



PRESS RELEASE  
FOR IMMEDIATE RELEASE

## RONA'S QUARTERLY RESULTS IN LINE WITH OBJECTIVES

Boucherville, Quebec, November 9, 2011 – RONA inc. (TSX: RON, RON.PR.A), 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 25, 2011 (third quarter of 2011). All figures in this release are in Canadian dollars and presented according to IFRS accounting standards.

Third Quarter 2011 Results vs. Second Semester 2011 Objectives			
	Second Semester Objectives/Targets*	Q3-2011 Results	In Line with Objectives/Targets
Adjusted gross margin	Up	Up 73 basis points	✓
Selling and administrative expenses (before acquisitions and new stores)	Down	Down \$13.2 M or 4.6%	✓
EBITDA margin	S2-2011=S2-2010	7.83% < 7.86%	✓
Diluted earnings per share	S2-2011=S2-2010	\$0.36 = \$0.36	✓
Investments in property, plant and equipment	= Amortization and Depreciation	\$25.7 M < \$26.9 M	✓
Comparable inventories (retail and distribution)	Down \$100 M by end of 2011	Down \$52 M in third quarter 2011	✓
Capital	Disposal of non-strategic assets	\$5.2 M disposed	✓

\* Excluding unusual items.

"In circumstances in which significant economic uncertainty and volatility in financial markets continue to impact consumer confidence and purchase intentions, the results reported by RONA today demonstrate our considerable agility. In effect, despite a 5.1% drop in same-store sales, diluted earnings per share in third quarter 2011 were \$0.36, similar to the same period a year ago, and cash flow from operating activities was \$77.3 million, which is \$9.3 million or 13.7% higher than last year," said Robert Dutton, President and Chief Executive Officer of RONA.

Commenting on the outlook, Mr. Dutton said: "Given the fragile nature of Canadian consumer confidence and their cautious approach to major renovation projects, we expect to see continued downward pressure on same-store sales as a whole over the next few quarters, particularly in major urban centres where growth in supply has exceeded demand, leading to sharper competition. In this situation, we will continue to implement sales development and efficiency improvement measures, which have already paid off. These initiatives will improve customer loyalty and gross profits, and will reduce our organic selling and administrative expenses by the end of the year, as we indicated when we released our second-quarter results. We are still aiming for fourth quarter earnings per share similar to that of fourth quarter 2010".

Mr. Dutton added: "The current economic context poses a major challenge; we are using and will use this challenge to offer consumers a revitalized shopping experience while optimizing the return on investment for our shareholders and shareholder dealers. I am convinced that the investments made in recent years have put us in a highly enviable competitive position and that we have the best business plan for dealing with the current and upcoming changes in our

industry. Many signs lead me to believe that a number of competitors are in difficulty, which will create opportunities for RONA and its affiliate dealers in coming quarters".

"Confident in the future of their company, RONA's dealer shareholders continued to invest in the development of their respective store network in the third quarter, thereby confirming the regional consolidation underway in our industry. These dealers are planning projects representing investments of over \$60 million in 2012. We are very proud of the confidence shown by our dealers and we are sure that our unique business model, based on stores of different types and sizes, and the brand developed by RONA for more than 70 years will be very beneficial to them in the coming years and will continue to attract other entrepreneurs looking for development projects", said Mr. Dutton.

#### **ANALYSIS OF THIRD QUARTER CONSOLIDATED RESULTS**

*The results discussed and analyzed in this section are for the quarter ended September 25, 2011 and, when compared, are compared to the results for the quarter ended September 26, 2010, unless otherwise indicated.*

Revenues amounted to \$1,347.1 million, up \$27.9 million, or 2.1%. Acquisitions and new corporate stores added \$127 million. This positive contribution was, however, offset by the 5.1% drop in same-store sales, as well as by the closure and disposal of corporate stores, some of which were sold to RONA affiliate dealer-owners. The decrease in same-store sales stems from consumers' cautious approach to discretionary spending, and the decline in residential housing starts. Ontario and the Atlantic provinces were least affected by the drop in sales, while Western Canada, and particularly British Columbia, was most affected. Sales in the seasonal, gardening and treated wood categories were relatively good during the quarter, reflecting the execution of projects delayed by poor weather in the first half of the year. There was also an increase in the tools and install categories. On the other hand, categories related to bigger renovation projects, such as forest products, construction materials, plumbing, electrical and floor-coverings had stronger declines during the quarter, indicating consumer caution about undertaking major projects. The Commercial and Professional Market division continues to generate good figures, with revenues, including acquisitions, up more than 35%.

EBITDA amounted to \$105.4 million, compared to \$103.7 million in third quarter 2010, up \$1.7 million, or 1.7%. At 7.83%, the EBITDA margin was similar to that of third quarter 2010, which was 7.86%. The growth in EBITDA stems mainly from acquisitions and the opening of new corporate stores which quickly achieved expected returns, though EBITDA margin for these stores was slightly below the consolidated EBITDA margin for the third quarter. Excluding acquisitions and new stores, net of closures and disposals, EBITDA would have been down \$0.7 million, since the decrease of \$13.2 million, or 4.6%, in organic selling, general and administrative expenses was cancelled out by an almost equivalent decrease in the dollar gross margin in retail and distribution operations. Note that the decrease in selling and administrative expenses was obtained by optimizing our network and our ongoing IT investments, while the decrease in gross margin reflects the lower profits stemming from the decrease in same-store sales. Lastly, EBITDA and EBITDA margin for the quarter were affected by \$1.6 million in non-recurring expenses related to workforce reductions further to efficiency gains achieved following the investments of recent years.

Net income attributable to owners of RONA inc. amounted to \$50.1 million, compared to \$48.0 million in third quarter 2010. The increase is due to higher operating profit. Net earnings attributable to participating shares, after the dividend on preferred shares, amounted to \$47.8 million, compared to \$48.0 million a year earlier, or \$0.36 per share diluted, compared to \$0.36 per share diluted in third quarter 2010 (see *Note 16 of interim consolidated financial statements* for more information).

## ANALYSIS OF CONSOLIDATED RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 25, 2011

*The results discussed and analyzed in this section are for the nine-month period ended September 25, 2011 and, when compared, are compared to the results for the nine-month period ended September 26, 2010, unless otherwise indicated.*

Revenues amounted to \$3,635.4 million, down \$45.0 million, or 1.2%. The decrease is due to an 8.7% decline in same-store sales. The slowdown in same-store sales was partly compensated by acquisitions, which added \$269 million in sales to the Corporation's consolidated revenues, for growth of 7.3%. The corporate stores opened in the past year added \$67.3 million and the Commercial and Professional Market division continued to generate good growth in organic sales. The expansion projects and higher loyalty rate of existing dealers also permitted the Distribution segment to generate higher sales despite lower same-store sales by affiliate dealer-owners; that decrease was, however, less than it was for corporate stores.

The decrease in same-store sales stems from the poor weather conditions in the first half, particularly in March, April and May all across the country, the decline in housing starts, the absence of the home renovation tax credit at the beginning of the year compared to last year, and consumers' careful approach to their renovation projects. Market conditions gradually improved starting in July, but the downward pressure on same-store sales continued. Ontario was least affected by the drop in sales, while Western Canada, and particularly British Columbia, was most affected.

EBITDA was \$203.4 million, compared to \$271.5 million in 2010, down \$68.1 million, following a \$53.7 million decrease in EBITDA in the Retail and Commercial segment and a \$14.4 million decrease in EBITDA in the Distribution segment. EBITDA margin declined 179 basis points to 5.59%, compared to 7.38% in 2010, reflecting decreases of 182 basis points for the Retail and Commercial segment and 165 basis points for the Distribution segment.

In addition to the negative impact of the decline in same-store sales and gross margin, EBITDA and EBITDA margin were affected by \$4.6 million in non-recurring expenses stemming from workforce reductions since the beginning of the year, further to efficiency gains achieved following the investments of recent years. The EBITDA margin was also affected by acquisitions, as the EBITDA margins of the acquired companies were lower than those of RONA's existing operations. The margins are expected to improve following implementation of the integration plan in coming quarters. The abnormally high inventory level we have had to support due to weak sales in the beginning of the year led to higher external warehousing fees and transportation expenses, which had a negative impact on EBITDA and EBITDA margin.

Net income attributable to owners of RONA inc. amounted to \$72.8 million, compared to \$117.3 million in 2010. The decrease stems mainly from a decline in operating profit. Net earnings attributable to participating shares, after the dividend on preferred shares, was \$67.2 million, compared to \$117.3 million, or \$0.51 per share diluted, compared to \$0.89 per share diluted in 2010 (see *Note 16 of interim consolidated financial statements* for more information).

### **Cash flows and financial position**

For the quarter ended September 25, 2011, cash flow from operating activities before net change in working capital, interest received and income taxes paid was \$97.0 million, compared to \$97.5 million in 2010. The net change in working capital was a negative \$16.8 million in third quarter 2011 compared to a negative change of \$22.2 million in 2010. The improvement compared to 2010 stems mainly from a decrease in comparable inventories for retail and distribution operations in 2011.

Net of changes in working capital, interest received and income taxes paid, operations generated \$77.3 million in the third quarter 2011, compared to \$68.0 million for the corresponding period in 2010, an increase of \$9.3 million, or 13.7%.

The Corporation continued to exercise disciplined financial management and strictly monitored investments in property, plant and equipment. For the third quarter, RONA invested \$25.7 million in property, plant and equipment and intangible assets, \$7.8 million less than the \$33.5 million invested in the third quarter 2010. These investments were used to expand operations in the Commercial and Professional Market division, renovate existing retail stores, further improve information systems in order to improve operational efficiency, and for maintenance work. Note that the level of investment in tangible and intangible assets is lower than the amortization and depreciation expense, which amounted to \$26.9 million in third quarter 2011.

RONA's balance sheet remains strong. On September 25, 2011, the Corporation's total debt was \$455.9 million and net indebtedness was \$259.6 million. RONA thus has cash of \$196.3 million. The ratio of total net debt to capital was 10.8%, compared to 13.4% in 2010; the ratio of equity to assets was 66.4%, compared to 64.9%. The ratio of total debt to EBITDA was 2.2 at September 25, 2011 compared to 1.6 in 2010. The higher ratio stems mainly from lower EBITDA in the first half of the year.

#### **DIVIDENDS ON PREFERRED SHARES**

At its meeting on November 8, 2011, RONA's Board of Directors declared a quarterly dividend of \$0.3308 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on January 4, 2012, to holders of record on December 16, 2011.

#### **SUBSEQUENT EVENT**

On November 3, 2011 the Corporation announced an offer to purchase (conducted as a modified « Dutch Auction »), by way of two successive offers each of which is open for a distinct period of time, up to \$200 million aggregate principal amount of its 5.40% Debentures due October 20, 2016. This repurchase is payable in cash from the Corporation's available cash and existing credit facilities. In addition, the Corporation renegotiated with a financial institution a new back-stop credit facility of \$200 million maturing in 2016.

On November 8, 2011, the Corporation announced a normal course issuer bid to repurchase for cancellation, from November 11, 2011 to November 10, 2012, up to 11,016,854 common shares representing 8.4% of the 130,520,489 common shares issued and outstanding as at October 31, 2011.

#### **OUTLOOK FOR FOURTH QUARTER 2011:**

- Sales figures since the start of the quarter indicate that market conditions will remain difficult, as it seems that given the low level of consumer confidence, consumers are still delaying major renovation projects.
- Efforts to improve efficiencies will continue, in order to end fourth quarter 2011 with diluted earnings per share similar to that of 2010, despite downward pressure on same-store sales, which could decline to a level similar to that of third quarter 2011.
- Strict balance sheet management and maximization of cash flow from operations will continue, primarily by reducing comparable inventories and investments in property, plant and equipment.
- Initiatives will be introduced to optimize the capital structure, such as the recent announcement of debenture repurchases.

