

Q3-2010

READY

for the New World

Consolidated interim report

For the quarter ended September 26, 2010



RONA

RONA GROWS MARKET SHARE AND IMPROVES EFFICIENCY IN A CHALLENGING ENVIRONMENT

RONA inc. (TSX: RON), the largest Canadian distributor and retailer of hardware, renovation and gardening products, today reported its financial results for the 13-week and 39-week periods ended September 26, 2010 (third quarter and first nine months of 2010). All figures in this release are in Canadian dollars.

FINANCIAL HIGHLIGHTS

Compared to the third quarter of 2009:

- Total sales decreased 0.5%, same-store sales down 2.25%
- Gross margin was up 32 basis points and adjusted gross margin up 26 basis points to 29.58%
- EBITDA was up 0.8%, excluding 2009 unusual items down 4.6%
- Net earnings of \$50.2 million, up 2.2%, excluding 2009 unusual items down 5.8%
- Earnings per share (diluted) unchanged at \$0.38, excluding 2009 unusual items down \$0.03

OPERATIONAL HIGHLIGHTS

- Expansion and diversification of the Distribution segment with the acquisition of TruServ Canada
- The Commercial and Professional Market division experienced strong organic growth and took further steps toward establishing a national platform for its services with the announcement of three acquisitions
- 5% growth in private-brand and control-labelled products and achievement of 22% penetration rate
- Issuance of RONA cards under the RONAdvantages program doubled over last year
- Continued development of the affiliated dealer network with year-to-date addition of 230,000 square-feet of selling space, representing close to \$90 million in annual retail sales, and selection of five projects under RONA's unique succession-planning program for store ownership

"Declining consumer confidence has made it difficult to achieve customer growth over the past two quarters, however, we have been able to make gains with respect to other objectives, such as growing market share, expanding our distribution, commercial and professional businesses and improving efficiency," stated Robert Dutton, President and CEO of RONA. "Taking into account recently announced acquisitions, we are at 19% market share, up from 17.5% at the beginning of the year and on target to reach our 20% objective by the end of 2011. The benefits of efficiency improvement initiatives are also being reflected in the 26 basis point improvements in gross margin this past quarter."

"We expect economic recovery to be slower than our initial assumptions and consumer confidence to remain a challenge," said Mr. Dutton. "In response, we intend to take appropriate short-term actions to minimize the financial impact of slower customer growth on our results, while pursuing new development opportunities. Our industry is undergoing important changes, especially in the distribution, and in the commercial and professional wholesale businesses, and we intend to use our financial flexibility to play a very active role in the consolidation of these markets."

FINANCIAL RESULTS

CONSOLIDATED RESULTS FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 26, 2010

The results discussed and analyzed in this section are for the three-month period ended September 26, 2010 and, when compared, are compared to the results for the three-month period ended September 27, 2009, unless otherwise indicated.

Sales were \$1,313.7 million, down \$6.8 million, or 0.5%, including a 2.25% decrease in same-store sales. The decrease was the result of a 0.2% decrease in Corporate and Franchised Stores segment sales and a 1.7% decrease in Distribution segment sales. The decline in same-store sales reflects mainly the continued decline in consumer confidence over the quarter, lower housing activity compared to last year, unfavourable weather (particularly in

Western Canada) and tax credits that were available to consumers last year, but not this year. Sales growth relating to acquisitions, new stores and the Commercial and Professional Market division helped to offset this downward pressure.

Retail consumers are being more prudent and selective in their spending as they are worried about the economy, job creation and their debt levels. This behaviour was reflected in less traffic through the stores and lower weekend and install sales. However, for those who did shop, the average size of the basket was up slightly, suggesting that the merchandising and in-store service initiatives were having good success.

While this consumer malaise is affecting all regions, it was more evident in Western Canada than in the rest of Canada and weather conditions have been particularly unfavourable again this quarter. Atlantic Region sales saw some strengthening as the integration of the Pierceys acquisition is progressing smoothly. Quebec stores, particularly those that had expanded from the RONA Le Régional to the RONA L'entrepôt banner, did reasonably well, while commercial and professional market sales were particularly strong in Ontario.

In the retail segment, HVAC (heating, ventilation and air conditioning) category was strong due to a heat wave in July. We also gained market share in the lighting category following a complete remerchandising of the category and strong imported product assortment at competitive prices. However, the kitchen, paint and flooring categories were weak due to tax credits that were available to consumers last year, but not this year, as well as a special kitchen truckload sale realized last year. The Commercial and Professional Market division continued to experience strong sales growth in the plumbing, HVAC, lumber and building material segments.

Net of intersegment activities, Distribution sales decreased 1.7% to \$309.5 million. The decrease represents pressure on same-store sales from our affiliated dealers which was reflected in their purchases.

The gross margin was 27.08%, up 32 basis points, while the adjusted gross margin was up by 26 basis points, to 29.58%. Growth comes from optimisation of product categories, better conditions from vendors, shrink reduction, as well as increased imports and private and controlled brand sales.

EBITDA amounted to \$106.7 million, an increase of \$0.9 million, or 0.8%, as the result of a 0.2% increase in Corporate and Franchised Stores segment EBITDA and a 3.2% increase in Distribution segment EBITDA. The EBITDA margin increased 11 basis points to 8.12% due to a 3 basis point increase for the Corporate and Franchised Stores segment and a 35 basis point increase for the Distribution segment. Excluding unusual items, EBITDA was down \$5.1 million, or 4.6%, and the EBITDA margin was down 34 basis points. This decrease is attributable to a decline in same-store sales partly offset by efficiency improvement measures. Charges for unusual items were incurred in 2009 and were attributable to the re-evaluation of commitments related to store closures in the Corporate and Franchised Stores segment.

Interest expenses on long-term debt and bank loans were up only \$0.1 million, or 1.3%, reflecting a share issue in June 2009 and a more disciplined management of the balance sheet and capital investments, which compensated for a slight increase in short-term rates.

Amortization and depreciation costs totalled \$27.1 million, an increase of \$1.2 million or 4.7%. This increase can be attributed to the opening of new corporate stores, the renovation program for existing corporate stores, acquisitions and ongoing improvements to information systems.

Net earnings were up \$1.1 million to \$50.2 million, and earnings per share (diluted) were unchanged at \$0.38. Net earnings were up due primarily to the contribution of the Distribution segment. Excluding unusual items recorded in 2009, net earnings were down \$3.1 million, or 5.8%, and earnings per share (diluted) were down \$0.03, or 7.3%.

CONSOLIDATED RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 26, 2010

The results discussed and analyzed in this section are for the nine-month period ended September 26, 2010 and, when compared, are compared to the results for the nine-month period ended September 27, 2009, unless otherwise indicated.

Sales were \$3,663.3 million, up \$126.9 million, or 3.6%. Sales growth is attributable to a 3.8% increase in Corporate and Franchised Stores segment sales and a 3.0% increase in Distribution segment sales. Corporate and Franchised Stores segment sales were \$2,763.6 million, an increase of \$100.7 million, or 3.8%. This growth is attributable to new store openings and same-store sales growth of 4.6% in the first half of the year, offset by a same-store sales decline of 2.25% in the third quarter. After nine months, same-store sales were up 1.98%. Six stores were opened in the first nine months of the year, two in Ontario, one in Alberta, one in Saskatchewan, and two in Quebec. The strong growth in same-store sales during the early part of 2010 to a large extent mirrors the recovery in the Canadian economy, which started the year at a strong pace, but more recently appears to be slowing down, particularly in the area of housing activity. Unfavourable weather patterns have also had some impact on sales. Within the segment, the Commercial and Professional Market division has recorded strong sales growth throughout the period for all product lines, especially in the plumbing and HVAC segments. Net of intersegment activities, Distribution segment sales increased 3.0% to \$899.7 million. This sales increase is the result of 13.4% growth in the first quarter of 2010, tempered somewhat by slower growth in the second quarter of 0.2%, and a decline in the third quarter of 1.7%, reflecting the slowdown in economic and housing market activity over the course of the period, as well as unfavourable weather conditions and delays in imports from China.

The gross margin improved by 25 basis points, to 27.54%. The gross margin also improved on a quarterly basis, going from a 4 basis point year-over-year improvement in the first quarter of 2010, to a 25 basis point improvement in the second quarter, to a 32 basis point improvement in the third quarter. The adjusted gross margin rose by 37 basis points, to 30.45%. Growth comes from optimisation of product categories, better conditions from vendors, shrink reduction, as well as increased imports and private and controlled brand sales, partly offset by increases in overseas shipping costs and changes in product mix.

EBITDA was \$276.5 million, up \$22.3 million, or 8.8%, as the result of a 12.4% increase in Corporate and Franchised Stores segment EBITDA, partly offset by a 1.9% decrease in Distribution segment EBITDA. The EBITDA margin increased to 7.55%, a rise of 36 basis points due to a 59 basis point increase for the Corporate and Franchised Stores segment, partly offset by a 35 basis point decrease for the Distribution segment. Excluding unusual items, EBITDA was up \$8.1 million, or 3.0%, and the EBITDA margin was down 4 basis points. The charges for unusual items in the first nine months of 2009 were \$14.2 million relating to store closures. In addition to reflecting improved gross margins, this EBITDA increase also reflects benefits of efficiency improvement measures, in spite of additional costs associated with new store openings.

Interest expenses on long-term debt and bank loans were reduced by \$0.7 million, or 4.1%. This decline is attributable to a share issue in June 2009 and a continued effort to maintain a more disciplined management of the balance sheet and capital investments, resulting in lower debt levels.

Amortization and depreciation costs totalled \$82.4 million, an increase of \$5.0 million or 6.5%. This increase can be attributed to an impairment charge in the second quarter 2010, the opening of new corporate stores, the renovation program for existing corporate stores, acquisitions and ongoing improvements to information systems.

Net earnings were up \$13.6 million, or 12.7%, to \$121.1 million, and earnings per share (diluted) were up \$0.04, or 4.5%, to \$0.92. Excluding unusual items, net earnings were up \$3.8 million, or 3.2%, and earnings per share (diluted) were down \$0.04, or 4.2%, from \$0.96 in 2009. The difference between net earnings growth and earnings per share growth is explained by the differences in average shares outstanding during the respective periods. The increase in net earnings is due primarily to the contribution of the Corporate and Franchised Stores segment over the first nine months of the year driven mainly by strong results in the Commercial and Professional Market division.

CASH FLOWS AND FINANCIAL POSITION

Operations generated \$73.1 million of cash flow in the third quarter of 2010, compared to \$80.0 million in the third quarter of 2009. Net of changes in working capital, operations generated \$58.2 million of cash flow compared to \$100.1 million generated in the third quarter of 2009. For the nine-month period ended September 26, 2010, operations generated \$209.7 million, compared to \$194.0 million in 2009. Net of changes in working capital, operations generated \$44.2 million, compared to \$216.7 million in 2009. The differences in cash flow relating to changes in working capital items are mainly attributable to a \$90.2 million increase in inventory reflecting the opening of new stores, acquisitions, new HVAC lines of products introduced in our Commercial and Professional Market division as well as new products introduced at our Calgary Distribution Centre to support our growth in this part of the country. The decreases are also attributable to an increase in accounts receivable coming from a higher proportion of lumber and building material sales to the commercial and professional clientele as well as a decrease in accounts payable coming from higher imports and changes in product mix. In spite of the increase in overall inventory level, inventory turns increased slightly.

Over the past year, the Company exercised disciplined financial management and strictly monitored investments in fixed assets. In the third quarter of 2010, RONA invested \$34.0 million in capital and intangible assets compared to \$33.1 million invested in the third quarter of 2009. These investments were devoted to the expansion of our retail network, including the construction of new stores, renovations and upgrades of existing stores, as well as maintenance. We also allotted part of these investments to ongoing improvements in our information systems, in order to increase our operational efficiency. For the nine-month period ended September 26, 2010, RONA invested \$91.5 million in capital and intangible assets, \$32.6 million less than the \$124.1 million invested in 2009. The Company now expects its total investment in 2010 to be about \$165 million.

While cash has been used to fund acquisitions and capital expenditures over the past year, RONA's balance sheet has remained strong. On September 26, 2010, the ratio of total net debt to capital was 13.4%, compared to 11.9% as at September 27, 2009. The ratio of equity to assets was 63.9% at the end of the third quarter of 2010, compared to 61.2% as at September 27, 2009.

As at September 26, 2010, the Company had \$150.4 million of cash, which will be used over forthcoming quarters to realize various growth projects in Phase 2 of the Company's 2008–2011 strategic plan. RONA also has an undrawn committed credit facility of up to \$650 million.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

On February 27, 2008, RONA released its strategic plan for 2008-2011. The plan comprised two phases. Phase 1 of the plan focused on productivity, efficiency, and profitability (the "PEP program"), over the 2008-2009 period. On January 25, 2010, RONA unveiled Phase 2 of its strategic plan (the "New World program"), which places renewed emphasis on growth over the 2010-2011 period.

RONA's management made a commitment to provide quarterly updates of the plan's progress in its management report, and an annual update in its annual report and at its annual general meeting. The information below is an update of the plan's progress.

1. Customer growth:

Customer growth will be stimulated by numerous initiatives to improve the customer experience – innovative store concepts, new product categories, new private brand and controlled-label products, new tools and programs to improve customer loyalty, and new training programs for store employees.

- Last spring, RONAdvantages was improved and made into a permanent program that is now one of the most advantageous customer programs in the industry in Canada. The number of new RONA cards issued during 2010 under this program was double what was issued under the previous program during the whole year in 2009.

