant change in judgments, estimates or assumptions disclosed in prior fiscal years. These interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 25, 2011, which are included in the Corporation's 2011 annual report.

The interim consolidated financial statements for the thirteen and thirty-nine-week periods ended September 23, 2012 (including comparative figures) were approved by the Board of Directors on November 6, 2012.

### (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, home improvement and gardening products industry. Since the seasonal fluctuations result in significant variances for certain assets and liabilities, a Statement of Financial Position as at September 25, 2011 is also presented for comparative purposes.

### (c) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

### (d) Effect of new accounting standards issued but not yet effective

In November 2009, the IASB issued new IFRS 9, *Financial Instruments*, that will replace IAS 39, *Financial Instruments: Recognition and Measurement.* The standard provides guidance on the classification and measurement of financial assets. In October 2010, the IASB amended IFRS 9 to add guidance on the classification and measurement of financial liabilities, and requirements for the derecognition of financial assets and financial liabilities.

In December 2011, the IASB amended the transition date of IFRS 9, which requires the application of IFRS 9 for periods beginning on or after January 1, 2015. The previous transition date was January 1, 2013.

In May 2011, the IASB issued the following new standards:
IFRS 10, *Consolidated financial statements*, replacing parts of IAS 27, *Consolidated and separate financial statements*, and SIC-12, *Consolidation – special purpose entities*, presents a new definition of control based on principles applicable to all issuers for determining the basis for consolidation. The standard provides a framework for the preparation of consolidated financial statements based on the principle of control.

(unaudited and in thousands of Canadian dollars)

## 2. Basis of presentation (continued)

### (d) Effect of new accounting standards issued but not yet effective (continued)

IFRS 11, *Joint arrangements*, replaces IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities – non-monetary contributions by venturers*. IFRS 11 differs from prior standards in certain respects, among them, that the proportional method for accounting for interests in jointly controlled entities is no longer permitted.

IFRS 12, *Disclosure of interest in other entities*, is a new standard providing guidance on minimum disclosure requirements for interests in other entities held by a reporting entity. Disclosure requirements for interests in subsidiaries, joint arrangements, associates and special purpose entities excluded from the consolidation, currently found in separate applicable standards are combined into one comprehensive standard.

In June 2011, the IASB issued the following new standards:

An amended version of IAS 1, *Presentation of financial statements*, requires entities to group together items within other comprehensive income that may be reclassified to the income or loss section of the income statement. This amendment is effective for periods beginning on or after July 1, 2012.

An amended version of IAS 19, *Employee benefits*, eliminates the corridor method that defers the recognition of actuarial gains and losses, replaces the expected rate of return on assets used to determine the defined benefit cost by the obligation discount rate, streamlines the presentation of changes in assets and obligations arising from defined benefit plans and enhances the disclosure requirements for defined benefit plans.

These standards, excluding the amended IAS 1 and IFRS 9, are effective for periods beginning on or after January 1, 2013.

The Corporation is currently determining the effect of adopting these new requirements on its consolidated financial statements. Certain other standards were issued but have no significant impact on the Corporation.

## 3. Supplemental information on income and charges

### 3.1 Operating profit before restructuring costs, impairment of non-financial assets and other charges

| | Third Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | $ 1,336,560 | $ 1,347,135 | $ 3,688,631 | $ 3,635,392 |
| Cost of sales (Note 4) | (974,152) | (968,696) | (2,675,870) | (2,610,562) |
| Gross profit | 362,408 | 378,439 | 1,012,761 | 1,024,830 |
| Selling, general and administrative expenses | (328,441) | (306,551) | (939,149) | (920,514) |
| Net gains on disposal of assets | 139 | 134 | 3,184 | 1,262 |
| Other income | 6,421 | 4,961 | 19,409 | 14,285 |
| Operating profit before restructuring costs, impairment of non-financial assets and other charges | $ 40,527 | $ 76,983 | $ 96,205 | $ 119,863 |

### 3.2 Depreciation, amortization and impairment of non-financial assets

| | Third Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Depreciation of property, plant and equipment | $ 17,584 | $ 20,044 | $ 51,594 | $ 59,711 |
| Depreciation of leasehold property included in property, plant and equipment | 82 | 358 | 306 | 1,601 |
| Amortization of intangible assets | 7,162 | 6,403 | 19,769 | 17,566 |
| Amortization of other non-current assets | 353 | 142 | 1,054 | 428 |
| Impairment of non-financial assets (Note 3.4) | 43 | - | 5,029 | - |
| Total depreciation, amortization and impairment of non-financial assets | $ 25,224 | $ 26,947 | $ 77,752 | $ 79,306 |