#### **OUTLOOK FOR 2012**

- We will be finalizing the budget in coming weeks. More precise data will therefore be provided next quarter. However, at this stage, we do not foresee any change in consumers' cautious approach given the economic uncertainty. But once that uncertainty dissipates, renovation activity should pick up since consumers have already delayed major projects for several years.
- Even though the biggest players in the industry have greatly slowed the pace of new big-box store openings, competition will remain stiff in large urban centres.
- The economic context and competitive situation will thus continue to exert downward pressure on the Corporation's same-store sales. We have, however, a set of initiatives to mitigate this pressure on sales. These initiatives will be announced with the release of results for the fourth quarter of 2011.
- For the existing corporate-store network, major steps will be taken to further differentiate the RONA shopping experience, to maximize the benefits of our new regional structure, and to continue improving efficiency in order to reduce selling and administrative expenses.
- There are also many opportunities to consolidate regional markets. RONA has a distribution and affiliated-dealer network that is uniquely positioned to take advantage of such opportunities. As a group, RONA dealers expect to invest more than \$60 million in 2012.
- The succession problems of dealer-owners will become more pronounced and RONA expects to increase its differentiation through its special succession planning program.

## ADDITIONAL INFORMATION

The *Management's Discussion and Analysis (MD&A)* and unaudited interim consolidated financial statements with notes for the third quarter of 2011 can be found in the "Investor Relations" section of the Corporation's website at [www.rona.ca](http://www.rona.ca) and on the SEDAR website at [www.sedar.com](http://www.sedar.com). The Corporation's Annual Report, along with other information about RONA, including its Annual Information Form, can also be found on the RONA and SEDAR websites.

## TELEPHONE CONFERENCE WITH THE FINANCIAL COMMUNITY

On Wednesday, November 9, 2011, at 11:00 a.m. (EST), RONA will hold a telephone conference for the financial community. To join the conference, please call 416-340-8061 or 1 866 225-0198. To listen to the call online, please go to <http://webcasts.pqm.net/client/rona/event/228/en/>.

## 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). We also use the concept of "adjusted gross margin," which corresponds to revenues less the cost of goods sold, plus adjustments for network support.

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

The following table presents a reconciliation of these two measures to IFRS:

Reconciliation of non-GAAP measures (Unaudited, in thousands of dollars, except margins in %)	Quarters ended			
	September 25, 2011	September 26, 2010	\$ change from 2010	% change from 2010
Revenues	1,347,135	1,319,228	27,907	2.1%
Cost of sales	(970,005)	(960,488)	(9,517)	(1.0%)
Gross profit	377,130	358,740	18,390	5.1%
Gross margin (gross profit/revenues)	27.99%	27.19%	-	80 b.p.
Adjustments for network support <sup>(1)</sup>	33,889	34,062	(173)	(0.5%)
Adjusted gross profit	411,019	392,802	18,217	4.6%
Adjusted gross margin (adjusted gross profit/revenues)	30.51%	29.78%	-	73 b.p.
Adjusted selling, general and administrative expenses	(305,603)	(289,135)	(16,468)	(5.7%)
Rent	39,536	36,596	2,940	8.0%
EBITDA before rent	144,952	140,263	4,689	3.3%
EBITDA margin before rent (EBITDA before rent/revenues)	10.76%	10.63%	-	13 b.p.
EBITDA	105,416	103,667	1,749	1.7%
EBITDA margin (EBITDA/revenues)	7.83%	7.86%	-	-3 b.p.
Finance income	(1,486)	(984)	(502)	(51.0%)
Amortization, depreciation and impairment of non-financial assets	(26,947)	(26,404)	(543)	(2.1%)
Operating profit	76,983	76,279	704	0.9%

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

**Reconciliation of non-GAAP measures**

Year to date

(Unaudited, in thousands of dollars, except margins in %)	2011	2010	\$ change from 2010	% change from 2010
Revenues	3,635,392	3,680,367	(44,975)	(1.2%)
Cost of sales	<b>(2,608,059)</b>	<b>(2,636,972)</b>	28,913	1.1%
Gross profit	<b>1,027,333</b>	1,043,395	(16,062)	(1.5%)
Gross margin (gross profit/revenues)	28.26%	28.35%	-	-9 b.p.
Adjustments for network support <sup>(1)</sup>	<b>77,637</b>	82,308	(4,671)	(5.7%)
Adjusted gross profit	<b>1,104,970</b>	1,125,703	(20,733)	(1.8%)
Adjusted gross margin (adjusted gross profit/revenues)	30.39%	30.59%	-	-20 b.p.
Adjusted selling, general and administrative expenses	<b>(901,604)</b>	(854,226)	(47,378)	(5.5%)
Rent	<b>121,352</b>	109,148	12,204	11.2%
EBITDA before rent	<b>324,718</b>	380,625	(55,907)	(14.7%)
EBITDA margin before rent (EBITDA before rent/revenues)	8.93%	10.34%	-	141 b.p.
EBITDA	<b>203,366</b>	271,477	(68,111)	(25.1%)
EBITDA margin (EBITDA/revenues)	5.59%	7.38%	-	-179 b.p.
Finance income	<b>(4,197)</b>	(3,251)	(946)	(29.1%)
Amortization, depreciation and impairment of non-financial assets	<b>(79,306)</b>	(80,482)	1,176	1.5%
Operating profit	<b>119,863</b>	187,744	(67,881)	(36.2%)

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

**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 Corporation 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 Corporation's actual results to differ from current expectations, please also refer to the Corporation's public filings available at [www.sedar.com](http://www.sedar.com) and [www.rona.ca](http://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 Corporation's current Annual Information Form.

The forward-looking statements in this *Press release* reflect the Corporation's expectations as at November 9, 2011, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

## **ABOUT RONA**

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of more than 950 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 17 million square feet of retail space, the RONA store network generates over \$6 billion in annual retail sales. For more information, please visit [www.rona.ca](http://www.rona.ca).

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### **For further information:**

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## Management's Discussion and Analysis for Third Quarter 2011

### 13-week and 39-week period ended September 25, 2011

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RONA inc. ("RONA," or the "Corporation") is Canada's leading retailer and distributor of home improvement, hardware and gardening products. The Corporation operates or serves a network of more than 950 corporate, franchise and affiliate stores, as well as 17 hardware and building materials distribution centres.

RONA revenues include:

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

#### FINANCIAL STATEMENTS

This *Management's Discussion and Analysis* (MD&A) should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and related notes for the 13-week and 39-week periods ended September 25, 2011. These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim financial reporting*. In May 2011, the Corporation filed its interim consolidated financial statements for the quarter ended March 27, 2011 disclosing for the first time its results and financial position under IFRS. The Corporation's interim financial statements for the quarter ended March 27, 2011, and these interim financial statements for the 13-week and 39-week periods ended September 25, 2011 were prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* and in accordance with accounting policies that the Corporation intends to adopt in its financial statements for the year ended December 25, 2011. The monetary amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated. RONA has filed these consolidated financial statements with the Canadian Securities Administrators and they can be viewed online at [www.sedar.com](http://www.sedar.com) or on RONA's website at [www.rona.ca](http://www.rona.ca).

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## **FISCAL YEAR**

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and have 13 weeks. The fiscal years ended December 27, 2009 and December 26, 2010, include 52 weeks of operations.

## **UPDATE ON THE CORPORATION'S STRATEGIC ORIENTATION**

*On February 27, 2008, RONA released its strategic plan for 2008-2011. The plan had 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 management made a commitment to provide quarterly updates on the plan's progress in its Management's Discussion and Analysis, as well as an annual update in its annual report and at the annual shareholders' meeting. The information below is an update on the progress of Phase 2 since the start of fiscal 2011.

### **1. Customer growth**

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

- In spring 2010, 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 program is linked with the RONA consumer credit card and usage continues to grow. Since the start of the year, sales related to the program have risen 26% over last year. Cardholders are our most loyal customers; they generally visit our stores more frequently and have a higher basket size than other customers. The new program has brought RONA new customers and definitely helped increase market share in a difficult period. The program offers annual discounts in the form of RONA gift cards, which encourage customers to return to the store again to make purchases. On average, consumers spend 1.7 times the value of their gift card when they visit a RONA store.
- RONA's private and controlled-brand product sales for the year continued to rise, bringing the penetration level of these products to 26% at the end of September, up from 24% at the end of 2010.
- Since the start of the year, two stores underwent major renovations, one in Mascouche and one in Anjou, Quebec. These projects involved an investment of about \$7 million for the two stores, totalling 290,000 square feet. A 100,000-square-foot RONA L'entrepôt store in Gatineau, belonging to the Lacasse family, was renovated; this project involved an investment of more than \$5 million.
- In the second quarter, three existing RONA stores in the cities of Scarborough and Markham, Ontario combined their operations into a single retail force in order to better deliver a full range of quality products and services to the local communities.
- In the third quarter, three Pierceys stores in the Halifax area in Nova Scotia were renovated to improve the shopping experience. These stores now bear the RONA banner and offer a RONA paint boutique, private-brand and controlled-brand products and a wide array of items.
- The Gauthier family, a RONA franchise dealer, expanded their RONA Le Régional store by 15,000 square feet, turning it into a big-box store under the RONA L'entrepôt banner.

### **2. Construction of new stores**

RONA has several different store concepts to meet the specific needs of the communities it serves, big or small, urban or rural. Whether this means a totally new store, the expansion of an existing store or a transformation, RONA has the right concept for the situation.

- Since the beginning of 2011, the construction of six new stores, four corporate and two franchise, have added more than 360,000 square feet to the network:
  - In the third quarter, a franchise store belonging to the Hébert, Gagnon and Lamarche families, with an area of 13,000 square feet, was opened in Granby near a big-box store that already serves the region. This satellite store, a branch of the big-box store, creates an excellent combination for serving the local community even better.
  - At the end of the second quarter, a 68,000-square-foot RONA proximity store was opened in St. John's, Newfoundland and Labrador, representing an investment of about \$20 million.
  - During the first quarter, the following stores were opened:
    - A new 102,000-square-foot Réno-Dépôt store was opened in Vaudreuil-Dorion, Quebec. The new store represents an investment of close to \$25 million and was built to meet the criteria of the LEED system (Leadership in Energy and Environmental Design) for new buildings.
    - A new 100,000-square-foot Réno-Dépôt store was opened in the Quebec City borough of Sainte-Foy. The new retail outlet represents an investment of more than \$20 million and was built to meet the criteria of the LEED system for new buildings.
    - A new 52,000-square-foot store under the TOTEM banner was opened in Edmonton, Alberta. The new location represents an investment of close to \$20 million in the community and was built to meet the criteria of the LEED system for new buildings.
    - A new 35,000-square-foot store was opened in Repentigny, representing an investment of \$16 million. It is owned jointly by RONA and the Prud'homme family, who have more than 50 years of retail experience in the Lanaudière region in Quebec.
- Since the start of the year, the Commercial and Professional Market division opened three new sales outlets specialized in plumbing under the Noble banner, two in Ontario and one in Quebec. Two Noble kiosks were also opened within the existing sales outlets of HVAC specialist Don Park in Ontario.

### 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 succession-planning program. It was designed to secure RONA's leadership in the market and sustain the growth of its network. The Corporation'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.

- Since the start of the year, nine new affiliated dealer stores were successfully recruited to the RONA network: five in Quebec, one in Ontario and three in Western Canada. These new dealers will add more than \$27 million in annual retail sales to the network. A dealer in Quebec also acquired two sales outlets, representing close to \$2 million in annual sales. Matériaux Décoren, an affiliate store, was relocated to a new building on the main commercial strip of Sainte-Marie-de-Beauce, Quebec. The store has doubled in size from 7,000 to 15,000 square feet.
- In the third quarter, a new 6,000-square foot affiliate store opened in Kedgwick, New Brunswick, a municipality without any hardware store at all. This store will complement the Matériaux Parent hardware store in Saint-Quentin.
- Also in the third quarter, the Audet family purchased a RONA store in Quebec City. This store has been completely renovated and offers close to 22,000 regular and specialized products, including a huge line of roof and wall cladding.
- Since the start of the fiscal year, 93 new customers have joined the TruServ Canada network and more than 240 RONA affiliate dealer-owners have been organized to buy through the TruServ Canada distribution network.
- RONA dealer-owners continued to improve their competitive positions by carrying out expansion and renovation projects during the year. Some 90 projects are underway, involving dealer investments of close to \$50 million in fiscal 2011. Dealer-owners are planning to invest more than \$60 million in 2012.