- RONA's private-brand and controlled-label product sales for the quarter were up 5% over last year, bringing the penetration level of these products to over 22%, up from 19% at the beginning of the year, and just two percentage points short of the 24% target for 2011.
- The ability to meet the needs of commercial and professional customers is growing rapidly as the Commercial and Professional Market division makes significant strides to develop a national platform, largely through strategic acquisitions (for more information on the acquisitions see below) and strong organic growth.
- Ten stores are being renovated to improve the shopping experience: eight in Ontario (Mississauga, Lindsay, Barrie, Windsor, Peterborough, Sheppard, Simcoe and Kingston) and two in Quebec (Anjou and Mascouche). They are expected to be completed by year-end.
- As part of its efforts to promote Canadian values of fair play, teamwork, social responsibility and perseverance, RONA has entered into an exclusive partnership with the Calgary Flames of the NHL (National Hockey League) and a major junior hockey team, the Calgary Hitmen of the WHL (Western Hockey League). RONA and the Flames together will explore creative ideas that will include renovating community youth facilities. RONA will contribute labour, materials and expertise to every project selected. The Company will benefit from having permanent, camera-visible RONA branding at the teams' home games, including two in-ice logos as well as signage behind the boards on the home net side. Additionally, a visible patch will be added to all Calgary Flames practice jerseys, a brand new initiative to the NHL this year. Part of the RONA network, TOTEM Building Supplies, an Alberta-based company, will also share in some visibility on the boards and within the arena.

2. Construction of new corporate and franchised stores:

RONA has several different store concepts to meet the specific needs of the communities it serves, big or small, urban or not. Be it a totally new store, or the expansion or transformation of an existing one, RONA has a design to meet the needs.

- To date this year, new store construction has resulted in the addition of about 300,000 square-feet.
- Just following the end of the quarter, the corporate RONA Le Régional store located in St-Luc, Quebec completed expansion plans to become a RONA L'entrepôt big-box store. The Upper Richelieu region, which it serves, has grown considerably in the last ten years and is still growing. The expansion adds an extra 20,000 square feet to the store, which now offers the full line of services provided by the RONA L'entrepôt concept, including specialized boutiques. Unique in the home improvement sector, RONA boutiques are designed to support the renovation process and make it more efficient. The store has an inventory of over 45,000 different items.

3. Development of the affiliated dealer network:

In addition to recruiting new dealers to the group and helping existing dealers to improve and expand their stores, a key element of development in this area is RONA's newly-minted succession-planning program. It was designed to secure RONA's leadership in the market and sustain the growth of its network. The Company's new succession-planning program will help RONA attract next-generation dealer-owners and continue to be the company that offers independent dealer-owners in Canada the best development support.

- In the first nine months of this year, 230,000 square-feet of store space has been added through the recruitment of new dealers and the expansion of existing dealer stores (63,000 square-feet through recruitment and 167,000 square-feet through expansion projects). This represents close to \$90 million in annual retail sales (about \$50 million relating to new dealers and \$40 million to expansion projects, which includes 49,500 square-feet associated with the new Blainville store detailed below). RONA dealers have also completed 84 projects in total, which include 23 expansions projects and 61 remerchandising projects. These projects represent close to \$35 million in investments by our dealers. Counting on the recruitment and all projects completed by RONA dealers, the Company is close to achieving its objective of adding \$100 million to \$150 million of annual retail sales to its dealer network and expects to end the year in line with this objective.
- In Blainville, Quebec, this past August, RONA dealer André Lespérance completed the conversion of an existing building into a new 49,500-square-foot proximity store, offering more than 25,000 products, and representing an investment of more than \$6 million in the local community. Renovation of the building

that would become the new RONA store included measures to protect air quality and reduce energy consumption.

- In September, less than a year after the introduction of the innovative succession-planning program, five young leaders, representing four different projects, were the first selected to receive support from the Development Fund and recently two new projects were presented to the selection committee. This new program combined with the summer retreat described below is really gaining traction as more than 20 projects are currently under study by our young dealers and could potentially be presented to the selection committee in the coming year.
- In August, a youth forum was held in Kananaskis, Alberta for a number of young people representing the next generation of RONA leaders. This was the second such event. Led by Robert Dutton, RONA's President and CEO, the retreat consisted of active working sessions with senior members of RONA's Management Committee, as well as exchanges with industry experts and Canadian business leaders.

4. Acquisitions:

Through targeted acquisitions in retail, distribution and commercial and professional segments, the Company may quickly grow different aspects of its operations and capabilities, such as market coverage, brand extension, leverage of existing infrastructure, product offerings, and purchasing power, while also reducing the cyclical nature of the retail business.

- To date this year, nine acquisitions have been completed and/or announced, four of which were announced around the end of the third quarter: TruServ Canada Inc., Don Park Limited Partnership in Canada (to be acquired through Noble, a RONA subsidiary), Boiseries Signées (acquired through Matériaux Coupal, a RONA subsidiary), and MPH Supply Limited (acquired through Noble, a RONA subsidiary).
- TruServ Canada Inc. is a dealer-owned distributor headquartered in Winnipeg, Manitoba, which operates two warehousing and distribution centres, one of 400,000 square feet in Winnipeg and one of 250,000 square feet in Kitchener, Ontario, from where it supplies over 40,000 products (SKUs). It generates hardware distribution sales of over \$100 million and serves more than 650 independent dealers across Canada, including 250 stores under the True Value, V&S, Country Depot and other specialized banners, as well as 400 non-bannered stores. The transaction closed on November 3, 2010.
- Don Park Limited Partnership in Canada is specialized in the distribution and manufacturing of heating, ventilation and air conditioning products (HVAC). They operate 14 branches, as well as three manufacturing facilities and one distribution centre in Ontario. Founded in 1972, Don Park has a strong growth profile, generating more than \$90 million in sales. The transaction is expected to close by year-end and is waiting for regulatory approvals.
- Boiseries Signées is a Quebec-based manufacturer of made-to-measure prefabricated, factory-built staircases. It enhances the presence of the Commercial and Professional Market division in the indoor staircase systems market and puts its finishing services in a more advantageous position. At the same time, it makes RONA the only company offering a complete line of indoor finishing products, hardwood floors and staircases, including a tailormade installation option, to its customers in the building trades. This really strengthens the appeal to housing and homebuilding professionals in the Greater Montreal Area and enables penetration of the Quebec City market.
- MPH Supply Limited is specialized in the distribution of plumbing products and operates five branches located in Vancouver and the Lower Mainland. The transaction also includes the acquisition of related company Better Bathrooms Limited, a retail outlet specialized in sales of finishing plumbing products (www.better-bathrooms.ca). MPH Supply and Better Bathrooms generate close to \$15 million in sales. It provides instant access to a new geographical area in the specialized plumbing market and adds critical mass to RONA's existing product and service offering in the specialized plumbing market, thus generating important procurement synergies with Noble. This transaction represents another step toward achieving RONA's objective of establishing a national platform in the commercial and professional market.

- In October, RONA exercised its right of first refusal to acquire Matériaux R. M. Bibeau Ltée. one of RONA's long-time affiliated dealers who wanted to sell its business. Following this transaction, their six hardware stores, located in Sorel, Tracy, Varennes, Contrecoeur, Longueuil and Ste-Julie, have become part of RONA's corporate store network.

OUTLOOK

While an economic recovery is underway, the pace of recovery seen in the first part of the year does not appear to be sustainable and is now expected to be even more gradual than previously anticipated. The Bank of Canada, for example, reduced its estimates for 2010 Canadian economic growth in April, July and, once again, in October, to reflect a more gradual recovery.

So economic growth continues to be anticipated, but at a slower rate, one which will likely be slower than what was anticipated when the Company unveiled its New World program in January. Consumer confidence is also much lower than expected and should continue to be a challenge. Given this context, management now expects that achievement of the financial objectives of the New World Program will likely be delayed.

However, the assumptions about retail sales growth relating to the development of the affiliated dealer network, market penetration for private-brand and controlled-label products, and acquisitions, remain unchanged for 2010 and 2011. Year-to-date, the Company has made very good progress on this front, adding more than \$550 million in annual retail sales, and there are still plenty of opportunities to sustain this level of growth.

RONA will continue to exercise disciplined financial management in order to maintain an investment grade profile while vigorously pursuing opportunities in the other growth vectors, as management believes the Company should take advantage of the current conditions to rapidly consolidate its market.

The objective of increasing RONA's market share in Canada from 17.5% to 20% also remains unchanged. In fact, the Company is well on its way to achieving this one as it is estimated to be 19% as of the third quarter when taking into consideration recently announced acquisitions. This growth in market share will gradually contribute to earnings and will be highly beneficial when market conditions improve.

Finally, with the acquisitions of MPH Supply in British Columbia, Boiseries Signées in Quebec and Don Park Limited Partnership Canada in Ontario announced just recently, as well as the acquisitions earlier this year of Plomberie Payette & Perreault and LGC in Quebec, we are making significant advances towards our objective of developing a national platform for our Commercial and Professional Market division.

The acquisition of TruServ Canada is also providing instant geographical penetration in many Canadian communities, particularly in Ontario and Western Canada, thus creating important growth opportunities. The acquisition also diversifies the network of dealer stores we serve by adding hardware, general merchandising and agriculture specialized stores.

This strategic acquisition also enables us to offer three different solutions to the benefit of independent dealers in Canada: the RONA-bannered dealer store, the TruServ specialized banners, and distribution services for dealers without banners. Now that we have all the complementary tools necessary to serve any type of dealer in Canada, we will launch a vast recruitment campaign targeting the 5,000 independent dealers across the country. More than half of these dealers are part of buying groups with no marketing plans and no succession program.

These strategic transactions, focused on the commercial and professional market and on the distribution market, will reduce the cyclical nature of our operations while providing strong growth potential and synergies. It will also open up opportunities for further acquisitions.

ADDITIONAL INFORMATION

The *Management's Discussion and Analysis (MD&A)* and unaudited financial statements for the third quarter of 2010 can be found in the "Investor Relations" section of the Company's website at www.rona.ca and on the SEDAR website at www.sedar.com. The Company's Annual Report, along with other information about RONA, including its *Annual Information Form*, can also be found on the RONA and SEDAR websites.

NON-GAAP PERFORMANCE MEASURES

In this *Press Release*, as in our internal management, we use the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interest" (EBITDA). This measure corresponds to "Earnings before the following items" in our consolidated financial statements. We also use the concept of "adjusted gross margin," which corresponds to sales less the cost of goods sold including all vendor rebates.

While EBITDA does not have a definition that is standardized by GAAP, 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 its network, including all vendor rebates. 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 GAAP, but rather as additional information.

FORWARD-LOOKING STATEMENTS

This *Press Release* includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this *Press Release*, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. 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 Company's actual results to differ from current expectations, please also refer to the Company'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 the MD&A under the "Risks and uncertainties" section and in the "Risk factors" section of the Company's current Annual Information Form.

The forward-looking statements in this *Press Release* reflect the Company's expectations as at November 10, 2010, and are subject to change after this date. The Company 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.

ABOUT RONA

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With close to 30,000 employees working under its family of banners in every region of Canada and more than 16 million square feet of retail space, the RONA store network generates over \$6 billion in annual retail sales. Visit www.rona.ca.

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THIRD QUARTER 2010 13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 26, 2010

RONA inc. ("RONA," "we" or the "Company") is Canada's leading retailer and distributor of home improvement, hardware and gardening products. The Company operates or serves a network of nearly 700 corporate, franchise and affiliate stores, as well as eleven hardware and building materials distribution centres.

RONA's sales include:

- Retail sales generated by its 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

RONA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. RONA has filed its unaudited consolidated financial statements with the Canadian Securities Administrators for the 13-week and 39-week periods ended September 26, 2010. These statements can be viewed online at www.sedar.com or on RONA's website at www.rona.ca. This *Management's Discussion and Analysis ("MD&A")* should be read in conjunction with the Company's financial statements and related notes.

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In this report, as in our internal management, we use the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interest" (EBITDA). This measure corresponds to "Earnings before the following items" in our consolidated financial statements. We also use the concept of "adjusted gross margin," which corresponds to sales less the cost of goods sold, including all vendor rebates.

While EBITDA does not have a definition that is standardized by GAAP, 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, including all vendor rebates. 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 GAAP, but rather as additional information.

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- Last spring, RONAdvantages was improved and made into a permanent program that is now one of the most advantageous customer programs in the industry in Canada. The number of new RONA cards issued during 2010 under this program was double what was issued under the previous program during the whole year in 2009.
- RONA's private-brand and controlled-label product sales for the quarter were up 5% over last year, bringing the penetration level of these products to over 22%, up from 19% at the beginning of the year, and just two percentage points short of the 24% target for 2011.
- The ability to meet the needs of commercial and professional customers is growing rapidly as the Commercial and Professional Market division makes significant strides to develop a national platform, largely through strategic acquisitions (for more information on the acquisitions see below) and strong organic growth.
- Ten stores are being renovated to improve the shopping experience: eight in Ontario (Mississauga, Lindsay, Barrie, Windsor, Peterborough, Sheppard, Simcoe and Kingston) and two in Quebec (Anjou and Mascouche). They are expected to be completed by year-end.
- As part of its efforts to promote Canadian values of fair play, teamwork, social responsibility and perseverance, RONA has entered into an exclusive partnership with the Calgary Flames of the NHL (National Hockey League) and a major junior hockey team, the Calgary Hitmen of the WHL (Western Hockey League). RONA and the Flames together will explore creative ideas that will include renovating community youth facilities. RONA will contribute labour, materials and expertise to every project selected. The Company will benefit from having permanent, camera-visible RONA branding at the teams' home games, including two in-ice logos as well as signage behind the boards on the home net side. Additionally, a visible patch will be added to all Calgary Flames practice jerseys, a brand new initiative to the NHL this year. Part of the RONA network, TOTEM Building Supplies, an Alberta-based company, will also share in some visibility on the boards and within the arena.