(unaudited and in thousands of Canadian dollars)

## 3. Supplemental information on income and charges (continued)

### 3.3 Employee benefits expense

| | Third Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Salaries | $ 120,871 | $ 114,762 | $ 366,727 | $ 355,585 |
| Defined benefit expense | 85 | 379 | 246 | 1,136 |
| Defined contribution expense | 2,950 | 2,492 | 9,293 | 7,656 |
| Stock-based compensation expense (recovery) | 1,021 | (73) | 2,722 | (3,221) |
| Severance (Note 3.4) | 4,041 | 186 | 6,834 | 3,114 |
| Other fringe benefits | 27,067 | 26,982 | 82,478 | 81,375 |
| Total employee benefits expense | $ 156,035 | $ 144,728 | $ 468,300 | $ 445,645 |

### 3.4 Restructuring costs, impairment of non-financial assets and other charges

During the second half of 2011, the Corporation undertook major initiatives to improve its efficiency, optimize its capital structure and increase its return on equity. In this context, in 2012, the Corporation continues to implement certain aspects of its business plan undertaken in 2011.

Total restructuring costs, impairment of non-financial assets and other charges for the thirteen and thirty-nine-week periods ended September 23, 2012 are as follows :

| | 2012 | |
|---|---|---|
| | Third Quarter | Year-to-date |
| Costs relating to the liquidation of store inventory | $ 2,680 | $ 8,248 |
| Severance (Note 8) | 1,013 | 3,117 |
| Impairment of non financial assets | 43 | 5,029 |
| Onerous contracts (Note 8) | 21,514 | 21,514 |
| Other charges | 463 | 791 |
| Restructuring costs, impairment of non-financial assets and other charges | $ 25,713 | $ 38,699 |

There were no charges related to these restructuring costs recognized in the comparable periods in 2011. Severance, onerous contracts and other restructuring costs required cash outflows of $3,090 and $ 3,844 in the thirteen and thirty-nine-week periods ended September 23, 2012.

## 4. Inventory

For the thirteen and thirty-nine-week periods ended September 23, 2012, amounts of $ 974,152 and $2,675,870 in inventory (Note 3.1) were expensed in the consolidated income statement ($968,696 and $2,610,562 in 2011).

For the thirteen and thirty-nine-week periods ended September 23, 2012, inventory write-down charges of $7,148 and $21,861 ($9,435 and $24,114 in 2011), of which $3,282 recognized in the second quarter of 2012 is included in restructuring costs, were recorded in the consolidated income statement. No reversal of previous write-downs was recognized.

## 5. Income tax

The consolidated effective tax rates were 26.75% and 28.00%, respectively, for the thirteen and thirty-nine-week periods ended September 23, 2012 and September 25, 2011. The change in the effective tax rate is primarily attributable to the change in the Corporation's combined statutory rate.

In interim periods, the income tax provision is based on an estimate of how much earnings will be 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.

(unaudited and in thousands of Canadian dollars)

## 6. Business acquisitions

On April 2, 2012, the Corporation acquired the assets of a dealer located in Québec, operating in the retail and commercial segment.

On January 6, 2012, the Corporation acquired the shares of a dealer located in Québec, operating in the retail and commercial segment.

During the thirty-nine-week period ended September 25, 2011, the Corporation acquired three companies in the retail and commercial segment and one in the distribution segment through share or asset purchases.

Moreover, during the thirty-nine-week period ended September 25, 2011, the Corporation acquired the minority interests in the assets of a store previously held by one of its 51%-owned subsidiaries. This transaction resulted in a $490 decrease in non-controlling interests with a corresponding change in contributed surplus.

The results of operations of these companies are consolidated from their acquisition date.

The consideration paid for these acquisitions amounted to $6,138 ($48,272 in 2011). Direct acquisition costs of $284 were recognized in selling, general and administrative expenses for the thirty-nine-week period ended September 23, 2012 ($557 in 2011). The Corporation financed these acquisitions from its available cash and existing credit facilities.