- RONA's innovative succession-planning program is gaining traction. More than 20 projects are currently being reviewed by our young dealers, with possible submission to the selection committee in coming quarters. Also, the third annual President's Camp was held in late August in Montreal, Quebec. It hosted some 60 young entrepreneurs representing RONA network successors in operations and administration.

#### 4. Acquisitions

Through targeted acquisitions in retail, distribution and commercial and professional sectors, the Corporation will 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.

- Given the more difficult market conditions that have prevailed since the start of 2011 and as stated in the first quarter MD&A, RONA has taken a very selective approach to acquisitions, placing greater emphasis on short-term return on investment.
  - In the third quarter, RONA acquired the affiliate dealer RONA J.O. Lévesque (Gestion 2HL inc.), with four well-positioned sales outlets in the Cowansville area, in Quebec. The Corporation also acquired the assets of one of its main lumber suppliers, Palliser Lumber Sales Ltd. in Alberta, thereby securing a good part of its supply and improving efficiency.
  - Early in the second quarter, on April 11, RONA acquired RONA dealer-owner Duncan Pacific, in British Columbia. This dealer has four sales outlets with large lumberyards that are strategically located in Duncan, Nanaimo, Campbell River and Cobble Hill. The company will be quickly integrated into RONA's corporate store network and has strong growth potential.
  - In January 2011, RONA acquired the assets of La Boutique Plomberie Décoration 25 Inc., which specializes in the retail sales of plumbing products and fixtures and has one retail store and one parts outlet in St-Eustache, Quebec.

## **ANALYSIS OF CONSOLIDATED RESULTS**

*The results discussed and analyzed in this section are for the quarter ended September 25, 2011 and, when compared, are compared to the results for the quarter ended September 26, 2010, unless otherwise indicated.*

### **Economic conditions**

In its Monetary Policy Report of September 2011, the Bank of Canada said the global economy has slowed markedly in the last months as several downside risks to the projection outlined in July have materialized. These include the following:

- I. Financial market volatility has increased and there has been a generalized retrenchment from risk-taking across global markets.
- II. The outlook for the Canadian economy has weakened since July, with the significantly less-favourable external environment affecting Canada through financial, confidence and trade channels.
- III. Although Canadian growth rebounded in the third quarter with the unwinding of temporary factors, underlying economic momentum has slowed and is expected to remain modest through the middle of next year.
- IV. Domestic demand is expected to remain the principal driver of growth over the projection horizon, though at a more subdued pace than previously anticipated. The Bank now projects household expenditures will grow relatively modestly as lower commodity prices and heightened volatility in financial markets weigh on the incomes, wealth and confidence of Canadian households.
- V. Business fixed investment is still expected to grow solidly in response to very stimulative financial conditions and heightened competitive pressures, although it will be dampened by the weaker and more uncertain global economic environment.
- VI. Overall, the Bank expects that growth in Canada will be slow through mid-2012 before picking up as the global economic environment improves, uncertainty dissipates and confidence increases. The Bank projects that the economy will expand by 2.1% in 2011, 1.9% in 2012 and 2.9% in 2013. Reflecting all of these factors, the Bank maintained the target for the overnight rate at 1%.

In the housing industry, new starts for detached homes were down 5.6% in the third quarter, while housing resales were up 13% in 2011. The average selling price of homes continued to rise, up 8% quarter over quarter. Usually this would lead to home renovation, however, given the high level of consumer debt and current inflationary pressures, particularly on energy costs, consumers are still being careful and selective in their discretionary spending. The Conference Board of Canada noted that the Index of Consumer Confidence fell from 85.6 at the end of June to 75.0 at the end of September.

### **Revenues**

Revenues amounted to \$1,347.1 million, up \$27.9 million, or 2.1%. The increase stems from acquisitions and new corporate stores. This increase was, however, offset by a 5.1% drop in same-store sales, as well as by the closure and disposal of corporate stores, some of which were sold to RONA affiliate dealer-owners and thus, will result in higher distribution sales. The decrease in same-store sales stems from consumers' cautious approach to discretionary spending, and the decline in residential housing starts. Ontario was least affected by the drop in sales, while Western Canada, and particularly British Columbia, was most affected. Sales in the install, seasonal, gardening, tools and treated wood categories were relatively good during the quarter, reflecting the execution of projects delayed by poor weather in the first half of the year. On the other hand, categories related to bigger renovation projects, such as forest products, building materials, plumbing, electrical and floor coverings had stronger declines during the quarter, indicating that consumers will continue to be cautious about undertaking major projects between now and the end of the year. The Commercial and Professional Market Division continues to generate good results, with an increase of more than 35% in revenues, including acquisitions.

### **Gross margin**

Gross margin was 27.99%, up 80 basis points over the third quarter of 2010, and the adjusted gross margin rose 73 basis points to 30.51%. This increase stems from the introduction of various efficiency initiatives and acquisitions. The dollar adjusted gross margin grew by \$18.2 million. Acquisitions and new stores accounted for \$35.4 million, while the margin for existing operations declined by \$13.9 million. As mentioned, the decrease is relatively low given the direct

impact on gross margin of a 5.1% decrease in same-store sales. The decrease in the dollar organic gross margin was offset by major improvement measures in the third quarter, such that the organic adjusted gross margin as a percentage of sales grew by 53 basis points. It is also to be noted that the closure and disposal of non-strategic stores reduced the adjusted gross margin by \$3.7 million.

#### **EBITDA**

EBITDA amounted to \$105.4 million, compared to \$103.7 million in the third quarter of 2010, up \$1.7 million, or 1.7%. At 7.83%, the EBITDA margin was relatively stable. The growth in EBITDA stems mainly from the opening of new corporate stores which quickly achieved expected returns. EBITDA margin for these stores was slightly below the consolidated EBITDA margin for the third quarter. Excluding acquisitions and new stores, net of closures and disposals, EBITDA would have been down by \$0.7 million, since the reduction of \$13.2 million, or 4.6%, in organic selling and administrative expenses was cancelled out by an almost equal decrease in dollar gross margin in retail and distribution operations. Note that the decrease in selling and administrative expenses was obtained by optimizing our network and leveraging our IT investments, while the decrease in gross margin reflects the lower profits stemming from lower same-store sales. Lastly, EBITDA and EBITDA margin for the quarter were affected by \$1.6 million in non-recurring expenses related to workforce reductions further to efficiency gains achieved following the investments of recent years.

#### **Net income**

Net income attributable to owners of RONA inc. amounted to \$50.1 million, compared to \$48.0 million in third quarter 2010. The increase is due to an increase in operating profit. Net earnings attributable to participating shares, after the dividend on preferred shares, amounted to \$47.8 million, compared to \$48.0 million, or \$0.36 per share diluted compared to \$0.36 per share diluted in third quarter 2010 (see *Note 16 of interim consolidated financial statements* for more information).

## ANALYSIS OF SEGMENTED RESULTS

The results discussed and analyzed in this section are for the quarter ended September 25, 2011, and, when compared, are compared to the results for the quarter ended September 26, 2010, unless otherwise indicated.

RONA has two reportable segments: 1) Distribution and 2) Retail and Commercial.

The Retail and Commercial segment consists of RONA's corporate and franchise stores ("Retail") and its Commercial and Professional Market division ("Commercial").

Key segment figures	Quarter ended			
	September 25, 2011	September 26, 2010	\$ change from 2010	% change from 2010
(in thousands of dollars)				
<b>Segment revenues</b>				
Retail and Commercial	1,028,317	1,003,777	24,540	2.4%
Distribution	623,998	630,017	(6,019)	(1.0%)
<b>Total</b>	<b>1,652,315</b>	<b>1,633,794</b>	<b>18,521</b>	<b>1.1%</b>
<b>Intersegment revenues and royalties</b>				
Retail and Commercial	-	-	-	-
Distribution	(305,180)	(314,566)	9,386	3.0%
<b>Total</b>	<b>(305,180)</b>	<b>(314,566)</b>	<b>9,386</b>	<b>3.0%</b>
<b>Revenues</b>				
Retail and Commercial	1,028,317	1,003,777	24,540	2.4%
Distribution	318,818	315,451	3,367	1.1%
<b>Total</b>	<b>1,347,135</b>	<b>1,319,228</b>	<b>27,907</b>	<b>2.1%</b>
<b>EBITDA</b>				
Retail and Commercial	84,021	80,796	3,225	4.0%
Distribution	21,395	22,871	(1,476)	(6.5%)
<b>Total</b>	<b>105,416</b>	<b>103,667</b>	<b>1,749</b>	<b>1.7%</b>
<b>EBITDA margin</b>				
Retail and Commercial	8.17%	8.05%	-	12 b.p.
Distribution	6.71%	7.25%	-	-54 b.p.
<b>Total</b>	<b>7.83%</b>	<b>7.86%</b>	<b>-</b>	<b>-3 b.p.</b>

### Retail and Commercial

Revenues amounted to \$1,028.3 million, up \$24.5 million, or 2.4%. This growth was due to acquisitions, the opening of new stores early in the year and the steady growth of sales in the Commercial and Professional Market division. These items more than offset the drop of 5.1% in same-store sales.

As noted in the Analysis of Consolidated Results, the decrease in same-store sales was due to consumers' cautious approach to their renovation projects. Market conditions improved compared to the previous quarter, but the downward pressure on same-store sales continued, given the high degree of economic uncertainty and its impact on consumer confidence. Moreover, the consumer confidence index declined compared to the previous quarter and was lower than in the same quarter of 2010. Ontario was least affected by the drop in sales and Western Canada was most affected. Sales of lumber and building materials strengthened somewhat in July, but trended downward thereafter. Low sales in these categories indicate that consumers did not undertake bigger renovation projects. Consumers continued to invest in basic renovations and home maintenance during the quarter. They also carried out projects that had been postponed due to poor weather in the first half of the year. Sales in the install, seasonal, gardening and treated wood categories were relatively good during the quarter.

Consumers in the retail sector continue to be prudent and selective in their spending as they seek to lower their personal debt levels and absorb price increases for gas and food products. This behaviour, combined with the above-mentioned elements, resulted in less traffic through the stores. However, the impact on average basket size was much lower than on traffic, as merchandising and instore service initiatives, such as the RONAdvantages program, the fast-growing and highly-recognized private and controlled brands, and the unique RONA ECO product line, are working well. The penetration rate for private and controlled brands rose from 24% at the end of 2010 to 26% at the close of third quarter 2011.

There was considerable activity in the Commercial and Professional Market division during the quarter. The integration of Don Park, MPH Supply and La Boutique de plomberie Décoration 25 inc. moved forward, while organic sales continued to grow. The addition of new sales outlets since the start of the year and new Noble kiosks within existing Don Park locations also contributed to sales growth. Overall, quarterly sales for the Commercial and Professional Market division operations increased by over \$25 million compared to last year, for growth of over 35%. Between now and year-end, additional sales outlets will open in Ontario and Quebec, and a new distribution centre will open in British Columbia.

EBITDA was \$84.0 million, up \$3.2 million, and the EBITDA margin increased by 12 basis points, to 8.17%, showing a turnaround from the trend in the first half of the year, due to substantial improvement in the gross margin and a decrease in organic selling and administrative expenses. Note that this increase in EBITDA and EBITDA margin was achieved despite a 5.1% decline in same-store sales.

Despite pulling their weight in terms of sales and synergies, the acquisitions posted lower EBITDA margins than existing operations, simply because the EBITDA margins of the acquired companies were lower. The performance of the new stores has been very good, generating positive EBITDA and an EBITDA margin just slightly below the margin for existing operations.

### **Distribution**

Net of intersegment activities, distribution revenues increased 1.1%, or \$3.4 million, to \$318.8 million. While affiliated dealers faced less pressure on same-store sales than corporate stores in large urban centres, the decline in sales resulting from this pressure, combined with lower inventories for our affiliated dealers, was more than offset by the acquisition of TruServ Canada. As for the retail division, lumber and building materials categories were relatively weak during the quarter. The integration of TruServ Canada's operations continues and 48 new customers joined the network during the third quarter.