2. Construction of new corporate and franchised stores:

RONA has several different store concepts to meet the specific needs of the communities it serves, big or small, urban or not. Be it a totally new store, or the expansion or transformation of an existing one, RONA has a design to meet the needs.

- To date this year, new store construction has resulted in the addition of about 300,000 square-feet.
- Just following the end of the quarter, the corporate RONA Le Régional store located in St-Luc, Quebec completed expansion plans to become a RONA L'entrepôt big-box store. The Upper Richelieu region, which it serves, has grown considerably in the last ten years and is still growing. The expansion adds an extra 20,000 square feet to the store, which now offers the full line of services provided by the RONA L'entrepôt concept, including specialized boutiques. Unique in the home improvement sector, RONA boutiques are designed to support the renovation process and make it more efficient. The store has an inventory of over 45,000 different items.

3. Development of the affiliated dealer network:

In addition to recruiting new dealers to the group and helping existing dealers to improve and expand their stores, a key element of development in this area is RONA's newly-minted succession-planning program. It was designed to secure RONA's leadership in the market and sustain the growth of its network. The Company's new succession-planning program will help RONA attract next-generation dealer-owners and continue to be the company that offers independent dealer-owners in Canada the best development support.

- In the first nine months of this year, 230,000 square-feet of store space has been added through the recruitment of new dealers and the expansion of existing dealer stores (63,000 square-feet through recruitment and 167,000 square-feet through expansion projects). This represents close to \$90 million in annual retail sales (about \$50 million relating to new dealers and \$40 million to expansion projects, which includes 49,500 square-feet associated with the new Blainville store detailed below). RONA dealers have completed 84 projects in total, which include 23 expansions projects and 61 remerchandising projects. These projects represent close to \$35 million in investments by our dealers. Counting on the recruitment and all projects completed by RONA dealers, the Company is close to achieving its objective of adding \$100 million to \$150 million of annual retail sales to its dealer network and expects to end the year in line with this objective.
- In Blainville, Quebec, this past August, RONA dealer André Lespérance completed the conversion of an existing building into a new 49,500-square-foot proximity store, offering more than 25,000 products, and representing an investment of more than \$6 million in the local community. Renovation of the building that would become the new RONA store included measures to protect air quality and reduce energy consumption.
- In September, less than a year after the introduction of the innovative succession-planning program, five young leaders, representing four different projects, were the first selected to receive support from the Development Fund and recently two new projects were presented to the selection committee. This new program combined with the summer retreat described below is really gaining traction as more than 20 projects are currently under study by our young dealers and could potentially be presented to the selection committee in the coming year.
- In August, a youth forum was held in Kananaskis, Alberta for a number of young people representing the next generation of RONA leaders. This was the second such event. Led by Robert Dutton, RONA's President and CEO, the retreat consisted of active working sessions with senior members of RONA's management committee, as well as exchanges with industry experts and Canadian business leaders.

4. Acquisitions:

Through targeted acquisitions in retail, distribution and commercial and professional segments, the Company may quickly grow different aspects of its operations and capabilities, such as market coverage, brand extension, leverage of existing infrastructure, product offerings, and purchasing power while also reducing the cyclical nature of the retail business.

- To date this year, nine acquisitions have been completed and/or announced, four of which were announced around the end of the third quarter: TruServ Canada Inc., Don Park Limited Partnership in Canada (to be acquired through Noble, a RONA subsidiary), Boiseries Signées (acquired through Matériaux Coupal, a RONA subsidiary), and MPH Supply Limited (acquired through Noble, a RONA subsidiary).
- TruServ Canada Inc. is a dealer-owned distributor headquartered in Winnipeg, Manitoba, which operates two warehousing and distribution centres, one of 400,000 square feet in Winnipeg and one of 250,000 square feet in Kitchener, Ontario, from where it supplies over 40,000 products (SKUs). It generates hardware distribution sales of over \$100 million and serves more than 650 independent dealers across Canada, including 250 stores under the True Value, V&S, Country Depot and other specialized banners, as well as 400 non-bannered stores. The transaction closed on November 3, 2010.
- Don Park Limited Partnership in Canada is specialized in the distribution and manufacturing of heating, ventilation and air conditioning products (HVAC). They operate 14 branches, as well as three manufacturing facilities and one distribution centre in Ontario. Founded in 1972, Don Park has a strong growth profile, generating more than \$90 million in sales. The transaction is expected to close by year-end and is waiting for regulatory approvals.
- Boiseries Signées is a Quebec-based manufacturer of made-to-measure prefabricated, factory-built staircases. It enhances the presence of the Commercial and Professional Market division in the indoor staircase systems market and puts its finishing services in a more advantageous position. At the same time, it makes RONA the only company offering a complete line of indoor finishing products, hardwood floors and staircases, including a tailor-made installation option, to its customers in the building trades.

This really strengthens the appeal to housing and homebuilding professionals in the Greater Montreal Area and enables penetration of the Quebec City market.

- MPH Supply Limited is specialized in the distribution of plumbing products, operates five branches located in the Vancouver and Lower Mainland areas. The transaction also includes the acquisition of related company Better Bathrooms Limited, a retail outlet specialized in sales of finishing plumbing products (www.better-bathrooms.ca). MPH Supply and Better Bathrooms generate close to \$15 million in sales. It provides instant access to a new geographical area in the specialized plumbing market and adds critical mass to RONA's existing product and service offering in the specialized plumbing market, thus generating important procurement synergies with Noble. This transaction represents another step toward achieving RONA's objective of establishing a national platform in the commercial and professional market.
- In October, RONA acquired Matériaux R. M. Bibeau Ltée. one of RONA's long-time affiliated dealers who wanted to sell its business. Following this transaction, their six Quebec-based hardware stores, located in Sorel, Tracy, Varennes, Contrecoeur, Longueuil and Ste-Julie, have become part of RONA's corporate store network.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 26, 2010

The results discussed and analyzed in this section are for the three-month period ended September 26, 2010 and, when compared, are compared to the results for the three-month period ended September 27, 2009, unless otherwise indicated.

Economic conditions

Over the past quarter, the Consumer Confidence Index continued to decline, by 4.3% in July, 0.7% in August and 1.6% in September, this following a decline of 6.4% in June. In six of the first nine months of the year, the Consumer Confidence Index has declined and in September was lower than that of September last year.

The Bank of Canada (the "Bank") also cited consumer spending trends as one reason for its recently revised Canadian growth projections. In an October 19, 2010 press release about its overnight lending rate, the Bank said: "The Bank expects the economic recovery to be more gradual than it had projected in its July *Monetary Policy Report*. This more modest growth profile reflects a more gradual global recovery and a more subdued profile for household spending." The Bank also went on to say that with housing activity declining markedly as anticipated and household debt considerations becoming more important, the Bank expects household expenditures to decelerate to a pace closer to the rate of income growth over the projection horizon.

Compared to the same period in 2009, national resale housing activity was down by 20-30% in each of the months of the quarter, while residential housing starts were up in the first two months of the quarter, but down by 12% in September. Over the course of the quarter, national resale housing activity edged up slightly, while residential housing starts were lower in September than in July and August.

Sales

Sales were \$1,313.7 million, down \$6.8 million, or 0.5%, including a 2.25% decrease in same-store sales. The decrease was the result of a 0.2% decrease in Corporate and Franchised Stores segment sales and a 1.7% decrease in Distribution segment sales.

Gross margin

The gross margin was 27.08%, up 32 basis points while the adjusted gross margin was up by 26 basis points, to 29.58%. Growth comes from optimisation of product categories, better conditions from vendors, shrink reduction, as well as increased imports and private and controlled brand sales.

EBITDA

EBITDA amounted to \$106.7 million, an increase of \$0.9 million, or 0.8%, as the result of a 0.2% increase in Corporate and Franchised Stores segment EBITDA and a 3.2% increase in Distribution segment EBITDA.

The EBITDA margin increased 11 basis points to 8.12% due to a 3 basis point increase for the Corporate and Franchised Stores segment and a 35 basis point increase for the Distribution segment.

Excluding unusual items, EBITDA was down \$5.1 million, or 4.6%, and the EBITDA margin was down 34 basis points. The decrease in EBITDA and EBITDA margin is attributable to the effect of the pressure on same-store sales and changes in the product mix. These elements were partly compensated by efficiency improvement measures. Charges for unusual items were incurred in 2009, in the Corporate and Franchised Stores segment, and related to the cost of store closures.

Interest, amortization and depreciation

Interest expenses on long-term debt and bank loans were up only \$0.1 million, or 1.3%, reflecting a share issue in June 2009 and a more disciplined management of the balance sheet and capital investments.

Amortization and depreciation costs totalled \$27.1 million, an increase of \$1.2 million or 4.7%. This increase can be attributed to the opening of new corporate stores, the renovation program for existing corporate stores, acquisitions and ongoing improvements to information systems.

Net earnings

Net earnings were up \$1.1 million to \$50.2 million, and earnings per share (diluted) were unchanged at \$0.38. Net earnings were up due primarily to the performance of the Distribution segment.

Excluding unusual items recorded in 2009, net earnings were down \$3.1 million, or 5.8%, and earnings per share (diluted) were down \$0.03, or 7.3%.

ANALYSIS OF SEGMENT RESULTS FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 26, 2010

The results discussed and analyzed in this section are for the three-month period ended September 26, 2010 and, when compared, are compared to the results for the three-month period ended September 27, 2009, unless otherwise indicated.

RONA has two reportable segments: distribution, and corporate and franchised stores.

RONA: Key segment figures for the quarter ended September 26, 2010

| (In thousands of dollars) | Third quarter 2010 | Third quarter 2009 | \$ change from Q3 2009 | % change from Q3 2009 |
|--|-----------------------|-----------------------|---------------------------|--------------------------|
| Segment sales | | | | |
| Corporate and franchised stores | 1,004,200 | 1,005,738 | (1,538) | (0.2%) |
| Distribution | 617,474 | 620,492 | (3,018) | (0.5%) |
| Total | 1,621,674 | 1,626,230 | (4,556) | (0.3%) |
| Intersegment sales and royalties | | | | |
| Corporate and franchised stores | - | - | - | - |
| Distribution | (307,966) | (305,720) | (2,246) | (0.7%) |
| Total | (307,966) | (305,720) | (2,246) | (0.7%) |
| Sales | | | | |
| Corporate and franchised stores | 1,004,200 | 1,005,738 | (1,538) | (0.2%) |
| Distribution | 309,508 | 314,772 | (5,264) | (1.7%) |
| Total | 1,313,708 | 1,320,510 | (6,802) | (0.5%) |
| EBITDA | | | | |
| Corporate and franchised stores | 83,545 | 83,400 | 145 | 0.2% |
| Distribution | 23,129 | 22,415 | 714 | 3.2% |
| Total | 106,674 | 105,815 | 859 | 0.8% |
| EBITDA (excluding unusual items) | | | | |
| Corporate and franchised stores | 83,545 | 89,354 | (5,809) | (6.5%) |
| Distribution | 23,129 | 22,415 | 714 | 3.2% |
| Total | 106,674 | 111,769 | (5,095) | (4.6%) |
| EBITDA margin | | | | |
| Corporate and franchised stores | 8.32% | 8.29% | - | +3 b.p. |
| Distribution | 7.47% | 7.12% | - | +35 b.p. |
| Total | 8.12% | 8.01% | - | +11 b.p. |
| EBITDA margin (excluding unusual items) | | | | |
| Corporate and franchised stores | 8.32% | 8.88% | - | -56 b.p. |
| Distribution | 7.47% | 7.12% | - | +35 b.p. |
| Total | 8.12% | 8.46% | - | -34 b.p. |

Corporate and Franchised Stores

Sales were \$1,004.2 million, a decrease of \$1.5 million, or 0.2%, including a decrease of 2.25% for same-store sales. The decline in same-store sales reflects mainly the continued decline in consumer confidence over the quarter, lower housing activity compared to last year, unfavourable weather (particularly in Western Canada) and tax credits that were available to consumers last year, but not this year. Sales growth relating to acquisitions, new stores and the Commercial and Professional Market division helped to offset this pressure.

Retail consumers are being more prudent and selective in their spending as they are worried about the economy, job creation and their debt levels. This behaviour was reflected in less traffic through the stores and lower weekend and install sales. However, for those who did shop, the average size of the basket was up slightly, suggesting that the merchandising and in-store service initiatives were having good success.

While this consumer malaise is affecting all regions, it was more evident in Western Canada where economic conditions are still tougher than in the rest of Canada and weather conditions have been particularly unfavourable again this quarter. Atlantic Region sales saw some strengthening as the integration of the Pierceys acquisition progressed smoothly. Quebec stores, particularly those that had expanded from the RONA Le Régional to the RONA L'entrepôt banner, did reasonably well while commercial and professional market sales were particularly strong in Ontario.

In the retail segment, HVAC (heating, ventilation and air conditioning) category was strong due to a period of heat wave in July. We also gained market share in the lighting category following a complete remerchandising of the category and strong imported product assortment at competitive prices. However, the kitchen, paint and flooring categories were weak due to tax credits that were available to consumers last year, but not this year as well as a special kitchen truckload sale realized last year. The Commercial and Professional Market division continued to experience strong sales growth in the plumbing, HVAC, lumber and building material segments.