The purchase price allocation of these acquisitions was established as follows:

| | 2012 | 2011 |
|---|---|---|
| Trade and other receivables | $ 2,312 | $ 6,294 |
| Inventory | 4,912 | 19,947 |
| Other current assets | 156 | 226 |
| Property, plant and equipment | 3,862 | 25,299 |
| Goodwill on acquisition | 1,349 | 17,893 |
| Intangible assets | - | 36 |
| Current liabilities | (5,362) | (16,997) |
| Long-term debt | (872) | (4,145) |
| Deferred tax liabilities | (219) | (281) |
| Cost of acquisitions | 6,138 | 48,272 |
| Less: Balances of purchase prices | (2,141) | (7,467) |
| Cash consideration paid | $ 3,997 | $ 40,805 |

The Corporation does not expect the goodwill to be deductible for tax purposes ($7,222 in 2011).

The excess of the purchase price over the value of net identifiable items of property, plant and equipment and intangible assets acquired less liabilities assumed is recognized as goodwill and represents expected synergies in connection with the acquisitions.

The preliminary purchase price allocation of the 2012 acquisitions may be subject to adjustment pending completion of the final valuations.

(unaudited and in thousands of Canadian dollars)

## 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 and commercial store 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:

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning | $ 10,455 | $ 16,474 |
| Additions | 25,898 | 5,632 |
| Disposals | (7,363) | (7,948) |
| Reclassification to property, plant and equipment | (3,256) | - |
| Balance at end | $ 25,734 | $ 14,158 |

| | | |
|---|---|---|
| Non-current assets held for sale | | |
| Land and parking lots | $ 16,513 | $ 13,096 |
| Buildings | 9,221 | 1,062 |
| | $ 25,734 | $ 14,158 |

## 8. Provisions and contingent liabilities

| | | | | Restructuring (a) | | |
|---|---|---|---|---|---|---|
| | Litigation | Onerous contrats | Product warranties | Severance | Onerous contrats | Total |
| Balance, December 25, 2011 | $ 3,792 | $ 5,710 | $ 1,051 | $ - | $ - | $ 10,553 |
| Provisions created during the period | 1,525 | 1,400 | 533 | 3,117 | 21,514 | 28,089 |
| Provisions used during the period | (877) | (1,612) | (16) | (1,604) | - | (4,109) |
| Provisions reversed during the period | (524) | - | - | - | - | (524) |
| Accretion expense | - | 75 | - | - | - | 75 |
| Balance, September 23, 2012 | $ 3,916 | $ 5,573 | $ 1,568 | $ 1,513 | $ 21,514 | $ 34,084 |
| Current | 3,916 | 1,773 | 1,568 | 1,513 | 7,642 | 16,412 |
| Non-current | - | 3,800 | - | - | 13,872 | 17,672 |
| | $ 3,916 | $ 5,573 | $ 1,568 | $ 1,513 | $ 21,514 | $ 34,084 |

(a) Refer to Note 3.4 for additional information.

| | Litigation | Onerous contrats | Product warranties | Total |
|---|---|---|---|---|
| Balance, December 26, 2010 | $ 3,222 | $ 5,757 | $ 185 | $ 9,164 |
| Provisions created during the period | 1,478 | - | 336 | 1,814 |
| Provisions used during the period | (513) | (638) | (59) | (1,210) |
| Provisions reversed during the period | (916) | - | (212) | (1,128) |
| Accretion expense | - | 223 | - | 223 |
| Balance, September 25, 2011 | $ 3,271 | $ 5,342 | $ 250 | $ 8,863 |
| Current | $ 3,271 | $ 2,067 | $ 250 | $ 5,588 |
| Non-current | - | 3,275 | - | 3,275 |
| | $ 3,271 | $ 5,342 | $ 250 | $ 8,863 |

## 8. Provisions and contingent liabilities (continued)

### 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 negotiation procedures. 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.

### Restructuring (onerous contracts)

In the third quarter, following store closures, a provision for onerous contracts was recognized for non-cancellable operating leases for commercial stores which are no longer used at a weighted average discount rate of 4.35%. The provisions were estimated using contractual obligations at the time of initial recognition and sublease revenue assumptions based on market data. The remaining terms of these leases vary from one to 15 years.

## 9. Guarantees and contingencies

### Guarantees

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

The Corporation has guaranteed a bank loan for an amount of $1,200. This loan has an undetermined period with no asset held as security.

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 $46,271. In the event of recourse, this inventory would be sold in the ordinary course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

### Contingencies

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. In addition, upon the acquisition of Réno-Dépôt Inc., the vendor committed to indemnify the Corporation for litigation which the Corporation assumed in the course of this acquisition.