The distribution sector generated \$21.4 million in EBITDA, a decrease of \$1.5 million, or 6.5%, from 2010. EBITDA margin was down 54 basis points to 6.71%. While revenues were up, EBITDA and EBITDA margin were negatively affected by higher transportation costs related to higher gas prices as well as temporary efficiency reductions due to the significant decrease in volume since the start of the fiscal year. The implementation of a new loyalty program for affiliated dealers also generated additional short-term expenses, which will largely be offset by increased sales. The EBITDA margin was also adversely affected by the acquisition of TruServ Canada, which had a lower EBITDA margin than RONA's distribution operations. Synergies were generated by this acquisition during the quarter, but non-recurring expenses cancelled out these gains. The contribution of TruServ Canada's operations will thus be higher in coming quarters.

## **ANALYSIS OF CONSOLIDATED RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 25, 2011**

*The results discussed and analyzed in this section are for the nine-month period ended September 25, 2011 and, when compared, are compared to the results for the nine-month period ended September 26, 2010, unless otherwise indicated.*

### **Revenues**

Revenues amounted to \$3,635.4 million, down \$45.0 million, or 1.2%. The decrease is due to a 8.7% decline in same-store sales. The slowdown in same-store sales was partly compensated by acquisitions, which added \$269 million in sales to the Corporation's consolidated revenues, for growth of 7.3%. The corporate stores opened in the last year added \$67.3 million and the Commercial and Professional Market division continued to generate good growth in organic sales. The expansion projects and higher loyalty rate of existing dealers also permitted the Distribution segment to generate higher sales despite lower same-store sales by affiliate dealer-owners. Note that the decrease in same-store sales for our affiliated dealers was less than it was for corporate stores.

The decrease in same-store sales stems from the poor weather conditions in the first half, particularly in March, April and May all across the country, the decline in housing starts, the absence of the home renovation tax credit at the beginning of the year compared to last year, and consumers' careful approach to their renovation projects. Market conditions gradually improved starting in July, but the downward pressure on same-store sales continued. Ontario was least affected by the drop in sales, while Western Canada, and particularly British Columbia, was most affected.

### **Gross margin**

Gross margin was 28.26%, down 9 basis points from 2010, and adjusted gross margin was down 20 basis points to 30.39%. The decrease stems mainly from increased promotional activities in the retail segment in the first half of the year. These elements were partly compensated by increased private and controlled brand sales, as well as new improvement initiatives introduced in the third quarter.

### **EBITDA**

EBITDA was \$203.4 million, compared to \$271.5 million in 2010, down \$68.1 million, following a \$53.7 million decrease in EBITDA in the Retail and Commercial segment and a \$14.4 million decrease in EBITDA in the Distribution segment. EBITDA margin declined 179 basis points to 5.59%, compared to 7.38% in 2010, reflecting decreases of 182 basis points for the Retail and Commercial segment and 165 basis points for the Distribution segment.

In addition to the negative impact of the decline in same-store sales and gross margin, EBITDA and EBITDA margin were affected by \$4.6 million in non-recurring expenses stemming from workforce reductions since the start of the year, further to efficiency gains achieved following the investments of recent years. The EBITDA margin was also affected by acquisitions, as the EBITDA margins of the acquired companies were lower than those of RONA's existing operations. The margins are expected to improve as synergies are realized in coming quarters. Higher transportation expenses related to higher external warehousing fees, given the high inventory levels at the start of the year, also had a negative impact on EBITDA and EBITDA margin.

Excluding acquisitions and new stores, net of closures and disposals, EBITDA would have been down by \$72.1 million. This drop is the result of a decrease in gross margin caused by pressure on same-store sales, especially in the first half of the year, which was offset by a decrease of \$34.2 million, or 4%, in organic selling and administrative expenses. Note that the decrease in selling and administrative expenses was obtained by optimizing our network and IT investments, resulting in greater operational efficiency.

### **Net income**

Net income attributable to owners of RONA inc. amounted to \$72.8 million, compared to \$117.3 million in 2010. The decrease stems mainly from a decline in operating profit. Net earnings attributable to participating shares, after the dividend on preferred shares, was \$67.2 million, compared to \$117.3 million, or \$0.51 per share diluted, compared to \$0.89 per share diluted in 2010 (see *Note 16 of interim consolidated financial statements* for more information).

## ANALYSIS OF SEGMENT RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 25, 2011

The results discussed and analyzed in this section are for the nine-month period ended September 25, 2011, and, when compared, are compared to the results for the nine-month period ended September 26, 2010, unless otherwise indicated.

### RONA: Key segment figures for the nine-month period ended September 25, 2011

(in thousands of dollars)	Year to date 2011	Year to date 2010	\$ change from 2010	% change from 2010
<b>Segment revenues</b>				
Retail and Commercial	2,703,067	2,762,576	(59,509)	(2.2%)
Distribution	1,869,317	1,910,787	(41,470)	(2.2%)
<b>Total</b>	<b>4,572,384</b>	<b>4,673,363</b>	<b>(100,979)</b>	<b>(2.2%)</b>
<b>Intersegment revenues and royalties</b>				
Retail and Commercial	-	-	-	-
Distribution	(936,992)	(992,996)	56,004	5.6%
<b>Total</b>	<b>(936,992)</b>	<b>(992,996)</b>	<b>56,004</b>	<b>5.6%</b>
<b>Revenues</b>				
Retail and Commercial	2,703,067	2,762,576	(59,509)	(2.2%)
Distribution	932,325	917,791	14,534	1.6%
<b>Total</b>	<b>3,635,392</b>	<b>3,680,367</b>	<b>(44,975)</b>	<b>(1.2%)</b>
<b>EBITDA</b>				
Retail and Commercial	153,763	207,489	(53,726)	(25.9%)
Distribution	49,603	63,988	(14,385)	(22.5%)
<b>Total</b>	<b>203,366</b>	<b>271,477</b>	<b>(68,111)</b>	<b>(25.1%)</b>
<b>EBITDA margin</b>				
Retail and Commercial	5.69%	7.51%	-	-182 b.p.
Distribution	5.32%	6.97%	-	-165 b.p.
<b>Total</b>	<b>5.59%</b>	<b>7.38%</b>	<b>-</b>	<b>-179 b.p.</b>

#### Retail and Commercial

Revenues amounted to \$2,703.1 million, down \$59.5 million, or 2.2%. Same-store sales were down 8.7%. As indicated in the Analysis of Consolidated Results, the decrease in same-store sales was due to the cold and wet weather in the first half of the year, and particularly in March, April and May all across the country, the decline in housing starts, the absence of the home renovation tax credit at the start of the year, and consumers' careful approach to their renovation projects. Market conditions improved somewhat during the first half and in July, but the downward pressure on same-store sales continues thereafter. Ontario was least affected by the decline in sales, while Western Canada was most affected. Sales of lumber and building materials were particularly weak since the start of the year and started to strengthen in early July, but trended downward thereafter. Since more than 30% of RONA's sales are generated in these categories, the impact on consolidated results since the start of the year was significant.

As noted in the third quarter analysis, retail consumers continue to be prudent and selective in their spending as they seek to lower their personal debt levels and absorb price increases for gas and food products. This behaviour, combined with the above-mentioned elements, resulted in less traffic through the stores. However, the average size of the basket was much less impacted than traffic as merchandising and instore service initiatives, such as the RONAAdvantages program, the fast-growing and highly-recognized private and controlled brands, and the unique RONA ECO product line, are working well. The penetration rate for private and controlled brands rose from 24% at the end of 2010 to 26% at the close of third quarter 2011.

EBITDA was \$153.8 million, down \$53.7 million and the EBITDA margin decreased 182 basis points, to 5.69%. This drop in EBITDA and EBITDA margin is mainly due to the substantial drop in sales in the first half of the year, a period when it is extremely difficult to adjust certain variable expenses. Given the prevailing market conditions, competition is stiffer and the Corporation had to offer more promotions than a year ago to attract customers. This combination of factors had a significant impact on the gross margin during the first half of the year; however, the situation turned around in the third quarter. Many initiatives have also been implemented since the beginning of the year to reduce organic selling and administrative expenses, which decreased by \$27.7 million, or 3.4%, in the Retail and Commercial segment alone. In addition to the negative impact of the decrease in same-store sales, EBITDA and EBITDA margin were affected by new store openings and acquisitions, as the EBITDA margins of the acquired companies were lower than those of RONA's existing retail and commercial operations. Margins are expected to improve as synergies are realized. The new stores are progressing well and their performance is approaching that of the existing operations, so they will soon be contributing to the Corporation's results.

### **Distribution**

Net of intersegment activities, distribution revenues increased 1.6%, or \$14.5 million, to \$932.3 million. While affiliated dealers faced less pressure on same-store sales than corporate stores in large urban centres, the decline in sales resulting from this pressure, combined with lower inventories for our affiliated dealers in the third quarter, was more than offset by the acquisition of TruServ Canada. As in the retail division, lumber and building materials categories were relatively weak during the quarter. The integration of TruServ Canada's operations continued and 93 new customers have joined the network since the beginning of the year. A new sales force was established and the TRU banner was created. This acquisition has proven to be an excellent recruitment tool and has given RONA a foothold in new markets.

The distribution segment generated \$49.6 million in EBITDA, a decrease of \$14.4 million from 2010. EBITDA margin was down 165 basis points, to 5.32%. While revenues were up, due mainly to the TruServ Canada acquisition, EBITDA and EBITDA margin were negatively affected by lower sales for the existing network, higher transportation costs related to higher gas prices, and temporary efficiency reductions due to the significant decrease in volume since the start of the fiscal year. The implementation of a new loyalty program for affiliated dealers also generated additional short-term expenses, which will largely be offset by increased sales. The EBITDA margin was also adversely affected by the acquisition of TruServ Canada, which had a lower EBITDA margin than RONA's distribution operations. Synergies were generated by this acquisition during the quarter, but non-recurring expenses cancelled out these gains. The contribution of TruServ Canada's operations will thus be higher in coming quarters.

### **Cash flows and financial position**

For the quarter ended September 25, 2011, cash flow from operating activities before net change in working capital, interest received and income taxes paid was \$97.0 million, compared to \$97.5 million in 2010. The net change in working capital was negative \$16.8 million in third quarter 2011 compared to a negative change of \$22.2 million in 2010. The decrease stems from tighter management of working capital excluding acquisitions and new stores, particularly with respect to comparable inventories for retail and distribution operations, which were down compared to the corresponding period in 2010.

Net of changes in working capital, interest received and income taxes paid, operations generated \$77.3 million in the third quarter 2011, compared to \$68.0 million for the corresponding period in 2010, an increase of \$9.3 million, or 13.7%.

The Corporation continued to exercise disciplined financial management and strictly monitored investments in property, plant and equipment. For the third quarter, RONA invested \$25.7 million in property, plant and equipment and intangible assets, \$7.8 million less than the \$33.5 million invested in the third quarter 2010. These investments were used to expand operations in the Commercial and Professional Market division, renovate existing retail stores, further improve information systems in order to improve operational efficiency, and for maintenance work. Note that

the level of investment in tangible and intangible assets is lower than the amortization and depreciation expense, which amounted to \$26.9 million in third quarter 2011.

For the first nine months of 2011, cash flows from operating activities before net change in working capital, interest received and income taxes paid amounted to \$178.9 million compared to \$253.7 million in 2010. The decrease is mainly due to lower earnings before income taxes, which declined from \$173.2 million in 2010 to \$104.5 million in 2011. The net change in working capital was a negative \$24.7 million in 2011 compared to a negative \$163.1 million in 2010. This strong increase is mainly due to a reduction in comparable inventories in the third quarter and strict control over other working capital items.

Net of changes in working capital, interest received and income taxes paid, in the first nine months of 2011 operations generated \$126.4 million, more than double the \$59.8 million generated in 2010.