EBITDA was \$83.5 million, an increase of \$0.1 million, or 0.2% and the EBITDA margin grew by 3 basis points, to 8.32%. Excluding unusual items, EBITDA would have been down \$5.8 million, or 6.5%, and the EBITDA margin would have been down 56 basis points. This decrease is attributable to a decline in same-store sales and changes in the product mix partly offset by efficiency improvement measures. The charge for unusual items in the third quarter of 2009 was \$6.0 million and was attributable to the re-evaluation of commitments related to store closures

Distribution

Net of intersegment activities, Distribution sales decreased 1.7% to \$309.5 million. The decrease represents pressure on same-store sales from our affiliated dealers which was reflected in their purchases.

The Distribution segment generated \$23.1 million in EBITDA, an increase of \$0.7 million, or 3.2%. The EBITDA margin increased 35 basis points, to 7.47%. This segment benefited from better supplier terms and conditions, increased sales of low-cost imports and supply-chain optimisation.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 26, 2010

The results discussed and analyzed in this section are for the nine-month period ended September 26, 2010 and, when compared, are compared to the results for the nine-month period ended September 27, 2009, unless otherwise indicated.

Sales

Sales were \$3,663.3 million, up \$126.9 million, or 3.6%. Sales growth is attributable to a 3.8% increase in Corporate and Franchised Stores segment sales and a 3.0% increase in Distribution segment sales.

Gross margin

The gross margin improved by 25 basis points, to 27.54%. The gross margin also improved on a quarterly basis, going from a 4 basis point year-over-year improvement in the first quarter of 2010, to a 25 basis point improvement in the second quarter, to a 32 basis point improvement in the third quarter. The adjusted gross margin rose by 37 basis points, to 30.45%. Growth comes from optimisation of product categories, better conditions from vendors, shrink reduction, as well as increased imports and private and controlled brand sales which was partly offset by increase in overseas shipping costs and changes in product mix.

EBITDA

EBITDA was \$276.5 million, up \$22.3 million, or 8.8%, as the result of a 12.4% increase in Corporate and Franchised Stores segment EBITDA, partly offset by a 1.9% decrease in Distribution segment EBITDA.

The EBITDA margin increased to 7.55%, a rise of 36 basis points due to a 59 basis point increase for the Corporate and Franchised Stores segment, partly offset by a 35 basis point decrease for the Distribution segment.

Excluding 2009 unusual items, EBITDA was up \$8.1 million, or 3.0%, and the EBITDA margin was down 4 basis points. Charges for unusual items were incurred only in 2009 in the Corporate and Franchised Stores segment and related to the cost of store closures.

Interest, amortization and depreciation

Interest expenses on long-term debt and bank loans were reduced by \$0.7 million, or 4.1%. This decline is attributable to a share issue in June 2009 and a continued effort to maintain a more disciplined management of the balance sheet and capital investments, resulting in lower debt levels.

Amortization and depreciation costs totalled \$82.4 million, an increase of \$5.0 million or 6.5%. This increase can be attributed to an impairment charge in the second quarter of 2010, the opening of new corporate stores, the renovation program for existing corporate stores, acquisitions and ongoing improvements to information systems.

Net earnings

Net earnings were up \$13.6 million, or 12.7%, to \$121.1 million, and earnings per share (diluted) were up \$0.04, or 4.5%, to \$0.92. Excluding unusual items, net earnings were up \$3.8 million, or 3.2%, and earnings per share (diluted) were down \$0.04, or 4.2%, from \$0.96 in 2009. The difference between net earnings growth and earnings per share growth is explained by the differences in average shares outstanding during the respective periods. The increase in net earnings is due primarily to the contribution of the Corporate and Franchised Stores segment over the first nine months of the year driven mainly by strong results in the Commercial and Professional Market division.

ANALYSIS OF SEGMENT RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 26, 2010

The results discussed and analyzed in this section are for the nine-month period ended September 26, 2010 and, when compared, are compared to the results for the nine-month period ended September 27, 2009, unless otherwise indicated.

RONA: Key segment figures, for the nine-month period ended September 26, 2010

| (In thousands of dollars) | Year-to-date 2010 | Year-to-date 2009 | \$ Change from 2009 | % Change from 2009 |
|--|----------------------|----------------------|------------------------|-----------------------|
| Segment sales | | | | |
| Corporate and franchised stores | 2,763,583 | 2,662,923 | 100,660 | 3.8% |
| Distribution | 1,873,025 | 1,790,575 | 82,450 | 4.6% |
| Total | 4,636,608 | 4,453,498 | 183,110 | 4.1% |
| Intersegment sales and royalties | | | | |
| Corporate and franchised stores | - | - | - | - |
| Distribution | (973,310) | (917,071) | (56,239) | (6.1%) |
| Total | (973,310) | (917,071) | (56,239) | (6.1%) |
| Sales | | | | |
| Corporate and franchised stores | 2,763,583 | 2,662,923 | 100,660 | 3.8% |
| Distribution | 899,715 | 873,504 | 26,211 | 3.0% |
| Total | 3,663,298 | 3,536,427 | 126,871 | 3.6% |
| EBITDA | | | | |
| Corporate and franchised stores | 213,272 | 189,773 | 23,499 | 12.4% |
| Distribution | 63,199 | 64,410 | (1,211) | (1.9%) |
| Total | 276,471 | 254,183 | 22,288 | 8.8% |
| EBITDA (excluding unusual items) | | | | |
| Corporate and franchised stores | 213,272 | 203,965 | 9,307 | 4.6% |
| Distribution | 63,199 | 64,410 | (1,211) | (1.9%) |
| Total | 276,471 | 268,375 | 8,096 | 3.0% |
| EBITDA margin | | | | |
| Corporate and franchised stores | 7.72% | 7.13% | | 59 b.p. |
| Distribution | 7.02% | 7.37% | | -35 b.p. |
| Total | 7.55% | 7.19% | | 36 b.p. |
| EBITDA margin (excluding unusual items) | | | | |
| Corporate and franchised stores | 7.72% | 7.66% | | 6 b.p. |
| Distribution | 7.02% | 7.37% | | -35 b.p. |
| Total | 7.55% | 7.59% | | -4 b.p. |

Corporate and Franchised Stores

Sales were \$2,763.6 million, an increase of \$100.7 million, or 3.8%. Sales growth is attributable to new store openings and same-store sales growth of 4.6% in the first half of the year, offset by a same-store sales decline of 2.25% in the third quarter. For the nine months period ended September 26, 2010, same-store sales were up 1.98%. Six stores were opened in the first nine months of the year, two in Ontario, one in Alberta, one in Saskatchewan, and two in Quebec. The strong growth in same-store sales during the early part of 2010 to a large extent mirrors the recovery in the Canadian economy, which started the year at a strong pace, but more recently appears to be slowing down, particularly in the area of housing activity. Unfavourable weather patterns have also had some impact on sales. Within the segment, the Commercial and Professional Market division has recorded strong sales growth throughout the period for all product lines, especially in the plumbing and HVAC segments.

EBITDA was \$213.3 million, an increase of \$23.5 million, or 12.4%, and the EBITDA margin grew by 59 basis points, to 7.72%. Excluding unusual items recorded in 2009, EBITDA would have been up \$9.3 million, or 4.6%, and the EBITDA margin would have been up 6 basis points. In addition to reflecting improved gross margins, this EBITDA increase also reflects good results from efficiency improvement measures, in spite of additional costs associated with new store openings. The charges for unusual items in the first nine months of 2009 were \$14.2 million relating to store closures.

Distribution

Net of intersegment activities, distribution sales increased 3.0% to \$899.7 million. This sales increase is the result of 13.4% growth in the first quarter of 2010, tempered somewhat by slower growth in the second quarter of 0.2%, and a decline in the third quarter of 1.7%, reflecting the slowdown in economic and housing market activity over the course of the period, as well as unfavourable weather conditions and delays in imports from China.

EBITDA was \$63.2 million, a decrease of \$1.2 million, or 1.9%. EBITDA for each quarter was lower than that of the same quarter in 2009, but the percentage decrease has gotten smaller over the course of this year: a 6.2% decrease in the first quarter, a 3.6% decrease in the second quarter, and a 1.9% decrease in the third quarter. The same pattern is reflected in the EBITDA margin, which was down 35 basis points to 7.02% for the period, and on a quarterly basis was: down 120 basis points in the first quarter, down 30 basis points in the second quarter, but up 35 basis points in the third quarter. This reflects a favourable change in the sales mix between lower and higher margin products and better supplier terms.

CASH FLOWS AND FINANCIAL POSITION

Operations generated \$73.1 million of cash flow in the third quarter of 2010, compared to \$80.0 million in the third quarter of 2009. Net of changes in working capital, operations generated \$58.2 million of cash flow compared to \$100.1 million generated in the third quarter of 2009. For the nine-month period ended September 26, 2010, operations generated \$209.7 million, compared to \$194.0 million in 2009. Net of changes in working capital, operations generated \$44.2 million, compared to \$216.7 million in 2009. The differences in cash flow relating to changes in working capital items are mainly attributable to a \$90.2 million increase in inventory reflecting the opening of new stores, acquisitions, new HVAC lines of products introduced in our Commercial and Professional Market division as well as new products introduced at our Calgary Distribution Centre to support our growth in this part of the country. The decreases are also attributable to an increase in accounts receivable coming from a higher proportion of lumber and building material sales to the commercial and professional clientele as well as a decrease in accounts payable coming from higher imports and changes in product mix. In spite of the increase in overall inventory level, inventory turns increased slightly.

Over the past year, the Company exercised disciplined financial management and strictly monitored investments in fixed assets. In the third quarter of 2010, RONA invested \$34.0 million in capital and intangible assets compared to \$33.1 million invested in the third quarter of 2009. These investments were devoted to the expansion of our retail network, including the construction of new stores, renovations and upgrades of existing stores, as well as maintenance. We also allotted part of these investments to ongoing improvements in our information systems, in order to increase our operational efficiency. For the nine-month period ended September 26, 2010, RONA invested \$91.5 million in capital and intangible assets, \$32.6 million less than the \$124.1 million invested in 2009. The Company now expects its total investment in 2010 to be about \$165 million.

With the approval of the Toronto Stock Exchange, during the second quarter, the Board of Directors of the Company has authorized RONA to purchase in the normal course of its activities, from June 21, 2010 to June 20, 2011, up to 3,250,000 common shares, representing 2.5% of its 129,936,351 common shares issued and outstanding on June 7, 2010. Under the issuer bid, the purchases will be made at market prices through the facility of the Toronto Stock Exchange or alternative Canadian trading platforms, in accordance with the rules and policies of the Toronto Stock Exchange. The common shares thereby purchased will be cancelled. The average daily trading volume (ADTV) of the Company's common shares was 293,413 on the Toronto Stock Exchange over the first six completed calendar months of the year. Accordingly, since the Company is entitled to purchase up to 25% of the ADTV on any trading day, it can purchase 73,353 common shares per day in addition to block trades in accordance with the Toronto Stock Exchange rules. Since the Company has the financial flexibility required to execute its growth plan, it will use its

normal course issuer bid to eliminate the dilutive effect caused by the issuance of common shares when businesses are acquired. The Company believes that the purchase of its common shares would represent an effective use of its funds and would be in the best interests of the Company and its shareholders. Shareholders may obtain a free copy of the documents filed with the Exchange concerning this bid by writing to the Corporate Secretary of the Company. In the second and third quarter of 2010, the Company repurchased 2,230,067 shares for a total consideration of \$31.6 million in order to avoid dilution caused by the issuance of shares relating to the acquisition of Pierceys.

Cash flow from operations, proceeds of the Company's June 2009 common share issue and disciplined management of working capital throughout the year allowed RONA to finance various investment projects and still reduce total debt. Compared to September 27, 2009, net debt was up \$58.8 million, as cash has been used over the period to fund acquisitions and capital expenditures. As at September 26, 2010, RONA had \$150.4 million in cash, which will be used over forthcoming quarters to realize various growth projects in Phase 2 of the Company's 2008-2011 strategic plan. RONA also has an undrawn committed credit facility of up to \$650 million.

The table below presents a synopsis of the Company's contractual obligations as at September 26, 2010, including off-balance-sheet operating lease agreements used in the normal course of business. The Company has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear in the table below. The Company has guaranteed mortgages amounting to \$0.9 million. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$5.6 million. Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 61% of the cost of the inventories to a maximum of \$75.5 million. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company 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 \$12.2 million were outstanding as at September 26, 2010 for the purchase of various, mainly seasonal, products.

**RONA: Contractual obligations by term
(as at September 26, 2010)**

| Contractual obligations | Payments by term (thousands of dollars) | | | | |
|----------------------------------|--|------------------|----------------|----------------|------------------|
| | Total | Less than 1 year | 1-2 years | 3-4 years | 5 years and more |
| Long-term loans | 427,217 | 4,103 | 15,430 | 4,082 | 403,602 |
| Obligations under capital leases | 4,352 | 2,305 | 1,384 | 382 | 281 |
| Operating and other leases | 1,062,638 | 120,425 | 224,385 | 188,984 | 528,844 |
| Other long-term obligations | 8,790 | 4,140 | 4,650 | - | - |
| Total | 1,502,997 | 130,973 | 245,849 | 193,448 | 932,727 |

**RONA: Outstanding shares
As at October 28, 2010**

| | |
|---------------------|--------------------|
| Common shares | 129,966,057 |
| Unexercised options | 2,079,244 |
| Total | 132,045,301 |

While cash has been used to fund acquisitions and capital expenditures over the past year, RONA's balance sheet has remained strong. On September 26, 2010, the ratio of total net debt to capital was 13.4%, compared to 11.9% as at September 27, 2009. The ratio of equity to assets was 63.9% at the end of the third quarter of 2010, compared to 61.2% as at September 27, 2009.