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.

## 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 the Corporation's option, at their issuance price. Since 2003, they are redeemable at their issuance price over a maximum period of ten years on the basis of 10% per year and are included in long-term debt

(unaudited and in thousands of Canadian dollars)

## 10. Share capital (continued)

### Issued and fully paid:

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

| | Common shares | | Preferred shares | | Treasury shares | | Deposits on common share subscriptions (a) | | Share capital | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| Balance December 25, 2011 | 127,200,189 | $ 618,934 | 6,900,000 | $ 172,500 | (76,981) | $ (475) | - | $ 2,457 | 134,023,208 | $ 793,416 |
| Issuance in exchange for cash | 5,011 | 55 | - | - | - | - | - | - | 5,011 | 55 |
| Issuance under stock option plans | 970,725 | 3,480 | - | - | - | - | - | - | 970,725 | 3,480 |
| Issuance in exchange for common share subscription deposits | 259,057 | 2,477 | - | - | (3,844) | (48) | - | (2,429) | 255,213 | - |
| Repurchase of common shares | (7,032,700) | (34,257) | - | - | - | - | - | - | (7,032,700) | (34,257) |
| Deposits on common share subscriptions received | - | - | - | - | - | - | - | 1,581 | - | 1,581 |
| Deposits on common share subscriptions refunded | - | - | - | - | - | - | - | (27) | - | (27) |
| Balance September 23, 2012 | 121,402,282 | $ 590,689 | 6,900,000 | $ 172,500 | (80,825) | $ (523) | - | $ 1,582 | 128,221,457 | $ 764,248 |

(a) Deposits on common share subscriptions represent amounts received during the year 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 September 23, 2012, the number of outstanding common shares would have increased by 134,655.

| | Common shares | | Preferred shares | | Treasury shares | | Deposits on common share subscriptions (a) | | Share capital | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| Balance December 26, 2010 | 130,071,782 | $ 630,264 | - | $ - | (73,334) | $ (424) | - | $ 2,774 | 129,998,448 | $ 632,614 |
| Issuance in exchange for cash | 46,325 | 520 | 6,900,000 | 172,500 | - | - | - | - | 6,946,325 | 173,020 |
| Issuance under stock option plans | 150,525 | 1,406 | - | - | - | - | - | - | 150,525 | 1,406 |
| Issuance in exchange for common share subscription deposits | 193,683 | 2,749 | - | - | (3,647) | (51) | - | (2,698) | 190,036 | - |
| Deposits on common share subscriptions received | - | - | - | - | - | - | - | 1,868 | - | 1,868 |
| Deposits on common share subscriptions refunded | - | - | - | - | - | - | - | (75) | - | (75) |
| Balance September 25, 2011 | 130,462,315 | $ 634,939 | 6,900,000 | $ 172,500 | (76,981) | $ (475) | - | $ 1,869 | 137,285,334 | $ 808,833 |

(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 September 25, 2011, the number of outstanding common shares would have increased by 184,795.

(unaudited and in thousands of Canadian dollars)

## 10. Share capital (continued)

On November 8, 2011, the Board of Directors approved a normal course issuer bid to repurchase for cancellation, from November 11, 2011 to November 10, 2012, up to 11,016,854 common shares representing 10% of its 110,168,541 floating shares, i.e. 8.4% of its 130,520,489 issued and outstanding common shares as at October 31, 2011.

Under this issuer bid, the repurchases will be made at market prices through the Toronto Stock Exchange. The Corporation ceases to consider shares as outstanding on the date of the Corporation's repurchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter.

During the thirty-nine-week period ended September 23, 2012, the Corporation redeemed for cancellation a total of 7,032,700 common shares for a total cost of $66,767. Of the total cost, $34,257 represents the stated value of common shares. The remaining $32,510 was recorded in retained earnings.

## 11. Stock-based compensation

### Stock option plans

*Stock option plan of May 1, 2002*
On May 1, 2002, the Corporation adopted a stock option plan for designated senior executives pursuant to which options for a maximum of 3,740,000 common shares may be granted. Options granted under the plan may be exercised since the Corporation made a public share offering on November 5, 2002. As at September 23, 2012, the exercise price of the 2,920,000 options granted upon adoption of the plan was $3.47 and all options had been exercised (1,855,000 options in 2011). The fair value of each option granted was estimated at the grant date using the Black-Scholes option pricing model.