For the nine months ended September 25, 2011, RONA invested \$74.9 million in property, plant and equipment and intangible assets, \$13.9 million less than the \$88.8 million invested in 2010. RONA continued to exercise disciplined financial management, strictly monitoring investments in property, plant and equipment such that it now represents a lower amount than depreciation and amortization for the period. These investments were used to expand the Corporation's retail network, to further improve information systems in order to improve operational efficiency and for store renovation and maintenance.

Cash flow from operating activities, along with cash available at the beginning of the year, was used over the period to fund acquisitions, capital expenditures and to repay a portion of long-term debt. Given the amounts generated by working capital, net debt was down \$34.9 million compared to September 26, 2010. As at September 25, 2011, RONA had \$196.3 million in cash.

During the first quarter of 2011, RONA issued Class A Preferred Shares, Series 6, for gross proceeds of \$172.5 million. In the short term, the net proceeds of the offering were used by RONA to fund working capital requirements, this financing then resulted in a reduction in the Corporation's net indebtedness. This issue has further strengthened RONA's balance sheet, diversified its sources of financing and increased its financial flexibility to ensure the Corporation may continue to execute its strategic plan. Further details regarding these shares may be found in the Corporation's 2011 press releases of February 1, February 22 and March 1. The first dividend on preferred shares was paid on June 30, 2011, after the second quarter close, to holders of record on June 15, 2011.

The table below presents a synopsis of the Corporation's contractual obligations as at September 25, 2011, including off-balance-sheet operating lease agreements used in the normal course of business. The Corporation has also concluded other off-balance-sheet arrangements (such as inventory repurchase agreements and guaranteed mortgage loans), which do not appear in the table below. The Corporation has guaranteed mortgages amounting to \$0.2 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 \$5.4 million. Pursuant to the terms of inventory repurchase agreements, the Corporation has undertakings with financial institutions to repurchase the inventory of certain customers at an average of 63% of the cost of the inventories to a maximum of \$44.1 million. In the event of recourse, this inventory would be sold in the normal course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation on 30 days' notice. In the opinion of Management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, letters of credit for imports totalling \$7.3 million were outstanding as at September 25, 2011 for the purchase of various, mainly seasonal, products.

**Contractual obligations by term  
(as at September 25, 2011)**

Contractual obligations	Payments by term (in thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 or more years
Long-term loans	427,497	8,215	9,527	3,584	406,171
Obligations under finance leases	1,974	967	537	346	124
Operating leases	1,040,154	129,277	246,424	202,870	461,583
Other long-term obligations	30,179	18,429	11,750	-	-
<b>Total</b>	<b>1,499,804</b>	<b>156,888</b>	<b>268,238</b>	<b>206,800</b>	<b>867,878</b>

**Outstanding shares  
(as at October 31, 2011)**

Common shares	130,520,489
Unexercised options	1,895,075
<b>Total</b>	<b>132,415,564</b>

Despite the unfavourable economic situation, RONA's balance sheet remains strong. On September 25, 2011, the Corporation's total debt was \$455.9 million and net indebtedness was \$259.6 million. RONA thus has cash of \$196.3 million which should be used in the short term to buy back part of its debentures, as announced on November 3, 2011. The ratio of total net debt to capital was 10.8%, compared to 13.4% in 2010; the ratio of equity to assets was 66.4%, compared to 64.9%. The ratio of total debt to EBITDA was 2.2 at September 25, 2011 compared to 1.6 in 2010. The higher ratio stems mainly from lower EBITDA in the first half of the year.

**DIVIDENDS ON PREFERRED SHARES**

At its meeting on November 8, 2011, RONA's Board of Directors declared a quarterly dividend of \$0.3308 per share on the cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on January 4, 2012, to holders of record on December 16, 2011.

**SUBSEQUENT EVENT**

On November 3, 2011 the Corporation announced an offer to purchase (conducted as a modified « Dutch Auction »), by way of two successive offers each of which is open for a distinct period of time, up to \$200 million aggregate principal amount of its 5.40% Debentures due October 20, 2016. This repurchase is payable in cash from the Corporation's available cash and existing credit facilities. In addition, the Corporation renegotiated with a financial institution a new back-stop credit facility of \$200 million maturing in 2016.

On November 8, 2011, the Corporation announced a normal course issuer bid to repurchase for cancellation, from November 11, 2011 to November 10, 2012, up to 11,016,854 common shares representing 8.4% of the 130,520,489 common shares issued and outstanding as at October 31, 2011.

**SUMMARY OF QUARTERLY RESULTS**

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation and construction activities. The strongest period of the year is from spring to fall, and over 80% of the Corporation's net annual earnings are generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation and construction sectors during the winter. Poor weather conditions can also have a major impact on revenues. With the increase in the proportion of our activities related to the retail sector, the seasonal impact of the first quarter has been more pronounced in 2009, 2010

and 2011 than in previous years. The second quarter is usually always the highest of the year, followed by the third quarter.

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

	2011			2010				2009 <sup>(1)</sup>	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	1,347.1	1,370.0	918.2	1,139.2	1,319.2	1,404.2	956.9	1,140.9	1,320.5
EBITDA	105.4	89.9	8.1	63.7	103.7	133.1	34.8	78.8	105.8
EBITDA (excluding unusual items)	105.4	89.9	8.1	63.7	103.7	133.1	34.8	78.4	111.8
Net income (loss) attributable to owners of RONA inc.	50.1	39.5	(16.8)	19.2	48.0	66.3	3.0	30.9	49.1
Net income (loss) attributable to owners of RONA inc. (excluding unusual items)	50.1	39.5	(16.8)	19.2	48.0	66.3	3.0	30.6	53.3
Net earnings (loss) attributable to participating shares	47.8	37.0	(17.6)	19.2	48.0	66.3	3.0	30.9	49.1
Net earnings (loss) attributable to participating shares (excluding unusual items)	47.8	37.0	(17.6)	19.2	48.0	66.3	3.0	30.6	53.3
Earnings (loss) per share (\$)	0.37	0.28	(0.13)	0.15	0.37	0.51	0.02	0.24	0.38
Earnings (loss) per share (\$) (excluding unusual items)	0.37	0.28	(0.13)	0.15	0.37	0.51	0.02	0.24	0.41
Diluted earnings (loss) per share (\$)	0.36	0.28	(0.13)	0.15	0.36	0.51	0.02	0.24	0.38
Diluted earnings (loss) per share (\$) (excluding unusual items)	0.36	0.28	(0.13)	0.15	0.36	0.51	0.02	0.23	0.41

<sup>1)</sup> The selected information that is presented for quarterly periods in fiscal 2009 does not reflect the impact of the adoption of IFRS.

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

Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009
-5.1%	-9.6%	-12.6%	-6.4%	-2.3%	+0.9%	+10.8%	+0.7%	-5.3%

The economic recovery which began in the second half of 2009 continued on through 2010 and into 2011. While there was a surge of economic activity in the first quarter of 2010, the pace of economic growth has slowed somewhat since then, resulting in positive, but moderate economic growth.

While the economy recovered, consumer confidence experienced a slide over the course of 2010 and into 2011. In the latter half of 2010 and the first half of 2011, there was a slowdown in housing market activity, when compared to 2009. This reflects, in part, the impact of the incentives introduced by various levels of government during 2009 in the form of renovation tax credit programs that expired in early 2010.

In early 2009, consumer confidence was at its lowest since January 2005. It improved over the course of 2009, but began dropping off again at the beginning of 2010. It did not drop back to the levels of 2009, but rather stabilized somewhat in the latter half of 2010 and early 2011 at a level below what had been seen between mid-2006 and early 2008.

Weather also had a particularly significant impact on results for the first quarters of 2010 and 2011, positively for 2010 which experienced very favourable weather conditions and negatively for 2011 which experienced very unfavourable weather conditions, which continued into the second quarter of 2011. In third quarter 2011, weather conditions were relatively good, but consumer confidence slipped again to a level below that of the corresponding period in 2010.

#### **OUTLOOK FOR FOURTH QUARTER 2011:**

- Sales figures since the start of the quarter indicate that market conditions will remain difficult, as it seems that given the low level of consumer confidence, consumers are still delaying major renovation projects.
- Efforts to improve efficiencies will continue, in order to end fiscal 2011 with diluted earnings per share similar to that of 2010, despite downward pressure on same-store sales, which could be to a level similar to that of third quarter 2011.
- Strict balance sheet management and maximization of cash flow from operations will continue, primarily by reducing comparable inventories and investments in property, plant and equipment.
- Initiatives will be introduced to optimize the capital structure, such as the recent announcement of debenture repurchases.

#### **OUTLOOK FOR 2012:**

- We will be finalizing the budget in coming weeks. More precise data will therefore be provided next quarter. However, at this stage we do not think there will be any change in consumer attitudes, who will remain cautious given the current economic uncertainty. But once that uncertainty dissipates, renovation activity should pick up since consumers have already delayed major projects for several years.
- Even though the biggest players in the industry have greatly slowed the pace of new big-box store openings, competition will remain stiff in large urban centres.
- The economic context and competitive situation will thus continue to put pressure on the Corporation's same-store sales. We have, however, a set of initiatives to mitigate this pressure on sales. These initiatives will be announced with the release of results for the fourth quarter of 2011.
- For the existing corporate-store network, important steps will be taken to further differentiate the RONA shopping experience, to maximize the benefits of our regional structure, and to continue improving efficiency in order to reduce selling and administrative expenses.
- There are also many opportunities to consolidate regional markets. RONA has a distribution and affiliated-dealer network that is uniquely positioned to take advantage of such opportunities. As a group, RONA dealers expect to invest more than \$60 million in 2012.
- The succession problems of dealer-owners will become more pronounced and RONA expects to increase its differentiation through its special succession planning program.

#### **RISKS AND UNCERTAINTIES**

Given the ongoing pressure placed on the Corporation's same-store sales by difficult market conditions, and the effect of this pressure on the Corporation's financial results, an additional risk has been added to the risks identified in the Risks and Uncertainties section of *Management's Discussion and Analysis for fiscal 2010*. The key assumptions used for impairment tests are sensitive to the above elements and could influence this measurement for certain cash-generating units of the Corporation. Should a long-lasting material variation in these assumptions be noted, an impairment in the reported amount of long-term assets could become necessary. However, substantial measures to improve efficiency were implemented in the second quarter. These measures made it possible to reverse the gross margin trend and reduce organic selling and administrative expenses in the third quarter, to the extent that despite ongoing pressure on same-store sales, RONA has reported net results that are comparable to those in the same quarter of 2010.

Apart from the above information, no major change has occurred since the publication of the annual Management's Discussion and Analysis for the year ended December 26, 2010.

#### **CHANGES IN ACCOUNTING POLICIES**

The Corporation has adopted IFRS for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Corporation provided information on its transition to IFRS in its 2010 annual Management's Discussion and Analysis. The assessments and impacts discussion in the 2010 annual Management's Discussion and Analysis remain largely unchanged.

The Corporation has provided a detailed explanation of the impacts of this transition in Note 18 of the Corporation's third quarter 2011 unaudited interim consolidated financial statements ("Note 18"). Note 18 includes reconciliations of the Corporation's balance sheet and shareholders' equity from Canadian GAAP to IFRS as at December 26, 2010, and September 26, 2010, and its fiscal 2010 net income and comprehensive income for the 52 weeks ended December 26, 2010 and 13 and 39 weeks ended September 26, 2010. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Corporation's elections under IFRS 1 "First-time Adoption of International Financial Reporting Standards". For a description of the significant accounting policies, please refer to Note 3 of the Corporation's interim Consolidated Financial Statements for the quarter ended March 27, 2011.

### **Future accounting standards**

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

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

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

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

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

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

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

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

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

The Corporation is currently determining the effect of adopting these new requirements on its consolidated financial statements.

Certain other standards were issued but have no impact on the Corporation.

## **SIGNIFICANT ACCOUNTING ESTIMATES**

No major change has occurred since the publication of the annual *Management's Discussion and Analysis* for the year ended December 26, 2010.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the third quarter of 2011, 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 Corporation may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Corporation believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct.