The Company's operations generate substantial cash flow. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA also has substantial liquidity and can borrow many millions more at competitive rates. Our financial resources are therefore sufficient to pursue disciplined development of our four growth vectors: customer growth, construction of new stores, recruitment of affiliated dealers and acquisitions.

QUARTERLY INFORMATION

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation-construction activities. The strongest period of the year is from spring to fall, and over 80% of the Company'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-construction sector 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 Corporate and Franchised Stores segment, the seasonal impact of the first quarter has been more pronounced in 2008, 2009 and 2010 than in previous years. The second quarter is always the strongest of the year, followed by the third quarter.

RONA: Consolidated quarterly financial results (In millions of dollars, except earnings per share)

| | 2010 | | | 2009 | | | 2008 (restated) | | |
|---|---------|---------|-------|---------|---------|---------|-----------------|---------|---------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Sales | 1,313.7 | 1,398.2 | 951.4 | 1,140.9 | 1,320.5 | 1,369.9 | 846.0 | 1,124.6 | 1,381.7 |
| EBITDA | 106.7 | 134.5 | 35.3 | 78.8 | 105.8 | 122.9 | 25.5 | 75.3 | 112.5 |
| EBITDA (excluding unusual items) | 106.7 | 134.5 | 35.3 | 78.4 | 111.8 | 131.1 | 25.5 | 76.2 | 121.0 |
| Net earnings (net loss) | 50.2 | 67.8 | 3.0 | 30.9 | 49.1 | 60.8 | (2.5) | 29.8 | 52.5 |
| Net earnings (net loss) (excluding unusual items) | 50.2 | 67.8 | 3.0 | 30.6 | 53.3 | 66.5 | (2.5) | 30.4 | 58.9 |
| Earnings (loss) per share (\$) | 0.38 | 0.52 | 0.02 | 0.24 | 0.38 | 0.51 | (0.02) | 0.26 | 0.45 |
| Earnings (loss) per share (\$) (excluding unusual items) | 0.38 | 0.52 | 0.02 | 0.24 | 0.41 | 0.56 | (0.02) | 0.26 | 0.51 |
| Diluted earnings (loss) per share (\$) | 0.38 | 0.52 | 0.02 | 0.24 | 0.38 | 0.51 | (0.02) | 0.25 | 0.45 |
| Diluted earnings (loss) per share (\$) (excluding unusual items) | 0.38 | 0.52 | 0.02 | 0.23 | 0.41 | 0.55 | (0.02) | 0.26 | 0.50 |

Note: Results for 2008 have been restated to reflect the application of Section 3064, "Goodwill and intangible assets", of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

Annual growth in same-store sales Last nine quarters

| Q3-2008 | Q4-2008 | Q1-2009 | Q2-2009 | Q3-2009 | Q4-2009 | Q1-2010 | Q2-2010 | Q3-2010 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| -3.5% | -1.4% | -8.5% | -6.2% | -5.3% | +0.7% | +10.8% | +0.9% | -2.3% |

Note: Same-store sales have been restated for 2008 to reflect sales without adjustment for holidays and materials deflation.

OUTLOOK

While an economic recovery is underway, the pace of recovery seen in the first part of the year does not appear to be sustainable and is now expected to be even more gradual than previously anticipated. The Bank of Canada, for example, reduced its estimates for 2010 Canadian economic growth in April, July and, once again, in October, to reflect a more gradual recovery.

So economic growth continues to be anticipated, but at a slower rate, one which will likely be slower than what was anticipated when the Company unveiled its New World program in January. Consumer confidence is also much lower than expected and should continue to be a challenge. Given this context, management now expects that achievement of the financial objectives of the New World Program will likely be delayed.

However, the assumptions about retail sales growth relating to the development of the affiliated dealer network, market penetration for private-brand and controlled-label products, and acquisitions, remain unchanged for 2010 and 2011. Year-to-date, the Company has made very good progress on this front, adding more than \$550 million in annual retail sales, and there are still plenty of opportunities to sustain this level of growth.

RONA will continue to exercise disciplined financial management in order to maintain an investment grade profile while vigorously pursuing opportunities in the other growth vectors, as management believes the Company should take advantage of the current conditions to rapidly consolidate its market.

The objective of increasing RONA's market share in Canada from 17.5% to 20% also remains unchanged. In fact, the Company is well on its way to achieving this one as it is estimated to be 19% as of the third quarter when taking into consideration recently announced acquisitions. This growth in market share will gradually contribute to earnings and will be highly beneficial when market conditions improve.

Finally, with the acquisitions of MPH Supply in British Columbia, Boiseries Signées in Quebec and Don Park Limited Partnership Canada in Ontario announced just recently, as well as the acquisitions earlier this year of Plomberie Payette & Perreault and LGC in Quebec, we are making significant advances towards our objective of developing a national platform for our Commercial and Professional Market division.

The acquisition of TruServ Canada is also providing instant geographical penetration in many Canadian communities, particularly in Ontario and Western Canada, thus creating important growth opportunities. The acquisition also diversifies the network of dealer stores we serve by adding hardware, general merchandising and agriculture specialized stores.

This strategic acquisition also enables us to offer three different solutions to the benefit of independent dealers in Canada: the RONA-bannered dealer store, the TruServ specialized banners, and distribution services for dealers without banners. Now that we have all the complementary tools necessary to serve any type of dealer in Canada, we will launch a vast recruitment campaign targeting the 5,000 independent dealers across the country. More than half of these dealers are part of buying groups with no marketing plans and no succession program.

These strategic transactions, focused on the commercial and professional market and on the distribution market, will reduce the cyclical nature of our operations while providing strong growth potential and synergies. It will also open up opportunities for further acquisitions.

RISKS AND UNCERTAINTIES

There have been no significant changes to the Company's principal risks and uncertainties during the third quarter of 2010. Please refer to the *Annual Management's Discussion and Analysis for the year ended December 27, 2009*, for a complete description of the risks the Company faces.

CHANGES IN ACCOUNTING POLICIES

No major change has occurred since the publication of the *Annual Management's Discussion and Analysis for the year ended December 27, 2009*.

NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

International Financial Reporting Standards

In 2009, the Accounting Standards Board of Canada (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS, which will go into effect during 2011. IFRS use a conceptual framework similar to that of Canadian GAAP, but include major differences with respect to recognition, measurement, presentation and disclosure. In the period prior to conversion, the International Accounting Standards Board (IASB) will continue to publish new accounting standards, and as a result, the final impact of IFRS on the Company's consolidated financial statements will be evaluated only when all IFRS applicable on the conversion date are known. According to the newsletter issued in December 2009 by the AcSB, however: "The International Accounting Standards Board (IASB) recently reviewed its work plan and adjusted the timing for several active projects to amend IFRS. As a result of those adjustments, it now seems clear that no further significant changes to IFRS will be mandatory for 2011 calendar years."

For the Company, conversion to IFRS will be required for financial statements for periods beginning on December 27, 2010. Comparative data will have to be restated to comply with IFRS. As a result, the Company has developed a plan to convert its financial statements to IFRS that focuses on the key areas of impact, including financial reporting, company operations, systems and processes, and internal controls, as well as communications and training. The four phases of the plan are Phase 1 – Preliminary Diagnosis, Planning and Definition of the Scope, Phase 2 – Detailed Evaluation, Phase 3 – Definition of the Solution and Phase 4 – Implementation.

The Company is currently in Phase 4 of the conversion plan – Implementation.

To carry out a detailed evaluation of the potential impact, IFRS have been grouped by topic and distributed among 11 task forces comprising employees from every affected sector of the Company. Members of each task force are responsible for evaluating the impact of the differences between Canadian GAAP and IFRS and for recommending accounting policies to management.

As expected, the Company has completed most of its conversion plan. Phase 4, Implementation will be completed before the end of the last quarter of 2010.

The table below provides a summary of the main activities and the completion status of the Company's conversion plan.

| Main activities | Completion status |
|---|--|
| Financial reporting | |
| <ul style="list-style-type: none"> • Identify differences between IFRS and the Company's current accounting policies, choose IFRS accounting policies and analyse the impact on the Company's financial statements. • Analyse and choose the IFRS 1 exemptions to retain on changeover to IFRS. • Prepare the opening balance sheet, the transition note, and the model IFRS financial statements. • Prepare interim 2010 financial statements under IFRS. • Prepare an accounting policy and procedures manual. | <ul style="list-style-type: none"> • Preliminary analyses of the differences and choices of accounting policies with a potentially material impact on the Company's financial statements were prepared and presented to the Audit Committee in 2009. The Company was assisted in this task by external IFRS experts. • The IFRS 1 exemptions were analysed in early 2009 and preliminary choices were presented to the Audit Committee. • The audited opening balance sheet for internal use was prepared during the second quarter of 2010 and presented to the Audit Committee on August 10, 2010. The model financial statements were prepared during the third quarter and presented to the Audit Committee on November 9, 2010. • The preliminary interim Consolidated Earnings Statement and Balance Sheet for the first quarter of 2010 under IFRS were prepared during the second quarter of 2010 and presented to the Audit Committee on August 10, 2010. The preliminary interim Consolidated Earnings Statement and Balance Sheet for the second quarter of 2010 under IFRS were prepared during the third quarter and presented to the Audit Committee on November 9, 2010. • An accounting policy and procedures manual is being prepared. |
| Company operations | |
| <ul style="list-style-type: none"> • Review major contracts, particularly those related to financing, to ensure certain covenants are met after the transition to IFRS. • Verify the impact of changes on compensation programs. | <ul style="list-style-type: none"> • The review is underway but the Company does not anticipate any major impacts. • The short-term compensation programs vary with year-over-year changes in results and adherence to budget. Both the 2010 results and the 2011 budget will be prepared using IFRS. Long-term compensation programs are primarily based on a comparison of the return on net assets of the Company with that of a group of publicly traded Canadian companies. Therefore the Company does not anticipate any impact on the calculation of amounts to be granted under these programs. |
| Systems and processes | |
| <ul style="list-style-type: none"> • Identify changes required in the Company's information systems and processes. | <ul style="list-style-type: none"> • The impacts on systems and processes were reviewed by the various task forces and the required adjustments will be carried out in 2010, in particular, a new fixed assets ledger is being implemented. A special procedure is required in 2010 to produce two sets of parallel financial statements. To do so, the Company uses its consolidation system and manual processes. • Several modifications will be made during the next quarter in the worksheets used to prepare the financial statements and the notes to the financial statements based on IFRS. |

| | |
|--|--|
| <p>Internal controls</p> <ul style="list-style-type: none"> • For all changes in accounting policies and procedures, evaluate internal controls related to financial information and communications controls and procedures from the standpoint of design and effectiveness. • Implement required changes over the course of 2010. | <ul style="list-style-type: none"> • The proposed changes to the accounting policies are approved by management and presented to the Audit Committee. • New internal controls, those affected by the new accounting policies and those required during the transition period, were identified and updated by the various task forces. • Efficiency tests for the controls will be carried out in fiscal years 2010 and 2011. Special attention will be given to controls that affect major changes in the organization's accounting policies, those related to new processes or systems, and those specific to the transition period. |
| <p>Communications and training</p> <ul style="list-style-type: none"> • Train employees who participate in the task forces. • Raise awareness among accounting staff of the changes ahead. • Train employees affected by changes in policies and procedures. • Inform members of the Company's Management Committee of the impacts of the transition to IFRS. | <ul style="list-style-type: none"> • In 2009, specific training was given to employees involved in the task forces by specialized external IFRS consultants. • Controllers in the various subsidiaries were met in 2009 and 2010 to be informed of the changes ahead. • Specific training will be given to these employees in 2010. • The Management Committee was informed of the major changes in accounting policies in 2009 and is provided with more detail in 2010. |

Possible effects of implementation

The differences identified by the Company between IFRS and Canadian standards that will affect RONA have been quantified. However, the accounting methods selected by management and their application may require adjustments to reflect the impact of one or more of the following items: (i) the evaluation of financial reporting requirements as a result of new or revised standards issued by the International Accounting Standards Board (IASB) after November 9, 2010. (ii) modification of accounting methods selected by management. In addition, the impacts outlined below have not all as yet been audited and other differences could arise.

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides for optional exemptions and mandatory exceptions to the general requirement of full retrospective application of IFRS. The Company has analysed the various possible accounting methods and will implement those considered most suitable. Most of the adjustments required for the transition to IFRS will be applied retrospectively to opening retained earnings at the date of the first balance sheet prepared under IFRS.