No compensation cost was expensed with respect to this plan for the thirty-nine-week periods ended September 23, 2012 and September 25, 2011.

*Stock option plan of October 24, 2002*
Since October 24, 2002, the Corporation has another stock option plan for designated senior executives of the Corporation and for certain designated directors. The total number of common shares which may be issued pursuant to the plan will not exceed 10% of the common shares issued and outstanding less the number of shares subject to options granted under the stock option plan of May 1, 2002. These options become vested at 25% per year, if the market price of the common share has traded, for at least 20 consecutive trading days during the twelve-month period preceding the grant anniversary date, at a price equal to or higher than the grant price plus a premium of 8% compounded annually.

Modifications were adopted by the Board of Directors on March 8, 2007, whereby the most appropriate terms and conditions relative to each type of grant could be adopted. Since March 8, 2007, the Board has approved option grants with vesting over a 4-year period following the anniversary date of the grants at 25% per year. In addition as a result of these modifications, the plan is no longer applicable to the designated directors of the Corporation.

As at September 23, 2012, the 3,713,452 options granted (3,242,352 options in 2011) have exercise prices ranging from $9.38 to $26.87 in 2012 ($9.97 to $26.87 in 2011) and of this number, 183,150 options have been exercised (172,425 options in 2011), 619,758 options have expired (619,758 options in 2011) and 1,038,994 options have been forfeited (759,394 options in 2011).

The weighted average fair value of stock options granted of $2.64 for the thirty-nine-week period ended September 23, 2012 ($4.64 in 2011) 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 for the options granted during the period:

| | 2012 | 2011 |
|---|---|---|
| Share price at date of grant | $ 9.39 | $ 13.61 |
| Risk-free interest rate | 1.55 to 1.96 % | 1.67 to 3.35 % |
| Expected share price volatility | 27.65 to 27.70 % | 27.60 to 28.13 % |
| Expected dividend rate | 1.50 % | 1.00 to 1.39% |
| Expected life | 7 to 10 years | 7 to 10 years |
| Exercise price at date of grant | $ 9.38 | $ 13.65 |

(unaudited and in thousands of Canadian dollars)

## 11. Stock-based compensation (continued)

### Stock option plans (continued)

*Stock option plan of October 24, 2002 (continued)*

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 amounts to $114 and $669 for the thirteen and thirty-nine-week periods ended September 23, 2012 ($258 and $775 in 2011).

A summary of the situation of the Corporation's stock option plans and the changes that occurred during the thirty-nine-week periods is presented below:

| | As at September 23, 2012 | | |
|---|---|---|---|
| | Options | | Weighted average exercise price |
| Outstanding, beginning of period | 2,574,175 | $ | 10.32 |
| Granted | 471,100 | | 9.38 |
| Exercised | (970,725) | | 3.55 |
| Forfeited | (203,000) | | 12.33 |
| Outstanding, end of period | 1,871,550 | | 13.38 |
| Options exercisable, end of period | 1,073,435 | $ | 14.81 |

| | As at September 25, 2011 | | |
|---|---|---|---|
| | Options | | Weighted average exercise price |
| Outstanding, beginning of period | 2,727,794 | $ | 9.99 |
| Granted | 384,900 | | 13.65 |
| Exercised | (150,525) | | 7.38 |
| Forfeited | (206,394) | | 9.66 |
| Outstanding, end of period | 2,755,775 | | 10.16 |
| Options exercisable, end of period | 1,950,075 | $ | 8.80 |

The weighted average price of the common shares acquired by option holders having exercised 970,725 options (150,525 options in 2011) for the thirty-nine-week period ended September 23, 2012 is $9.37 ($12.89 in 2011).

The following table summarizes information relating to stock options outstanding as at September 23, 2012:

| Exercise price | Expiration date | Options outstanding | Options exercisable |
|---|---|---|---|
| $ 9.38 | March 5, 2022 | 393,900 | - |
| $ 9.97 | September 21, 2021 | 60,000 | 15,000 |
| $ 10.62 | March 11, 2019 | 316,750 | 241,050 |
| $ 14.18 | March 1, 2018 | 132,975 | 132,975 |
| $ 14.29 | December 16, 2013 | 322,200 | 322,200 |
| $ 14.33 | March 7, 2021 | 230,700 | 62,835 |
| $ 15.44 | March 9, 2020 | 240,925 | 125,275 |
| $ 20.27 | December 22, 2014 | 72,750 | 72,750 |
| $ 23.58 | March 8, 2017 | 101,350 | 101,350 |
| | | 1,871,550 | 1,073,435 |

(unaudited and in thousands of Canadian dollars)

## 11. Stock-based compensation (continued)

### Share unit plan for officers

The Corporation offers a share unit plan to officers and key employees of the Corporation and its subsidiaries under which restricted share units (RSUs) are granted. The RSUs are vested over a maximum term of three years based on performance targets and passage of time. The RSUs are recognized as compensation expense on a straight-line basis over the vesting period.