Forward-looking statements do not take into account the impact that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Corporation's business. For example, they do not include the impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

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

The forward-looking statements in this *MD&A* reflect the Corporation's expectations as at November 9, 2011, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

## **ADDITIONAL INFORMATION**

This *MD&A* was prepared on November 9, 2011. The reader will find additional information concerning RONA, including the Corporation's Annual Information Form, on the Corporation's website at [www.rona.ca](http://www.rona.ca) or on the SEDAR website at [www.sedar.com](http://www.sedar.com).

*Dominique Boies (signed)*

*Robert Dutton (signed)*

Dominique Boies  
Executive Vice President  
and Chief Financial Officer

Robert Dutton  
President and  
Chief Executive Officer



**Consolidated Financial Statements**  
**September 25, 2011 and September 26, 2010**  
**(unaudited)**

**RONA inc.**  
**Consolidated Income Statements**  
**Consolidated Statements of Comprehensive Income**

for the thirteen and thirty-nine-week periods ended September 25, 2011 and September 26, 2010  
(Unaudited and in thousands of Canadian dollars, except per share amounts)

**Consolidated Income Statements**

	Third Quarter		Year-to-date	
	2011	2010	2011	2010
Revenues (Note 4)	\$1,347,135	\$1,319,228	\$3,635,392	\$3,680,367
Operating profit (Note 6)	76,983	76,279	119,863	187,744
Finance income	1,486	984	4,197	3,251
Finance costs	(6,519)	(6,359)	(19,557)	(17,844)
	(5,033)	(5,375)	(15,360)	(14,593)
Income before income tax expense	71,950	70,904	104,503	173,151
Income tax expense (Note 7)	(20,145)	(21,165)	(29,260)	(51,686)
Net income	\$ 51,805	\$ 49,739	\$ 75,243	\$ 121,465
<b>Net income attributable to:</b>				
Owners of RONA inc.	\$ 50,113	\$ 48,012	\$ 72,848	\$ 117,325
Non-controlling interests	1,692	1,727	2,395	4,140
	\$ 51,805	\$ 49,739	\$ 75,243	\$ 121,465
<b>Net earnings per share attributable to owners of RONA inc. (Note 16)</b>				
Basic	\$ 0.37	\$ 0.37	\$ 0.52	\$ 0.90
Diluted	\$ 0.36	\$ 0.36	\$ 0.51	\$ 0.89

**Consolidated Statements of Comprehensive Income**

Net income	\$ 51,805	\$ 49,739	\$ 75,243	\$ 121,465
Other comprehensive income (loss), net of taxes :				
Cash flow hedges				
– Income (loss) for the period	2,341	(1,000)	1,655	(933)
– Reclassification to income or loss	39	14	2,391	174
Total comprehensive income	\$ 54,185	\$ 48,753	\$ 79,289	\$ 120,706
<b>Total comprehensive income attributable to:</b>				
Owners of RONA inc.	\$ 52,493	\$ 47,026	\$ 76,894	\$ 116,566
Non-controlling interests	1,692	1,727	2,395	4,140
	\$ 54,185	\$ 48,753	\$ 79,289	\$ 120,706

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

**RONA inc.**

**Consolidated Statements of Changes in Equity**

as at September 25, 2011, September 26, 2010 and December 26, 2010

(Unaudited and in thousands of Canadian dollars)

	Share capital <sup>(a)</sup>	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non- controlling interests	Total equity
Balance, December 26, 2010	\$ 632,614	\$ 1,234,933	\$ 11,137	\$ (1,217)	\$ 1,877,467	\$ 35,809	\$ 1,913,276
Transactions with owners							
Issuance in exchange for cash	173,020	–	–	–	173,020	–	173,020
Issuance under stock option plans	1,406	–	(295)	–	1,111	–	1,111
Dividends declared on common shares	–	(9,134)	–	–	(9,134)	–	(9,134)
Dividends declared on preferred shares, including related income taxes	–	(5,639)	–	–	(5,639)	–	(5,639)
Fees related to issuance of preferred shares, net of related income tax recovery of \$1,475	–	(4,004)	–	–	(4,004)	–	(4,004)
Compensation cost relating to stock option plans	–	–	775	–	775	–	775
Deposits on common share subscriptions received	1,868	–	–	–	1,868	–	1,868
Deposits on common share subscriptions refunded	(75)	–	–	–	(75)	–	(75)
Other	–	–	–	–	–	28	28
Total transactions with owners	176,219	(18,777)	480	–	157,922	28	157,950
Income for the period	–	72,848	–	–	72,848	2,395	75,243
Other comprehensive income:						–	
Cash flow hedges							
- Current year income	–	–	–	1,655	1,655	–	1,655
- Reclassification to income or loss	–	–	–	2,391	2,391	–	2,391
Total comprehensive income for the period	–	72,848	–	4,046	76,894	2,395	79,289
Balance, September 25, 2011	\$ 808,833	\$ 1,289,004	\$ 11,617	\$ 2,829	\$ 2,112,283	\$ 38,232	\$ 2,150,515

(a) Additional detail of share capital is provided in note 13.

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

**RONA inc.**

**Consolidated Statements of Changes in Equity**

as at September 25, 2011, September 26, 2010 and December 26, 2010

(Unaudited and in thousands of Canadian dollars)

	Share capital <sup>(a)</sup>	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 27, 2009	\$ 603,756	\$ 1,125,235	\$ 13,138	\$ –	\$ 1,742,129	\$ 32,761	\$ 1,774,890
Transactions with owners							
Issuance in exchange for cash	340	–	–	–	340	–	340
Issuance under stock option plans	176	–	(19)	–	157	–	157
Issuance as payment for a business acquisition	35,722	–	–	–	35,722	–	35,722
Repurchase and cancellation of common shares	(10,790)	(17,666)	(3,153)	–	(31,609)	–	(31,609)
Compensation cost relating to stock option plans	–	–	910	–	910	–	910
Deposits on common share subscriptions received	2,093	–	–	–	2,093	–	2,093
Deposits on common share subscriptions refunded	(28)	–	–	–	(28)	–	(28)
Other	151	–	–	–	151	32	183
Total transactions with owners	27,664	(17,666)	(2,262)	–	7,736	32	7,768
Income (loss) for the period	–	117,325	–	–	117,325	4,140	121,465
Other comprehensive income (loss):							
Cash flow hedges							
- Current year loss	–	–	–	(933)	(933)	–	(933)
- Reclassification to income or loss	–	–	–	174	174	–	174
Total comprehensive income (loss) for the period	–	117,325	–	(759)	116,566	4,140	120,706
Balance, September 26, 2010	\$ 631,420	\$ 1,224,894	\$ 10,876	\$ (759)	\$ 1,866,431	\$ 36,933	\$ 1,903,364

(a) Additional detail of share capital is provided in note 13.

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

**RONA inc.**

**Consolidated Statements of Changes in Equity**

as at September 25, 2011, September 26, 2010 and December 26, 2010

(Unaudited and in thousands of Canadian dollars)

	Share capital <sup>(a)</sup>	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 27, 2009	\$ 603,756	\$ 1,125,235	\$ 13,138	\$ –	\$ 1,742,129	\$ 32,761	\$ 1,774,890
Transactions with owners							
Issuance in exchange for cash	370	–	–	–	370	–	370
Issuance under stock option plans	661	–	(62)	–	599	–	599
Issuance as payment for a business acquisition	35,722	–	–	–	35,722	–	35,722
Repurchase and cancellation of common shares	(10,790)	(17,666)	(3,153)	–	(31,609)	–	(31,609)
Dividends declared on common shares	–	(9,119)	–	–	(9,119)	–	(9,119)
Cash dividends paid by a subsidiary to non-controlling interests	–	–	–	–	–	(2,450)	(2,450)
Compensation cost relating to stock option plans	–	–	1,214	–	1,214	–	1,214
Deposits on common share subscriptions received	2,772	–	–	–	2,772	–	2,772
Deposits on common share subscriptions refunded	(28)	–	–	–	(28)	–	(28)
Other	151	–	–	–	151	33	184
Total transactions with owners	28,858	(26,785)	(2,001)	–	72	(2,417)	(2,345)
Income (loss) for the period	–	136,483	–	–	136,483	5,465	141,948
Other comprehensive income:							
Cash flow hedges							
- Current year loss	–	–	–	(1,490)	(1,490)	–	(1,490)
- Reclassification to income or loss	–	–	–	273	273	–	273
Total comprehensive income (loss) for the period	–	136,483	–	(1,217)	135,266	5,465	140,731
Balance, December 26, 2010	\$ 632,614	\$ 1,234,933	\$ 11,137	\$ (1,217)	\$ 1,877,467	\$ 35,809	\$ 1,913,276

(a) Additional detail of share capital is provided in note 13.

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

**RONA inc.****Consolidated Statements of Cash Flows**

for the thirteen and thirty-nine-week periods ended September 25, 2011 and September 26, 2010  
(Unaudited and in thousands of Canadian dollars)

	Third Quarter		Year-to-date	
	2011	2010	2011	2010
<b>Operating activities</b>				
Income before income tax expense	\$ 71,950	\$ 70,904	\$ 104,503	\$ 173,151
Adjustments:				
Depreciation, amortization and impairment of non-financial assets (Note 6)	26,947	26,404	79,306	80,482
Change in fair value of derivative financial instruments	38	(428)	(202)	(1,250)
Net gains on disposal of assets	(134)	(147)	(1,262)	(1,240)
Stock-based compensation expense (recovery)	(73)	28	(3,221)	2,907
Difference between amounts paid for post-employment benefits and current period expenses	(678)	210	(1,619)	(1,632)
Other	(1,051)	506	1,359	1,316
	96,999	97,477	178,864	253,734
Net change in working capital	(16,778)	(22,236)	(24,699)	(163,075)
	80,221	75,241	154,165	90,659
Interest received	1,123	569	3,081	1,985
Income taxes paid	(4,081)	(7,785)	(30,814)	(32,822)
Cash flow from operating activities	77,263	68,025	126,432	59,822
<b>Investing activities</b>				
Business acquisitions (Note 8)	(26,610)	(2,003)	(40,805)	(12,151)
Acquisition of property, plant and equipment	(16,967)	(28,759)	(51,165)	(67,057)
Acquisition of intangible assets	(8,781)	(4,778)	(23,689)	(21,719)
Acquisition of other financial assets	(2,184)	(2,440)	(6,404)	(3,081)
Proceeds on disposal of property, plant and equipment	5,222	371	9,811	1,701
Proceeds on disposal of other financial assets	852	2,159	2,744	6,839
Interest received	583	415	1,082	1,266
Cash flow from investing activities	(47,885)	(35,035)	(108,426)	(94,202)
<b>Financing activities</b>				
Bank loans	(7,769)	(1,328)	(3,812)	6,807
Other long-term debt	86	650	872	650
Repayment of other long-term debt	(4,969)	(2,241)	(27,172)	(10,148)
Proceeds from issue of common shares	1,079	1,006	3,423	2,562
Proceeds from issue of preferred shares	-	-	172,500	-
Fees related to issue of preferred shares	-	-	(5,479)	-
Repurchase of common shares	-	(26,824)	-	(31,609)
Dividends on common shares	-	-	(9,121)	-
Dividends on preferred shares	(3,176)	-	(3,176)	-
Interest paid	(11,832)	(11,372)	(25,310)	(22,725)
Cash flow from financing activities	(26,581)	(40,109)	102,725	(54,463)
<b>Net increase (decrease) in cash</b>	<b>2,797</b>	<b>(7,119)</b>	<b>120,731</b>	<b>(88,843)</b>
Cash, beginning of period	193,511	157,533	75,577	239,257
Cash, end of period	\$ 196,308	\$ 150,414	\$ 196,308	\$ 150,414

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

**RONA inc.****Consolidated Statements of Financial Position**

as at September 25, 2011, September 26, 2010 and December 26, 2010

(Unaudited and in thousands of Canadian dollars)