The table below summarizes the main IFRS 1 exemptions that the Company intends to avail itself of:

| Area of application | Summary of exemptions |
|-----------------------|---|
| Business Combinations | Possible choice: The Company can choose not to apply IFRS 3, Business Combinations, retrospectively at the date of changeover or else apply it at an earlier date of its choosing. RONA's preliminary choice: IFRS 3 will be applied as of the date of changeover, that is December 28, 2009, so no impact is anticipated at the transition date. |
| Share-based Payment | Possible choice: IFRS 2, Share-based Payment, applies with no possible choices to equity instruments granted after November 7, 2002, and that will be vested after the transition date. The Company can choose to apply IFRS 2 retrospectively to equity instruments granted before November 7, 2002, or to all those vested at the transition date. RONA's preliminary choice: The Company has elected to apply IFRS 2 only to grants after November 7, 2002, that will be vested after the transition date. |

| Area of application | Summary of exemptions (continued) |
|---------------------|--|
| Employee benefits | Possible choice: The Company can choose to recognize all unamortized actuarial gains and losses in retained earnings at the transition date. RONA's preliminary choice: The Company intends to avail itself of this exemption. The defined benefit asset will therefore be reduced by \$10.2 million. |
| Borrowing costs | Possible choice: The Company can capitalize borrowing costs incurred during the construction of eligible assets as of the transition date or as of an earlier date of its choosing. RONA's preliminary choice: The Company intends to avail itself of this exemption and will derecognize interest capitalized before the transition date. The carrying value of land and buildings will be reduced by \$18.3 million and the carrying value of certain intangible assets will be reduced by \$2.0 million. |

The table below sets out the differences between the Canadian and international accounting standards that may have a major impact on the Company's consolidated financial statements, resulting from modifications required on the changeover to IFRS. The list and comments present only the highlights of the main differences between the accounting standards as noted by the Company to date. The differences outlined below are based on Canadian GAAP and IFRS in effect as at January 1, 2010.

| IFRS standard | Impact of adoption |
|--------------------------------------|--|
| IFRS 3 – Business Combinations | Possible choice of accounting policy: Non-controlling interests may be measured: a) at fair value or b) at the proportionate share of the acquiree's net identifiable assets. RONA's preliminary choice: Proportionate share of the acquiree's net identifiable assets. Consequently, the Company does not anticipate any impact in this regard. Difference impacting RONA: IFRS 3 requires that transaction costs on business acquisitions be expensed as incurred. Under Section 1581, Business combinations, of the Canadian GAAP currently applied by the Company, the direct costs related to acquisitions are included in the capitalizable costs of the transaction. Anticipated impact at transition: None. Anticipated future impact: The impact on earnings will change based on the number and size of acquisitions. For the first semester of 2010, the impact on net earnings is \$0.8 million. |
| IAS 31 – Interests in Joint Ventures | Possible choice of accounting policy: Method of recognizing interests in jointly controlled entities: a) proportionate consolidation or b) equity method of accounting. RONA's preliminary choice: proportionate consolidation. Anticipated impact at transition: None Anticipated future impact: None |

| IFRS standard | Impact of adoption (continued) |
|---|--|
| IAS 16 – Property, Plant and Equipment | <p>Possible choice of accounting policy: Evaluation method: a) cost model or b) revaluation model.</p> <p>RONA's preliminary choice: cost model</p> <p>Differences impacting RONA: 1) Under IAS 16, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. The Company will adopt component accounting for its buildings at the date of conversion to IFRS. 2) Certain costs incurred prior to management's decision to acquire a site as well as certain operating costs subsequent to the acquisition but prior to the development period do not meet the conditions for recognition as an asset. 3) Under IAS 16, depreciation begins when the asset is available for use whereas under Canadian GAAP depreciation commences when the asset is utilized by the Company.</p> <p>Anticipated impact at transition: 1) Component accounting for buildings will increase their undepreciated carrying values by \$1.0 million. 2) Costs incurred prior to acquisition decisions as well as certain operating costs subsequent to the acquisition but prior to the development period will be derecognized which will reduce the value of property, plant and equipment by \$9.7 million and fixed assets held for sale by \$1.2 million. 3) Property, plant and equipment will be reduced by \$2.5 million as a result of depreciation commencing at an earlier date.</p> <p>Anticipated future impact: The annual depreciation charge for buildings will be reduced and costs incurred prior to acquiring land and operating costs subsequent to the acquisition but prior to the development period will be expensed. For the first semester of 2010, the impact of these differences is a reduction of \$1.5 million in net earnings.</p> |
| IAS 17 – Leases | <p>Possible choice of accounting policy: None</p> <p>Difference impacting RONA: IAS 17 indicates that for all sale and leaseback transactions at fair value, which result in an operating lease contract for the lessee, all gains must be immediately recorded in earnings. Under Section 3065, Leases, of Canadian GAAP, a gain from a sale is deferred and recorded in earnings over the duration of the lease.</p> <p>Anticipated impact at transition: The deferred gain as at December 28, 2009 of \$11.3 million, currently recorded in other liabilities, will be reversed to retained earnings along with the deferred costs of the sale and leaseback transaction recorded in other assets in the amount of \$2.6 million.</p> <p>Anticipated future impact: The Company's before-tax results will be reduced by \$0.9 million annually until 2020.</p> |
| IAS 39 – Financial Instruments: Recognition and Measurement | <p>Possible choice of accounting policy: None</p> <p>Difference impacting RONA: Under IAS 39, a foreign currency derivative embedded in a purchase contract that provides for payments drawn in a relatively stable, liquid currency that is routinely used for trade outside the country where the transaction takes place cannot be accounted for separately. Under Section 3855, Financial Instruments – Recognition and Measurement, entities may choose whether to account for embedded derivatives separately. In 2007, when Section 3855 came into effect, RONA elected to account separately for derivatives embedded in purchase orders.</p> <p>Anticipated impact at transition: Embedded derivatives accounted for in purchase orders from Asia amounting to \$0.8 million will be reversed to retained earnings and inventory will be reduced by \$0.5 million.</p> <p>Anticipated future impact: In early 2010, to recognize the changes in the fair value of hedge instruments in the same accounting period as the currency gains and losses related to disbursements, the Company introduced a cash flow hedge accounting strategy for IFRS purposes only.</p> |

| IFRS standard | Impact of adoption (continued) |
|---|--|
| IAS 19– Employee Benefits | <p>Possible choice of accounting policy: Actuarial gains or losses can be accounted for as follows: a) recognition in earnings of a portion of the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets through amortization over the average remaining service period of the active employees (the “corridor approach”); b) recognized immediately in earnings or c) recognized immediately in comprehensive income without subsequent reversal to earnings.</p> <p>RONA’s preliminary choice: The Company will use the corridor approach, which is the method currently used in compliance with Canadian GAAP.</p> <p>Anticipated impact at transition: None due to the choice of policy. The impact at transition can be attributed to the application of the IFRS 1 exemption discussed above.</p> <p>Anticipated future impact: No major impact is anticipated.</p> |
| IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | <p>Possible choice of accounting policy: None</p> <p>Differences impacting RONA: 1) Under IFRIC 14, an entity cannot recognize a defined benefit asset if it does not have an unconditional right to the surplus in the event of the closure of the plan, for example, and if it does not have the right to reduce future contributions. 2) If an entity is obliged to pay contributions to cover an existing deficit under services already performed and it does not have the unconditional right to the surplus, the entity must record a liability when the obligation arises.</p> <p>Anticipated impact at transition: A total of \$1.4 million will be reversed from the defined benefit asset and an additional liability of \$6.3 million, equivalent to the minimum funding obligation, will be recorded for the plans affected by IFRIC 14.</p> <p>Anticipated future impact: The amount of the minimum funding liability will have to be adjusted each year and the difference recorded in earnings.</p> |
| IAS 36 – Impairment of Assets | <p>Possible choice of accounting policy: None</p> <p>Differences impacting RONA: 1) For long-term finite-life assets, IFRS require a one-step impairment test to be carried out to determine whether there is impairment and to measure it by comparing the carrying value of an asset with the higher of the value in use and the fair value less costs to sell. Under Canadian GAAP, impairment is based on discounted cash flows only if the non-discounted cash flows are lower than the carrying value. 2) Previously recognized impairment losses are reversed when a change of situation indicates that the impairment has been reduced, other than for goodwill and intangible assets with indefinite lives.</p> <p>Anticipated impact at transition: The long-term assets of two stores will be written down by a total of \$4.8 million at the transition date because of discounted cash flows.</p> <p>Anticipated future impact: The IFRS one-step impairment test may lead to more frequent impairment losses or gains.</p> |

In conclusion, preparations for the transition to IFRS are advancing rapidly and according to plan. A number of adjustments to the financial statements are foreseen as soon as IFRS are adopted. According to the results to date, the Company is confident that the transition will meet all requirements.

SIGNIFICANT ACCOUNTING ESTIMATES

No major change has occurred since the publication of the *Annual Management’s Discussion and Analysis for the year ended December 27, 2009*.

Internal control over financial reporting

During the third quarter ended September 26, 2010, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

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 Company 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 Company 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 Company’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 Company’s actual results to differ from current expectations please refer to the Company’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 Company’s current Annual Information Form.

The forward-looking statements in this MD&A reflect the Company’s expectations as at November 10, 2010, and are subject to change after this date. The Company 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 10, 2010. The reader will find additional information concerning RONA, including the Company’s Annual Information Form, on the Company’s website at www.rona.ca or on the SEDAR website at www.sedar.com.

Claude Guévin, CA
Executive Vice President and
Chief Financial Officer

Robert Dutton
President and
Chief Executive Officer

RONA inc.**Consolidated Earnings**

For the thirteen and thirty-nine-week periods ended September 26, 2010 and September 27, 2009

(Unaudited, in thousands of dollars, except earnings per share)

| | Third Quarter | | Year-to-date | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Sales | \$ 1,313,708 | \$ 1,320,510 | \$ 3,663,298 | \$ 3,536,427 |
| Earnings before the following items (Note 4) | 106,674 | 105,815 | 276,471 | 254,183 |
| Interest on long-term debt | 5,275 | 5,143 | 15,272 | 15,674 |
| Interest on bank loans | 588 | 645 | 1,428 | 1,731 |
| Depreciation and amortization (Note 7) | 27,098 | 25,893 | 82,421 | 77,416 |
| | 32,961 | 31,681 | 99,121 | 94,821 |
| Earnings before income taxes and non-controlling interest | 73,713 | 74,134 | 177,350 | 159,362 |
| Income taxes | 21,772 | 22,537 | 52,141 | 48,446 |
| Earnings before non-controlling interest | 51,941 | 51,597 | 125,209 | 110,916 |
| Non-controlling interest | 1,727 | 2,449 | 4,140 | 3,489 |
| Net earnings and comprehensive income | \$ 50,214 | \$ 49,148 | \$ 121,069 | \$ 107,427 |
| Net earnings per share (Note 14) | | | | |
| Basic | \$ 0.38 | \$ 0.38 | \$ 0.93 | \$ 0.88 |
| Diluted | \$ 0.38 | \$ 0.38 | \$ 0.92 | \$ 0.88 |

The accompanying notes are an integral part of the interim consolidated financial statements.

RONA inc.**Consolidated Retained Earnings****Consolidated Contributed Surplus**

For the thirty-nine-week periods ended September 26, 2010 and September 27, 2009

(Unaudited, in thousands of dollars)

| | 2010 | 2009 |
|---|---------------------|---------------------|
| Consolidated Retained Earnings | | |
| Balance, beginning of period | \$ 1,161,808 | \$ 1,028,876 |
| Net earnings | 121,069 | 107,427 |
| Expenses relating to the issue of common shares, net of income tax recovery of \$2,042 | - | (5,320) |
| Excess of purchase price over stated capital of repurchased common shares and related contributed surplus (Note 9) | (17,666) | - |
| Balance, end of period | \$ 1,265,211 | \$ 1,130,983 |
| Consolidated Contributed Surplus | | |
| Balance, beginning of period | \$ 13,475 | \$ 12,563 |
| Compensation cost relating to stock option plans | 910 | 709 |
| Repurchase of common shares – normal course issuer bid (Note 9) | (3,153) | - |
| Exercise of stock options | (19) | - |
| Balance, end of period | \$ 11,213 | \$ 13,272 |

The accompanying notes are an integral part of the interim consolidated financial statements.

RONA inc.

Consolidated Cash Flows

For the thirteen and thirty-nine-week periods ended September 26, 2010 and September 27, 2009

(Unaudited, in thousands of dollars)

| | Third Quarter | | Year-to-date | |
|---|----------------|---------------|-----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Operating activities | | | | |
| Net earnings | \$ 50,214 | \$ 49,148 | \$ 121,069 | \$ 107,427 |
| Non-cash items | | | | |
| Depreciation and amortization | 27,098 | 25,893 | 82,421 | 77,416 |
| Derivative financial instruments | (351) | (67) | (168) | (1,188) |
| Future income taxes | (5,761) | (1,446) | (113) | 2,726 |
| Net loss (gain) on disposal of assets | (147) | 101 | (1,240) | (1,835) |
| Impairment charge on fixed assets held for sale | - | 2,050 | - | 2,050 |
| Stock-based compensation (Note 10) | 28 | 1,528 | 2,907 | 2,556 |
| Non-controlling interest | 1,727 | 2,449 | 4,140 | 3,489 |
| Other items | 312 | 328 | 716 | 1,399 |
| | 73,120 | 79,984 | 209,732 | 194,040 |
| Changes in working capital items | (14,883) | 20,142 | (165,525) | 22,614 |
| Cash flows from operating activities | 58,237 | 100,126 | 44,207 | 216,654 |
| Investing activities | | | | |
| Business acquisitions (Note 6) | (2,003) | - | (12,151) | (3,214) |
| Advances to joint ventures and other advances | - | 955 | - | (52) |
| Other investments | (2,440) | (2,970) | (3,081) | (3,496) |
| Fixed assets | (29,874) | (20,826) | (72,353) | (91,757) |
| Intangible assets | (4,162) | (12,286) | (19,169) | (32,342) |
| Other assets | (670) | (1,952) | (3,098) | (4,762) |
| Disposal of fixed assets | 371 | 1,207 | 1,701 | 4,695 |
| Disposal of investments | 2,159 | 740 | 6,839 | 1,905 |
| Cash flows from investing activities | (36,619) | (35,132) | (101,312) | (129,023) |
| Financing activities | | | | |
| Bank loans and revolving credit | (1,328) | (6,194) | 6,807 | (42,236) |
| Other long-term debt | 650 | - | 650 | 188 |
| Repayment of other long-term debt and redemption of preferred shares | (2,241) | (3,628) | (10,148) | (9,585) |
| Issue of common shares | 1,006 | 23,769 | 2,562 | 175,795 |
| Expenses relating to the issue of common shares | - | (1,244) | - | (7,362) |
| Repurchase of common shares | (26,824) | - | (31,609) | - |
| Cash flows from financing activities | (28,737) | 12,703 | (31,738) | 116,800 |
| Net increase (decrease) in cash | (7,119) | 77,697 | (88,843) | 204,431 |
| Cash, beginning of period | 157,533 | 139,079 | 239,257 | 12,345 |
| Cash, end of period | \$ 150,414 | \$ 216,776 | \$ 150,414 | \$ 216,776 |
| Supplementary information | | | | |
| Interest paid | \$ 11,372 | \$ 11,638 | \$ 22,725 | \$ 24,958 |
| Income taxes paid | \$ 7,785 | \$ 9,166 | \$ 32,822 | \$ 30,326 |

The accompanying notes are an integral part of the interim consolidated financial statements.