The RSUs 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 accounted for as compensation expense with a corresponding charge to trade and other payables in the consolidated statement of financial position. RSUs 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.

| | Third Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Number of restricted share units: | | | | |
| Outstanding, begining of period | 1,186,275 | 1,125,125 | 1,117,225 | 935,325 |
| Granted | 2,500 | 20,000 | 588,100 | 410,000 |
| Expired | - | - | - | (113,000) |
| Forfeited | (52,670) | (28,400) | (201,670) | (115,600) |
| Units paid | (4,600) | (6,000) | (372,150) | (6,000) |
| Outstanding, end of period | 1,131,505 | 1,110,725 | 1,131,505 | 1,110,725 |

For the thirteen and thirty-nine-week periods ended September 23, 2012, a charge of $154 and $498 was recorded in the consolidated income statement (recovery of $188 and $ 3,972 in 2011).

### Share unit plan for directors

The Corporation offers a deferred share unit (DSU) plan for external directors. Under this plan, directors may elect to receive in the form of DSUs any percentage up to 100% of their fees payable in respect of serving as director.

When a director elects to participate in this plan, the Corporation credits the director's account for a number of units equal to the deferred compensation divided by the average closing market price of the common shares of the Corporation during the five trading days immediately preceding the last day of each reporting period of the Corporation. Fair market value changes are accounted for as a compensation expense with a corresponding charge to trade and other payables in the consolidated statement of financial position. DSUs granted under this plan will be redeemable and the value of the units will be payable only when the unit holder ceases to be a director.

| | Third Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Number of deferred share units: | | | | |
| Outstanding, beginning of period | 291,698 | 202,428 | 234,968 | 172,781 |
| Granted | 39,955 | 19,736 | 96,685 | 49,383 |
| Units paid | (33,206) | - | (33,206) | - |
| Outstanding, end of period | 298,447 | 222,164 | 298,447 | 222,164 |

The charge (recovery) recorded in the consolidated income statement for the thirteen and thirty-nine-week periods ended September 23, 2012 amounts to $753 and $1,555 (($143) and ($24) in 2011).

(unaudited and in thousands of Canadian dollars)

## 12. Segment Information

The information presented below is reported regularly to the chief operating decision maker, the President and Chief Executive Officer.

| | Third Quarter | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | Retail and commercial | Distribution | Total | Retail and commercial | Distribution | Total |
| Segment revenues | $ 1,026,174 | $ 626,191 | $ 1,652,365 | $ 1,045,115 | $ 607,200 | $ 1,652,315 |
| Intersegment revenues and royalties | (4,305) | (311,500) | (315,805) | (7,206) | (297,974) | (305,180) |
| Revenues from external customers | 1,021,869 | 314,691 | 1,336,560 | 1,037,909 | 309,226 | 1,347,135 |
| Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense | 25,957 | 15,562 | 41,519 | 85,288 | 20,128 | 105,416 |
| Finance income | | | (1,481) | | | (1,486) |
| Amortization, depreciation and impairment of non-financial assets | | | (25,224) | | | (26,947) |
| Operating income [(a)] | | | 14,814 | | | 76,983 |
| Finance income | | | 1,481 | | | 1,486 |
| Finance costs | | | (5,101) | | | (6,519) |
| Income before income tax expense | | | $ 11,194 | | | $ 71,950 |

| | Year-to-date | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | Retail and commercial | Distribution | Total | Retail and commercial | Distribution | Total |
| Segment revenues | $ 2,763,412 | $ 1,891,805 | $ 4,655,217 | $ 2,753,952 | $ 1,818,432 | $ 4,572,384 |
| Intersegment revenues and royalties | (12,729) | (953,857) | (966,586) | (20,836) | (916,156) | (936,992) |
| Revenues from external customers | 2,750,683 | 937,948 | 3,688,631 | 2,733,116 | 902,276 | 3,635,392 |
| Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense | 87,186 | 52,026 | 139,212 | 154,677 | 48,689 | 203,366 |
| Finance income | | | (3,954) | | | (4,197) |
| Amortization, depreciation and impairment of non-financial assets | | | (77,752) | | | (79,306) |
| Operating income [(a)] | | | 57,506 | | | 119,863 |
| Finance income | | | 3,954 | | | 4,197 |
| Finance costs | | | (14,718) | | | (19,557) |
| Income before income tax expense | | | $ 46,742 | | | $ 104,503 |