	2011 September 25	2010 September 26	2010 December 26
<b>Assets</b>			
Current			
Cash	\$ 196,308	\$ 150,414	\$ 75,577
Trade and other receivables	391,193	333,462	299,889
Other financial assets	2,041	3,347	2,245
Current tax assets	419	–	–
Inventory (Note 5)	954,932	898,442	905,467
Prepaid expenses	29,222	24,306	17,955
Derivative financial instruments	3,871	–	–
Current assets	1,577,986	1,409,971	1,301,133
Non-current			
Other financial assets	14,846	10,068	9,644
Property, plant and equipment	899,968	844,154	885,044
Non-current assets held for sale (Note 10)	14,158	6,882	16,474
Goodwill	545,575	495,423	529,094
Intangible assets	129,739	112,048	128,223
Other non-current assets	4,532	3,361	3,967
Deferred tax assets	50,851	52,876	48,407
Total assets	\$ 3,237,655	\$ 2,934,783	\$ 2,921,986
<b>Liabilities</b>			
Current			
Bank loans	\$ 892	\$ 11,573	\$ 1,943
Trade and other payables	540,581	503,015	454,166
Dividends payable	11,414	–	9,119
Current tax liabilities	–	17,134	3,379
Derivative financial instruments	–	1,038	1,653
Provisions (Note 11)	5,588	4,832	4,625
Instalments on long-term debt	25,675	8,503	21,151
Current liabilities	584,150	546,095	496,036
Non-current			
Long-term debt	429,308	424,777	444,333
Other non-current liabilities	30,542	28,013	29,292
Provisions (Note 11)	3,275	4,670	4,539
Deferred tax liabilities	39,865	27,864	34,510
Total liabilities	1,087,140	1,031,419	1,008,710
<b>Equity</b>			
Share capital (Note 13)	808,833	631,420	632,614
Retained earnings	1,289,004	1,224,894	1,234,933
Contributed surplus	11,617	10,876	11,137
Accumulated other comprehensive income	2,829	(759)	(1,217)
Total equity attributable to owners of RONA inc.	2,112,283	1,866,431	1,877,467
Non-controlling interests	38,232	36,933	35,809
Total equity	2,150,515	1,903,364	1,913,276
Total liabilities and equity	\$ 3,237,655	\$ 2,934,783	\$ 2,921,986

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

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
as at September 25, 2011 and September 26, 2010  
(Unaudited and in thousands of Canadian dollars)

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**1. Reporting Entity**

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

The Corporation's consolidated financial statements for the thirty-nine-week periods ended September 25, 2011 and September 26, 2010 include financial data for the Corporation and its subsidiaries (collectively referred to as the "Corporation" and individually referred to as the "Corporation's entities") and the Corporation's share of the jointly controlled entities.

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

**2. Basis of Presentation**

**(a) General information, adoption of IFRS and declaration of conformity with IAS 34**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim financial reporting*.

In May 2011, the Corporation filed its interim consolidated financial statements for the quarter ended March 27, 2011 disclosing for the first time its results and financial position under IFRS. The Corporation's interim consolidated financial statements for the quarter ended March 27, 2011, and the current interim financial statements for the thirteen and thirty-nine-week periods ended September 25, 2011 were prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* and in accordance with accounting policies that the Corporation intends to adopt in its financial statements for the year ended December 25, 2011.

The accounting policies described in Note 3 have been applied on a consistent basis for all reported periods, unless otherwise indicated. Previously, the consolidated financial statements of the Corporation were prepared according to Canadian GAAP in effect before the changeover ("GAAP").

Note 18 explains how the transition to IFRS affected the Corporation's reported financial position, results and cash flows.

**(b) Measurement basis**

The consolidated financial statements were prepared under the historical cost basis, except for the revaluation of certain financial instruments at estimated fair value.

**(c) Functional and reporting currency**

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of RONA inc. and all the Corporation's entities. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
as at September 25, 2011 and September 26, 2010  
(Unaudited and in thousands of Canadian dollars)

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**2. Basis of Presentation (continued)**

**(d) Use of estimates and judgments**

When preparing the financial statements, the Corporation's management undertakes a number of judgments, estimates and assumptions about recognition and measurement of amounts recorded in the financial statements and related notes.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is as follows:

- Inventory impairment, including loss and obsolescence
- Supplier rebate estimates
- Goodwill, property, plant and equipment and intangible assets impairment
- Lease classification
- Current and deferred tax assets and liabilities estimates
- Provisions, contingent liabilities and contingent assets estimates
- Share-based payment measurement
- Allowance for doubtful accounts estimate
- Employee benefits estimates

For additional information on these items, please refer to Note 2 (d) of the interim consolidated financial statements for the quarter ended March 27, 2011. There were no significant changes with respect to the nature of judgments, estimates and assumptions for the quarters ended September 25, 2011 and September 26, 2010.

These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from those estimates.

**(e) Seasonal fluctuations**

The interim period results of operations do not necessarily reflect results for the full year because of seasonal fluctuations that characterize the hardware, home improvement and gardening products industry. Since the seasonal fluctuations result in significant variances for certain assets and liabilities, a Statement of Financial Position as at September 26, 2010 is also presented for comparative purposes.

**(f) Fiscal year**

The Corporation's fiscal year includes 52 weeks and ends on the last Sunday of December.

**(g) Comparative figures**

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

## RONA inc.

### Notes to Interim Consolidated Financial Statements

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

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#### 2. Basis of Presentation (continued)

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

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

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

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

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

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

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

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

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

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

The Corporation is currently determining the effect of adopting these new requirements on its consolidated financial statements.

Certain other standards were issued but have no impact on the Corporation.

#### 3. Significant Accounting Policies

The Corporation's IFRS accounting policies presented in Note 3 of the interim financial statements for the quarter ended March 27, 2011 were applied in preparing the interim consolidated financial statements for the thirteen and thirty-nine-week periods ended September 25, 2011 and September 26, 2010.

## RONA inc.

### Notes to Interim Consolidated Financial Statements

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

#### 4. Revenues

	Third Quarter		Year-to-date	
	2011	2010	2011	2010
Sales of goods	\$ 1,328,790	\$ 1,299,699	\$ 3,585,354	\$ 3,626,443
Rendering of services	11,633	12,299	31,383	34,241
Royalties received	6,712	7,230	18,655	19,683
<b>Total revenues</b>	<b>\$ 1,347,135</b>	<b>\$ 1,319,228</b>	<b>\$ 3,635,392</b>	<b>\$ 3,680,367</b>

#### 5. Inventory

For the thirteen and thirty-nine-week periods ended September 25, 2011, an amount of \$970,005 and \$2,608,059 in inventory was expensed in the income statement (\$960,488 and \$2,636,972 in 2010).

For the thirteen and thirty-nine-week periods ended September 25, 2011, an inventory write-down charge of \$9,435 and \$24,114 (\$8,937 and \$26,280 in 2010) was recognized in the consolidated income statement. No reversal of previous write-downs was recognized.

#### 6. Supplemental Revenue and Expense Information

##### 6.1 Operating profit

	Third Quarter		Year to date	
	2011	2010	2011	2010
<b>Revenues</b>	<b>\$ 1,347,135</b>	<b>\$ 1,319,228</b>	<b>\$ 3,635,392</b>	<b>\$ 3,680,367</b>
Cost of sales (Note 5)	(970,005)	(960,488)	(2,608,059)	(2,636,972)
<b>Gross profit</b>	<b>377,130</b>	<b>358,740</b>	<b>1,027,333</b>	<b>1,043,395</b>
Selling, general and administrative expenses	(305,242)	(288,261)	(923,017)	(872,741)
Net gains on disposal of assets	134	147	1,262	1,240
Other income	4,961	5,653	14,285	15,850
<b>Operating profit</b>	<b>\$ 76,983</b>	<b>\$ 76,279</b>	<b>\$ 119,863</b>	<b>\$ 187,744</b>

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

	Third Quarter		Year-to-date	
	2011	2010	2011	2010
Depreciation of property, plant and equipment	\$ 20,044	\$ 19,511	\$ 59,711	\$ 59,912
Depreciation of leasehold property included in property, plant and equipment	358	382	1,601	1,388
Amortization of intangible assets	6,403	6,286	17,566	18,294
Amortization of other non-current assets	142	225	428	888
<b>Total depreciation, amortization and impairment of non-financial assets</b>	<b>\$ 26,947</b>	<b>\$ 26,404</b>	<b>\$ 79,306</b>	<b>\$ 80,482</b>

## RONA inc.

### Notes to Interim Consolidated Financial Statements

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

#### 6. Supplemental Revenue and Expense Information (continued)

##### 6.3 Employee benefits expense

	Third Quarter		Year-to-date	
	2011	2010	2011	2010
Salaries	\$ 115,042	\$ 106,376	\$ 363,930	\$ 333,798
Defined benefit expense	379	265	1,136	793
Defined contribution expense	2,199	2,749	6,800	7,888
Stock-based compensation expense (recovery)	(73)	28	(3,221)	2,907
Other fringe benefits	27,083	24,682	83,428	75,074
Total employee benefits expense	\$ 144,630	\$ 134,100	\$ 452,073	\$ 420,460

#### 7. Income Tax

The consolidated effective income tax rate for continuing operations was 28.00% for the thirteen and thirty-nine-week periods ended September 25, 2011 and 29.85% for the thirteen and thirty-nine-week periods ended September 26, 2010. The effective income tax rate change is primarily attributable to the change in the Corporation's combined statutory income tax rate.

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

#### 8. Business Acquisitions

On August 2, 2011, the Corporation acquired the assets of Palliser Lumber Sales Ltd, a company located in Alberta operating in the distribution segment.

On June 29, 2011, the Corporation acquired all the shares of Gestion 2HL Inc., a dealer located in Quebec operating in the retail and commercial segment.

On April 11, 2011, the Corporation acquired the assets of Duncan Pacific, located in Vancouver, British Columbia. This dealer, operating in the retail and commercial segment, has four outlets with major lumberyards in Duncan, Nanaimo, Campbell River and Cobble Hill.

On January 31, 2011, the Corporation acquired the assets of La Boutique Plomberie Décoration 25 inc. in Quebec. The company is a retailer of basic and finishing plumbing products. The company operates in the retail and commercial segment.

On January 24, 2011, the Corporation acquired the minority interests in the assets of a store previously held by one of its 51%-owned subsidiaries. This transaction resulted in a \$490 increase in goodwill with a corresponding change in non-controlling interests.

During the thirty-nine-week period ended September 26, 2010, the Corporation acquired four companies in the retail and commercial segment through share or asset purchases.

## RONA inc.

### Notes to Interim Consolidated Financial Statements

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

#### 8. Business Acquisitions (continued)

These acquisitions were for a total consideration of \$48,272 (\$49,788 in 2010). Direct acquisition costs of \$557 were recognized in selling, general and administrative expenses for the thirty-nine-week period ended September 25, 2011 (\$1,472 in 2010). The Corporation financed these acquisitions 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:

	2011	2010
Trade and other receivables	\$ 6,294	\$ 11,324
Inventory	19,947	12,546
Other current assets	226	360
Property, plant and equipment	25,299	1,988
Goodwill on acquisition	17,893	40,039
Intangible assets	36	418
Current liabilities	(16,997)	(16,845)
Long-term debt	(4,145)	(42)
Deferred tax liabilities	(281)	–
Cost of acquisitions	48,272	49,788
Issuance of common shares	–	(35,722)
Less: Balances of purchase prices	(7,467)	(1,915)
Cash consideration paid	\$ 40,805	\$ 12,151

The Corporation expects that an amount of \$7,222 (\$1,333 in 2010) of goodwill will be deductible for tax purposes.

Preliminary purchase price allocations related to the acquisitions may be subject to adjustment pending completion of the final valuations.

#### 9. Vendor Rebates

For the thirty-nine-week period ended September 25, 2011, the Corporation recognized \$2,962 (\$8,619 in 2010) for which the conditions for receiving the vendor rebates have not all been fulfilled. The amount was estimated on the basis that the necessary conditions for obtaining the rebates are satisfied.

**RONA inc.****Notes to Interim Consolidated Financial Statements**

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

**10. Non-current Assets Held for Sale**

The Corporation intends to dispose of property, plant and equipment held for sale within one year. These are primarily land and buildings in the retail and commercial segment which are no longer used in operations and for which the Corporation has established a detailed plan to sell.