RONA inc.**Consolidated Balance Sheets**

September 26, 2010, September 27, 2009 and December 27, 2009

(In thousands of dollars)

| | September 26, 2010 | September 27, 2009 | December 27, 2009 |
|--|-----------------------|-----------------------|----------------------|
| | (Unaudited) | (Unaudited) | |
| Assets | | | |
| Current assets | | | |
| Cash | \$ 150,414 | \$ 216,776 | \$ 239,257 |
| Accounts receivable | 338,538 | 303,867 | 250,845 |
| Income taxes receivable | – | – | 2,436 |
| Inventory (Note 3) | 898,442 | 808,233 | 726,262 |
| Prepaid expenses | 24,306 | 25,078 | 18,114 |
| Derivative financial instruments | 1,231 | 297 | 801 |
| Future income taxes | 14,692 | 17,502 | 15,914 |
| | <u>1,427,623</u> | <u>1,371,753</u> | <u>1,253,629</u> |
| Investments | 10,912 | 12,328 | 11,978 |
| Fixed assets | 884,248 | 831,814 | 868,359 |
| Fixed assets held for sale (Note 8) | 8,839 | 47,581 | 13,242 |
| Goodwill | 495,458 | 455,662 | 455,572 |
| Intangible assets | 97,077 | 79,539 | 89,828 |
| Other assets | 30,196 | 28,867 | 29,682 |
| Future income taxes | 30,376 | 26,808 | 27,593 |
| | <u>\$ 2,984,729</u> | <u>\$ 2,854,352</u> | <u>\$ 2,749,883</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Bank loans | \$ 11,573 | \$ 6,021 | \$ 5,211 |
| Accounts payable and accrued liabilities | 511,048 | 556,201 | 427,817 |
| Income taxes payable | 17,002 | 8,918 | – |
| Derivative financial instruments | 1,038 | 200 | 776 |
| Future income taxes | 4,309 | 5,189 | 4,900 |
| Instalments on long-term debt | 8,503 | 13,197 | 9,996 |
| | <u>553,473</u> | <u>589,726</u> | <u>448,700</u> |
| Long-term debt | 424,777 | 433,189 | 430,524 |
| Other long-term liabilities | 32,597 | 30,563 | 31,317 |
| Future income taxes | 29,570 | 21,618 | 27,542 |
| Non-controlling interest | 37,190 | 32,420 | 32,761 |
| | <u>1,077,607</u> | <u>1,107,516</u> | <u>970,844</u> |
| Shareholders' equity | | | |
| Capital stock (Note 9) | 630,698 | 602,581 | 603,756 |
| Retained earnings | 1,265,211 | 1,130,983 | 1,161,808 |
| Contributed surplus | 11,213 | 13,272 | 13,475 |
| | <u>1,907,122</u> | <u>1,746,836</u> | <u>1,779,039</u> |
| | <u>\$ 2,984,729</u> | <u>\$ 2,854,352</u> | <u>\$ 2,749,883</u> |

The accompanying notes are an integral part of the interim consolidated financial statements.

RONA inc.

Notes to Interim Consolidated Financial Statements

September 26, 2010 and September 27, 2009

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

1. Basis of presentation

The accompanying unaudited interim consolidated financial statements are in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. They are also consistent with the policies outlined in the Company's audited financial statements for the year ended December 27, 2009. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 27, 2009. The interim operating results do not necessarily reflect the results for the full fiscal year. Accordingly, the comparative balance sheet as at September 27, 2009 is also included to reflect seasonal fluctuations that characterize the hardware, renovation and home garden industry. When necessary, the financial statements include amounts based on estimated information and management's best judgments.

2. Effect of new accounting standards not yet implemented

International financial reporting standards (IFRS)

In 2009, the Accounting Standards Board of Canada confirmed that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS, which will go into effect during 2011. When converting from Canadian GAAP to IFRS, the Company will prepare both current and comparative information using IFRS. The Company expects this transition to have an impact on its accounting policies, financial reporting and information systems. Preparations for the transition to IFRS are advancing rapidly and according to the plan prepared by the Company.

3. Inventory

For the thirteen and thirty-nine-week periods ended September 26, 2010, amounts of \$957,998 and \$2,654,538 of inventory were expensed in the consolidated results (\$967,171 and \$2,571,525 in 2009). These amounts include inventory write-down charges of \$9,873 and \$26,511 (\$11,351 and \$30,248 in 2009).

RONA inc.
Notes to Interim Consolidated Financial Statements
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(Unaudited, in thousands of dollars, except amounts per share)

4. Store closing costs

Exit and disposal costs and write-down of assets

In April 2008, management approved a detailed plan to close four of its stores included in the corporate and franchised stores segment. Three of these stores were closed in 2008 and one was closed in the second quarter of 2009. During the second quarter of 2010, the Company settled a lease obligation to one of these stores by a cash payment and reversed a related provision.

During the thirteen and thirty-nine-week periods ended September 26, 2010, the Company recognized the following costs:

| | Third Quarter | | Year-to-date | |
|---|---------------|----------|--------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Lease obligations | \$ - | \$ 6,400 | \$ - | \$ 14,355 |
| Reversal of provision | - | - | (2,944) | - |
| Inventory write-down | - | - | - | 525 |
| Total recorded in earnings before the following items | \$ - | \$ 6,400 | \$ (2,944) | \$ 14,880 |

The liability for exit and disposal costs and write-down of assets, included in accounts payable and accrued liabilities, is as follows:

| | 2010 | 2009 |
|------------------------------|-----------|-----------|
| Balance, beginning of period | \$ 14,340 | \$ 3,575 |
| Costs recognized: | | |
| Lease obligations | - | 14,355 |
| Accretion expense | 197 | - |
| Reversal of provision | (2,944) | - |
| Cash payments | (7,568) | (2,770) |
| Balance, end of period | \$ 4,025 | \$ 15,160 |

Other closing costs

In 2009, during the thirteen and thirty-nine-week periods ended September 27, the Company also recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amounts of \$0 and \$1,230.

5. Vendor rebates

In accordance with EIC-144, *Accounting by a customer (including a reseller) for certain consideration received from a vendor*, the Company must disclose the amount recognized for which the full requirements for vendor rebate entitlement have not yet been met. For the thirty-nine-week period ended September 26, 2010, the Company recognized an amount of \$8,619 (\$5,320 in 2009) which was estimated based on the attainment of specified requirements to receive the rebates.

RONA inc.

Notes to Interim Consolidated Financial Statements

September 26, 2010 and September 27, 2009

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

6. Business acquisitions

During the thirty-nine-week period ended September 26, 2010, the Company acquired four companies (one company in 2009), operating in the corporate and franchised stores segment, by way of share or asset purchases. Taking direct acquisition costs into account, these acquisitions were for a total consideration of \$49,385 (\$3,821 in 2009). The Company financed these acquisitions either by an offering of RONA's treasury stock or from its existing credit facilities. The results of operations of these companies are consolidated from their date of acquisition.

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

| | 2010 | 2009 |
|----------------------------------|-----------------|----------|
| Accounts receivable | \$ 11,324 | \$ 1,145 |
| Inventory | 12,546 | 1,224 |
| Other current assets | 467 | - |
| Fixed assets | 1,988 | 105 |
| Goodwill | 40,074 | 1,357 |
| Intangible assets | 418 | - |
| Current liabilities | (17,390) | (10) |
| Long-term debt | (42) | - |
| | <hr/> 49,385 | 3,821 |
| Less: Issuance of common shares | (35,000) | - |
| Accrued direct acquisition costs | (319) | - |
| Balances of purchase prices | (1,915) | (607) |
| Cash consideration paid | <hr/> \$ 12,151 | \$ 3,214 |

The Company expects that an amount of \$1,333 (\$944 in 2009) of goodwill will be deductible for tax purposes.

RONA inc.

Notes to Interim Consolidated Financial Statements

September 26, 2010 and September 27, 2009

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

7. Impairment of long-term assets

During the thirty-nine-week period ended September 26, 2010, the Company recorded an impairment charge of \$2,000 to reduce the carrying value of a building. This charge, recognized in the second quarter, is included in depreciation and amortization in the consolidated statement of earnings.

8. Fixed assets held for sale

The Company has decided to dispose of land and buildings in the corporate and franchised store segment which are no longer used in operations, and accordingly, established a detailed plan to sell.

During the third quarter of 2010, the Company reclassified \$4,725 from fixed assets held for sale to fixed assets since these assets no longer meet the criteria for presentation as fixed assets held for sale. This reclassification had no impact on the Company's results.

During the third quarter of 2009, the Company disposed of one parcel of land and a building which had been held for sale and two parcels of land and two buildings in the first quarter of 2009 and recorded gains on disposition of \$446 and \$1,521 respectively. In addition, in the third quarter of 2009, the Company recorded an impairment charge of \$2,050 for the write-down of fixed assets held for sale to their market values less costs to sell. There were no disposals in the period ended September 26, 2010.

RONA inc.

Notes to Interim Consolidated Financial Statements

September 26, 2010 and September 27, 2009

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

9. Capital stock

Issued and fully paid:

The following tables present changes in the number of outstanding common shares and their aggregate stated value:

| | September 26, 2010 | |
|--|--------------------|------------|
| | Number of shares | Amount |
| Balance, beginning of period | 129,653,383 | \$ 600,459 |
| Issuance in exchange for common share subscription deposits | 250,979 | 3,842 |
| Issuance under stock option plans | 34,500 | 176 |
| Issuance in exchange for cash | 25,661 | 340 |
| Issuance as payment for a business acquisition (Note 6) | 2,230,067 | 35,000 |
| Repurchased and cancelled | (2,230,067) | (10,790) |
| Balance before elimination of reciprocal shareholdings | 129,964,523 | 629,027 |
| Elimination of reciprocal shareholdings | (73,334) | (424) |
| Balance, end of period | 129,891,189 | 628,603 |
| Deposits on common share subscriptions, net of eliminations of joint ventures ^(a) | | 2,095 |
| | | \$ 630,698 |

| | September 27, 2009 | |
|--|--------------------|------------|
| | Number of shares | Amount |
| Balance, beginning of period | 115,819,699 | \$ 423,477 |
| Issuance in exchange for common share subscription deposits | 328,692 | 3,744 |
| Issuance under stock option plans | 107,000 | 371 |
| Issuance in exchange for cash ^(b) | 13,390,568 | 172,726 |
| Balance before elimination of reciprocal shareholdings | 129,645,959 | 600,318 |
| Elimination of reciprocal shareholdings | (80,251) | (524) |
| Balance, end of period | 129,565,708 | 599,794 |
| Deposits on common share subscriptions, net of eliminations of joint ventures ^(a) | | 2,787 |
| | | \$ 602,581 |

| | December 27, 2009 | |
|--|-------------------|------------|
| | Number of shares | Amount |
| Balance, beginning of year | 115,819,699 | \$ 423,477 |
| Issuance in exchange for common share subscription deposits | 328,692 | 3,744 |
| Issuance under stock option plans | 113,775 | 502 |
| Issuance in exchange for cash ^(b) | 13,391,217 | 172,736 |
| Balance before elimination of reciprocal shareholdings | 129,653,383 | 600,459 |
| Elimination of reciprocal shareholdings | (80,251) | (524) |
| Balance, end of year | 129,573,132 | 599,935 |
| Deposits on common share subscriptions, net of eliminations of joint ventures ^(a) | | 3,821 |
| | | \$ 603,756 |

(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 26, 2010, the number of outstanding common shares would have increased by 161,802.

(b) In June 2009, the Company issued 13,374,500 common shares at a price of \$12.90 per share for total gross proceeds of \$172,531.

RONA inc.

Notes to Interim Consolidated Financial Statements

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

9. Capital stock (continued)

Normal course issuer bid

On June 16, 2010, the Board of Directors approved a normal course issuer bid to repurchase for cancellation, from June 21, 2010 to June 20, 2011, up to 3,250,000 common shares representing approximately 2.5 % of the common shares outstanding. Under this issuer bid approved by the Toronto Stock Exchange, the repurchases will be made at market prices in accordance with the rules and by-laws of the Toronto Stock Exchange. The Company ceases to consider shares as outstanding on the date of the Company'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.