(a) For the thirteen and thirty-nine week periods ended September 23, 2012, these amounts include restructuring costs, impairment of non-financial assets and other charges totalling $25,713 and $38,699 pre-tax, respectively (Note 3.4).

## 13. Earnings per share

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

| | Third Quarter | | Year-to-date | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income attributable to owners of RONA inc. [(a)] | $ 7,265 | $ 50,113 | $ 32,742 | $ 72,848 |
| Dividends on preferred shares, including related taxes | (2,139) | (2,363) | (6,779) | (5,639) |
| Net income attributable to participating shares | 5,126 | 47,750 | 25,963 | 67,209 |
| Number of shares (in thousands) | | | | |
| Weighted average number of shares used to compute basic net earnings per share attributable to owners of RONA inc. | 121,313 | 130,368 | 122,857 | 130,278 |
| Effect of dilutive stock options [(b)] | 43 | 716 | - | 861 |
| Weighted average number of shares used to compute diluted net earnings per share attributable to owners of RONA inc. | 121,356 | 131,084 | 122,857 | 131,139 |
| Net earnings per share attributable to owners of RONA inc. | | | | |
| Basic | $ 0.04 | $ 0.37 | $ 0.21 | $ 0.52 |
| Diluted | $ 0.04 | $ 0.36 | $ 0.21 | $ 0.51 |

(a) For the thirteen and thirty-nine-week periods ended September 23, 2012, these amounts include restructuring costs, impairment of non-financial assets and other charges totalling $25,713 and $38 699 pre-tax, respectively (Note 3.4).
(b) As at September 23, 2012, 1,494,800 stock options (1,322,825 options in 2011) were excluded from the calculation of diluted net earnings per share attributable to the Corporation's owners since these options have an antidilutive effect.

## 14. Related party transactions with subsidiaries and joint ventures

RONA inc. is the party that exercises ultimate control of the Corporation.

Transactions between the Corporation and its subsidiaries, that are related parties, are eliminated in consolidation and are not presented in this note.

Transactions between the Corporation and its joint ventures, that are related parties that were not eliminated in consolidation, are summarized below:

| | Year-to-date | |
|---|---|---|
| | 2012 | 2011 |
| Sales of merchandise | $ 33,035 | $ 28,758 |
| Leases | 1,279 | 1,268 |
| Trade and other receivables | 4,249 | 4,012 |

Unless otherwise indicated, none of the transactions contain special characteristics or conditions.

(unaudited and in thousands of Canadian dollars)

## 15. Change in accounting policy

In the last quarter of the prior year, which was the reporting period covered by its first IFRS financial statements, the Corporation changed the accounting method for defined benefit pension plans to recognize all actuarial gains and losses immediately in the consolidated statement of other comprehensive income instead of using the corridor approach. The impact of this change in accounting policy for the comparable periods are as follows:

| | 2011 | |
|---|---|---|
| | Third Quarter | Year-to-date |
| Reconciliation of total comprehensive income | | |
| Total comprehensive income under IFRS, as presented in the quarterly financial statements | $ 54,185 | $ 79,289 |
| Impact of change in accounting policy regarding actuarial losses and other items relating to the defined benefit pension plans | (1,437) | (2,381) |
| Total comprehensive income under IFRS, as presented in the quarterly financial statement after the change in accounting policy | $ 52,748 | $ 76,908 |

| | As at September 25, 2011 |
|---|---|
| Reconciliation of equity | |
| Total equity under IFRS, as presented in the quarterly financial statements including the reclassification of comparative figures | $ 2,150,025 |
| Impact of change in accounting policy regarding actuarial losses and other items relating to the defined benefit pension plans | (3,860) |
| Total comprehensive income under IFRS, as presented in the quarterly financial statement after the change in accounting policy | $ 2,146,165 |