For the thirteen and thirty-nine-week periods ended September 26, 2010, the Company repurchased for cancellation a total of 1,936,867 and 2,230,067 common shares for a total cost of \$26,824 and \$31,609 respectively. Of the total cost of \$31,609, \$10,790 represents stated capital and \$3,153 represents a reduction of the contributed surplus attributable to these common shares. The remaining \$17,666 was charged to retained earnings.

10. Stock-based compensation

Stock option plans

Stock option plan of May 1, 2002

The Company adopted a stock option plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 2,920,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company could grant options for a maximum of 3,740,000 common shares. As at September 26, 2010, the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,675,500 options (1,645,500 options in 2009) were exercised.

The fair value of each option granted was estimated at the grant date using the Black-Scholes option-pricing model. Calculations were based upon a market price of \$3.47, an expected volatility of 30%, a risk-free interest rate of 4.92%, an expected life of four years and 0% expected dividend. The fair value of options granted was \$1.10 per option according to this method.

No compensation cost was expensed with respect to this plan for the thirteen and thirty-nine-week periods ended September 26, 2010 and September 27, 2009.

RONA inc.

Notes to Interim Consolidated Financial Statements

September 26, 2010 and September 27, 2009

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

10. Stock-based compensation (continued)

Stock option plans (continued)

Stock option plan of October 24, 2002

On October 24, 2002, the Board of Directors approved another stock option plan for designated senior executives of the Company 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.

On March 8, 2007, the Board of Directors approved certain modifications to the plan. These modifications, approved by the shareholders at the annual shareholders' meeting on May 8, 2007, establish that this plan is no longer applicable to the designated directors of the Company and provide for the replacement of the terms and conditions for granting options under the plan by a more flexible mechanism for setting the terms and conditions for granting options. The Board of Directors will adopt the most appropriate terms and conditions relative to each type of grant. For the options granted on March 8, 2007 and subsequently, the Board approved the option grants with vesting over a four-year period following the anniversary date of the grants at 25% per year.

As at September 26, 2010, the 2,857,452 options (2,475,752 options in 2009) granted have exercise prices ranging from \$10.62 to \$26.87 (same range in 2009) and of this number, 96,375 options (85,100 options in 2009) have been exercised and 1,051,408 options (646,875 options in 2009) have been forfeited.

The fair value of stock options granted of \$5.32 (\$4.11 in 2009) was estimated at the grant date using the Black-Scholes option-pricing model on the basis of the following assumptions for the stock options granted during the period:

| | 2010 | 2009 |
|------------------------------------|-------|--------|
| Risk-free interest rate | 2.9% | 1.98 % |
| Expected volatility in stock price | 28.5% | 35 % |
| Expected annual dividend | 0% | 0 % |
| Expected life (years) | 6 | 6 |

Compensation cost expensed with respect to this plan amounts to \$304 and \$910 for the thirteen and thirty-nine-week periods ended September 26, 2010 (\$236 and \$709 in 2009).

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Notes to Interim Consolidated Financial Statements

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

10. Stock-based compensation (continued)

Stock option plans (continued)

A summary of the situation of the Company's stock option plans and the changes that occurred during the periods then ended is presented below:

| | September 26, 2010 | |
|------------------------------------|--------------------|---------------------------------|
| | Options | Weighted average exercise price |
| Balance, beginning of period | 2,966,852 | \$ 10.47 |
| Granted | 381,700 | 15.44 |
| Exercised | (34,500) | 4.54 |
| Forfeited | (359,883) | 20.83 |
| Balance, end of period | 2,954,169 | 9.91 |
| Options exercisable, end of period | 2,079,244 | \$ 8.36 |

| | September 27, 2009 | |
|------------------------------------|--------------------|---------------------------------|
| | Options | Weighted average exercise price |
| Balance, beginning of period | 2,981,002 | \$ 11.46 |
| Granted | 516,700 | 10.62 |
| Exercised | (107,000) | 3.47 |
| Forfeited | (372,425) | 19.86 |
| Balance, end of period | 3,018,277 | 10.56 |
| Options exercisable, end of period | 1,912,894 | \$ 7.76 |

| | December 27, 2009 | |
|----------------------------------|-------------------|---------------------------------|
| | Options | Weighted average exercise price |
| Balance, beginning of year | 2,981,002 | \$ 11.46 |
| Granted | 516,700 | 10.62 |
| Exercised | (113,775) | 4.11 |
| Forfeited | (417,075) | 19.47 |
| Balance, end of year | 2,966,852 | 10.47 |
| Options exercisable, end of year | 1,906,969 | \$ 7.72 |

RONA inc.

Notes to Interim Consolidated Financial Statements

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

10. Stock-based compensation (continued)

Stock option plans (continued)

The following table summarizes information relating to stock options outstanding as at September 26, 2010:

| Exercise price | Expiration date | Options outstanding | Options exercisable |
|----------------|-------------------|---------------------|---------------------|
| \$ 3.47 | January 1, 2012 | 1,244,500 | 1,244,500 |
| \$ 10.62 | March 11, 2019 | 478,050 | 119,900 |
| \$ 10.86 | December 9, 2018 | 15,000 | 3,750 |
| \$ 14.18 | March 1, 2018 | 194,400 | 98,550 |
| \$ 14.29 | December 16, 2013 | 404,650 | 404,650 |
| \$ 15.44 | March 9, 2020 | 374,400 | – |
| \$ 20.27 | December 22, 2014 | 96,000 | 96,000 |
| \$ 21.78 | September 1, 2016 | 4,394 | 4,394 |
| \$ 23.58 | March 8, 2017 | 142,775 | 107,500 |
| | | 2,954,169 | 2,079,244 |

Share unit plan for officers

The Company offers a share unit plan to officers and key employees of the Company 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. The RSUs are recognized as a compensation expense on a straight-line basis over the vesting period based on the forecasted attainment of targets. 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 Company's common shares. Fair market value changes are accounted for as compensation expense with a corresponding charge to accounts payable and accrued liabilities. RSUs that have been vested will be payable, at the Company'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 | |
|-----------------------------------|------------------|----------------|------------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Number of restricted share units: | | | | |
| Balance, beginning of period | 1,121,340 | 703,720 | 682,540 | 229,360 |
| Granted | 5,125 | – | 443,925 | 486,150 |
| Forfeited | (75,540) | – | (75,540) | (11,790) |
| Balance, end of period | 1,050,925 | 703,720 | 1,050,925 | 703,720 |

The expense recorded in the consolidated statement of earnings for the thirteen and thirty-nine-week periods ended September 26, 2010 amounts to \$94 and \$1,849 (\$793 and \$919 in 2009).

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Notes to Interim Consolidated Financial Statements

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

10. Stock-based compensation (continued)

Share unit plan for directors

The Company 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 Company 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 Company during the five trading days immediately preceding the last day of each reporting period of the Company. Fair market value changes are accounted for as a compensation expense with a corresponding charge to accounts payable and accrued liabilities in the consolidated balance sheet. DSUs granted under this plan will be redeemable and the value of the units will be payable only when the unitholder ceases to be a director.

| | Third Quarter | | Year-to-date | |
|---------------------------------|---------------|---------|--------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Number of deferred share units: | | | | |
| Balance, beginning of period | 159,144 | 134,692 | 149,139 | 103,421 |
| Directors' compensation | 12,846 | 10,661 | 36,205 | 41,932 |
| Units paid | – | – | (13,354) | – |
| Balance, end of period | 171,990 | 145,353 | 171,990 | 145,353 |

The expense (recovery) recorded in the consolidated statement of earnings for the thirteen and thirty-nine-week periods ended September 26, 2010 amounts to (\$370) and \$148 (\$499 and \$928 in 2009).

11. Guarantees

In the normal course of business, the Company reaches agreements that could meet the definition of "guarantees" in AcG-14.

The Company guarantees mortgages for an amount of \$861. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$5,574.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 61% of the cost of the inventories to a maximum of \$75,496. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company 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.

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Notes to Interim Consolidated Financial Statements

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

12. Employee future benefits

As at September 26, 2010, the Company has seven defined contribution pension plans (nine in 2009) and four defined benefit pension plans (four in 2009). The net pension expense for the benefit plans is as follows:

| | Third Quarter | | Year-to-date | |
|--|---------------|----------|--------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Cost recognized for defined contribution pension plans | \$ 2,749 | \$ 2,358 | \$ 7,888 | \$ 7,166 |
| Cost recognized for defined benefit pension plans | 409 | 434 | 1,223 | 1,239 |
| Net employee future benefit costs | \$ 3,158 | \$ 2,792 | \$ 9,111 | \$ 8,405 |

13. Segmented information

The Company has two reportable segments: distribution and corporate and franchised stores. The distribution segment relates to the supply activities to affiliated, franchised and corporate stores. The corporate and franchised stores segment relates to the retail operations of the corporate stores and the Company's share of the retail operations of the franchised stores in which the Company has an interest.

The accounting policies that apply to the reportable segments are the same as those described in accounting policies. The Company evaluates performance according to earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest, i.e. sales less chargeable expenses. The Company accounts for intersegment operations at fair value.

RONA inc.

Notes to Interim Consolidated Financial Statements

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

13. Segmented information (continued)

| | Third Quarter | | Year-to-date | |
|---|---------------|--------------|--------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Segment sales | | | | |
| Corporate and franchised stores | \$ 1,004,200 | \$ 1,005,738 | \$ 2,763,583 | \$ 2,662,923 |
| Distribution | 617,474 | 620,492 | 1,873,025 | 1,790,575 |
| Total | 1,621,674 | 1,626,230 | 4,636,608 | 4,453,498 |
| Intersegment sales and royalties | | | | |
| Corporate and franchised stores | - | - | - | - |
| Distribution | (307,966) | (305,720) | (973,310) | (917,071) |
| Total | (307,966) | (305,720) | (973,310) | (917,071) |
| Sales | | | | |
| Corporate and franchised stores | 1,004,200 | 1,005,738 | 2,763,583 | 2,662,923 |
| Distribution | 309,508 | 314,772 | 899,715 | 873,504 |
| Total | 1,313,708 | 1,320,510 | 3,663,298 | 3,536,427 |
| Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest | | | | |
| Corporate and franchised stores | 114,119 | 113,407 | 304,484 | 278,232 |
| Distribution | 28,643 | 27,598 | 80,276 | 80,646 |
| Total | 142,762 | 141,005 | 384,760 | 358,878 |
| Earnings before interest, depreciation and amortization, income taxes and non-controlling interest | | | | |
| Corporate and franchised stores | 83,545 | 83,400 | 213,272 | 189,773 |
| Distribution | 23,129 | 22,415 | 63,199 | 64,410 |
| Total | 106,674 | 105,815 | 276,471 | 254,183 |
| Acquisition of fixed assets and intangible assets | | | | |
| Corporate and franchised stores | 28,812 | 18,508 | 69,850 | 86,358 |
| Distribution | 5,224 | 14,605 | 22,613 | 37,847 |
| Total | 34,036 | 33,113 | 92,463 | 124,205 |
| Goodwill | | | | |
| Corporate and franchised stores | 74 | - | 40,074 | 1,357 |
| Distribution | - | - | - | - |
| Total | \$ 74 | \$ - | 40,074 | 1,357 |
| Total assets | | | | |
| Corporate and franchised stores | | | 2,322,182 | 2,170,535 |
| Distribution | | | 662,547 | 683,817 |
| Total | | | \$ 2,984,729 | \$ 2,854,352 |

RONA inc.

Notes to Interim Consolidated Financial Statements

September 26, 2010 and September 27, 2009

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

14. Net earnings per share

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

| | Third Quarter | | Year-to-date | |
|--|---------------|-----------|--------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net earnings | \$ 50,214 | \$ 49,148 | \$ 121,069 | \$ 107,427 |
| Number of shares (in thousands) | | | | |
| Weighted average number of shares used to compute basic net earnings per share | 130,805.1 | 129,455.1 | 130,214.3 | 121,646.7 |
| Effect of dilutive stock options ^(a) | 1,027.3 | 1,006.8 | 1,130.1 | 1,008.1 |
| Weighted average number of shares used to compute diluted net earnings per share | 131,832.4 | 130,461.9 | 131,344.4 | 122,654.8 |
| | | | | |
| Net earnings per share - basic | \$ 0.38 | \$ 0.38 | \$ 0.93 | \$ 0.88 |
| Net earnings per share - diluted | \$ 0.38 | \$ 0.38 | \$ 0.92 | \$ 0.88 |

(a) As at September 26, 2010, 617,569 common share stock options (1,728,777 options in 2009) were excluded from the calculation of diluted net earnings per share since these options have an antidilutive effect.

15. Comparative figures

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

16. Subsequent events

On October 1, 2010, the Company announced an agreement with TruServ Canada Inc., a private company operating in the distribution segment, for the acquisition of all of its issued and outstanding shares. This company generates distribution sales of over \$100 million and serves more than 650 independent dealers across Canada. The transaction closed on November 3, 2010.

On October 7, 2010, the Company announced an agreement to acquire the assets of Don Park Limited Partnership, an entity operating in the corporate and franchised stores segment. The entity operates 14 branches, three manufacturing facilities and one distribution centre in Ontario and generates annual revenues of more than \$90 million. The transaction is subject to certain conditions, including approval by regulatory authorities and is expected to close by the end of the current fiscal year.

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With close to 30,000 employees working under its family of banners in every region of Canada and more than 16 million square feet of retail space, the RONA store network generates over \$6 billion in annual retail sales.



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