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

	2011 As at September 25	
Balance, December 26, 2010	\$	16,474
Additions		5,632
Disposals		(7,948)
Balance, September 25, 2011	\$	14,158

	2010 As at September 26	
Balance, December 27, 2009	\$	11,080
Additions		(3)
Reclassification to property, plant and equipment		(4,195)
Balance, September 26, 2010	\$	6,882

	2010 As at December 26	
Balance, December 27, 2009	\$	11,080
Additions		10,089
Disposals		(500)
Reclassification to property, plant and equipment		(4,195)
Balance, December 26, 2010	\$	16,474

	2011 As at September 25	2010 As at September 26	2010 As at December 26
Non-current assets held for sale			
Land	\$ 13,096	\$ 5,606	\$ 15,427
Buildings	1,062	1,276	1,047
	\$ 14,158	\$ 6,882	\$ 16,474

**RONA inc.**

**Notes to Interim Consolidated Financial Statements**

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

**11. Provisions, Contingent Liabilities and Contingent Assets**

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

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 27, 2009	\$ 3,004	\$ 14,340	\$ 420	\$ 17,764
Provisions created during the period	2,122	–	899	3,021
Provisions used during the period	(395)	(8,392)	(1,159)	(9,946)
Provisions reversed during the period	(1,367)	–	30	(1,337)
Balance, September 26, 2010	3,364	5,948	190	9,502
Current	3,364	1,278	190	4,832
Non-current	–	4,670	–	4,670
	\$ 3,364	\$ 5,948	\$ 190	\$ 9,502

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 27, 2009	\$ 3,004	\$ 14,340	\$ 420	\$ 17,764
Provisions created during the period	2,887	1,923	2,003	6,813
Provisions used during the period	(887)	(7,994)	(1,377)	(10,258)
Provisions reversed during the period	(1,782)	(2,944)	(861)	(5,587)
Accretion expense	–	432	–	432
Balance, December 26, 2010	3,222	5,757	185	9,164
Current	3,222	1,218	185	4,625
Non-current	–	4,539	–	4,539
	\$ 3,222	\$ 5,757	\$ 185	\$ 9,164

**RONA inc.**

**Notes to Interim Consolidated Financial Statements**

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

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**11. Provisions, Contingent Liabilities and Contingent Assets (Continued)**

Various claims and litigation arise in the course of the Corporation's activities and its insurers have taken up the Corporation's defence in some of these cases.

The litigation period depends on the negotiation procedures. Provisions are recognized based on best estimates of the resolution of the litigation. Management does not expect that the outcome of these claims and litigation will have a material and adverse effect on the Corporation's results and deemed its allowances adequate in this regard.

In 2008, the Corporation's management approved a detailed closure plan for two stores in the retail and commercial segment. One store was closed during 2008 and the second during the second quarter of 2009. Following the closures, a provision for onerous contracts was recognized for non-cancellable operating leases for commercial stores it no longer used at a 4.90% discount rate. The provisions were estimated using market data and contractual obligations at the time of initial recognition. In 2010, an agreement was reached with one lessor to cancel the lease. The lease, which is still in effect, expires in 2024.

Guarantee provisions relate to private brand products and are estimated using historical data on similar product guarantees. Management forecasts indicate that most of the provision will be supported in the following periods.

## RONA inc.

### Notes to Interim Consolidated Financial Statements

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

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#### 12. Guarantees

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

The Corporation guarantees mortgages for an amount of \$224. 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 \$5,426.

Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 63% of the cost of the inventories to a maximum of \$44,067. In the event of recourse, this inventory would be sold in the ordinary course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

#### 13. Share Capital

##### Authorized

Unlimited number of shares

Common without par value

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

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

Series 6, cumulative dividend of 5.25% fixed for the first five years, redeemable, at the Corporation's option, at their issuance price

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

Class C preferred shares, issuable in series

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

Class D preferred shares, without par value, 4% cumulative dividend, redeemable, at the Corporation's option, at their issuance price. Since 2003, they are redeemable at their issuance price over a maximum period of ten years on the basis of 10% per year.

**RONA inc.**

**Notes to Interim Consolidated Financial Statements**

as at September 25, 2011 and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

**13. Share Capital (continued)**

**Issued and fully paid:**

The following table presents changes in the number of outstanding shares and their carrying amount:

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

(a) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised dealers in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at September 25, 2011, the number of outstanding common shares would have increased by 184,795.

**RONA inc.****Notes to Interim Consolidated Financial Statements**

as at September 25, 2011, and September 26, 2010

(Unaudited and in thousands of Canadian dollars)

**13. Share Capital (continued)****Issued and fully paid (continued):**

The following table presents changes in the number of outstanding shares and their carrying amount:

	Common shares		Treasury shares		Deposits on common share subscriptions <sup>(a)</sup>		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 27, 2009	129,653,383	\$ 600,459	(80,251)	\$ (524)	–	\$ 3,821	129,573,132	\$ 603,756
Issuance in exchange for cash	25,661	340	–	–	–	–	25,661	340
Issuance under stock option plans	34,500	176	–	–	–	–	34,500	176
Issuance as payment for a business acquisition	2,230,067	35,722	–	–	–	–	2,230,067	35,722
Issuance in exchange for common share subscription deposits	250,979	3,842	6,917	(51)	–	(3,791)	257,896	–
Repurchase of common shares	(2,230,067)	(10,790)	–	–	–	–	(2,230,067)	(10,790)
Deposits on common share subscriptions received	–	–	–	–	–	2,093	–	2,093
Deposits on common share subscriptions refunded	–	–	–	–	–	(28)	–	(28)
Other	–	–	–	151	–	–	–	151
Balance, September 26, 2010	129,964,523	\$ 629,749	(73,334)	\$ (424)	–	\$ 2,095	129,891,189	\$ 631,420

(a) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised dealers 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.

**RONA inc.****Notes to Interim Consolidated Financial Statements**

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**13. Share Capital (continued)****Issued and fully paid (continued):**

The following table presents changes in the number of outstanding shares and their carrying amount:

	Common shares		Treasury shares		Deposits on common share subscriptions <sup>(a)</sup>		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 27, 2009	129,653,383	\$ 600,459	(80,251)	\$ (524)	–	\$ 3,821	129,573,132	\$ 603,756
Issuance in exchange for cash	27,895	370	–	–	–	–	27,895	370
Issuance under stock option plans	139,525	661	–	–	–	–	139,525	661
Issuance as payment for a business acquisition	2,230,067	35,722	–	–	–	–	2,230,067	35,722
Issuance in exchange for common share subscription deposits	250,979	3,842	(3,381)	(51)	–	(3,791)	247,598	–
Repurchase of common shares	(2,230,067)	(10,790)	–	–	–	–	(2,230,067)	(10,790)
Deposits on common share subscriptions received	–	–	–	–	–	2,772	–	2,772
Deposits on common share subscriptions refunded	–	–	–	–	–	(28)	–	(28)
Other	–	–	10,298	151	–	–	10,298	151
Balance, December 26, 2010	130,071,782	\$ 630,264	(73,334)	\$ (424)	–	\$ 2,774	129,998,448	\$ 632,614

(a) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised dealers 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 December 26, 2010, the number of outstanding common shares would have increased by 199,123.

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**14. Stock-based Compensation**

**Stock option plans**

*Stock option plan of May 1, 2002*

On May 1, 2002, the Corporation adopted a stock option plan for designated senior executives pursuant to which options for a maximum of 3,740,000 common shares may be granted. Options granted under the plan may be exercised since the Corporation made a public share offering on November 5, 2002. As at September 25, 2011, the exercise price of the 2,920,000 options granted upon adoption of the plan is \$3.47 and of this number, 1,855,000 options were exercised (1,675,500 options in 2010).

The fair value of each option granted was estimated at the grant date using the Black-Scholes option pricing model.

No compensation cost was expensed with respect to this plan for the thirteen and thirty-nine-week periods ended September 25, 2011 and September 26, 2010.

*Stock option plan of October 24, 2002*

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

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

As at September 25, 2011, the 3,242,352 options initially granted (2,857,452 options in 2010) had exercise prices ranging from \$9.97 to \$26.87 in 2011 and 2010 and of this number, 172,425 options have been exercised (96,375 options in 2010), 619,758 options have expired (619,758 options in 2010) and 759,394 options have been forfeited (431,650 options in 2010).

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**14. Stock-based Compensation (continued)**

**Stock option plans (continued)**

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

The weighted average fair value of stock options granted of \$4.64 (\$4.57 in 2010) was estimated for each option tranche at the grant date using the Black-Scholes option pricing model on the basis of the following weighted average assumptions for the options granted during the period:

	2011	2010
Share price at date of grant	\$ 13.61	\$ 15.61
Risk-free interest rate	1.67 to 3.35 %	1.83 to 2.90 %
Expected share price volatility	27.60 to 28.13 %	28.5 to 31.6 %
Expected dividend rate	1.00 to 1.39 %	0 %
Expected life	7 to 10 years	3 to 6 years
Exercise price at date of grant	\$ 13.65	\$ 15.44

The expected volatility is estimated for each award tranche, taking into account the average historical volatility of the share price over a period that is commensurate with the expected term of the options granted.

Compensation cost expensed with respect to this plan amounts to \$258 and \$775 for the thirteen and thirty-nine-week periods ended September 25, 2011 (\$304 and \$910 in 2010).

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

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

The weighted average price of the common shares acquired by option holders having exercised 150,525 options (34,500 options in 2010) for the thirty-nine-week period ended September 25, 2011 is \$12.89 (\$15.40 in 2010).

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**14. Stock-based Compensation (continued)**

**Stock option plans (continued)**

	As at September 26, 2010	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,966,852	\$ 10.47
Granted	381,700	15.44
Exercised	(34,500)	4.54
Expired	(331,758)	21.53
Forfeited	(28,125)	12.60
Outstanding, end of period	2,954,169	9.91
Options exercisable, end of period	2,079,244	\$ 8.36

	As at December 26, 2010	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,966,852	\$ 10.47
Granted	381,700	15.44
Exercised	(139,525)	4.30
Expired	(331,758)	21.53
Forfeited	(149,475)	13.04
Outstanding, end of period	2,727,794	9.99
Options exercisable, end of period	1,968,644	\$ 8.57

The following table summarizes information relating to stock options outstanding as at September 25, 2011:

Exercise price	Expiration date	Number of options outstanding	Number of options exercisable
\$3.47	January 1, 2012	1,065,000	1,065,000
\$9.97	September 21, 2021	60,000	–
\$10.62	March 11, 2019	367,950	183,250
\$14.18	March 1, 2018	148,800	111,600
\$14.29	December 16, 2013	338,900	338,900
\$14.33	March 7, 2021	305,400	–
\$15.44	March 9, 2020	291,200	72,800
\$20.27	December 22, 2014	74,750	74,750
\$23.58	March 8, 2017	103,775	103,775
		2,755,775	1,950,075

## RONA inc.

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#### 14. Stock-based Compensation (continued)

##### Share unit plan for officers

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

	Third Quarter		Year-to-date	
	2011	2010	2011	2010
Number of restricted share units:				
Outstanding, beginning of period	1,125,125	1,121,340	935,325	682,540
Granted	20,000	5,125	410,000	443,925
Expired	–	(66,340)	(113,000)	(66,340)
Forfeited	(28,400)	(9,200)	(115,600)	(9,200)
Paid	(6,000)	–	(6,000)	–
Outstanding, end of period	1,110,725	1,050,925	1,110,725	1,050,925

For the thirteen and thirty-nine-week periods ended September 25, 2011, recoveries of \$188 and \$3,972 were recorded in the consolidated income statement (expenses of \$94 and \$1,849 in 2010).

RONA inc.

## Notes to Interim Consolidated Financial Statements

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### 14. Stock-based Compensation (continued)

#### Share unit plan for directors

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

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

	Third Quarter		Year-to-date	
	2011	2010	2011	2010
Number of deferred share units:				
Outstanding, beginning of period	202,428	159,144	172,781	149,139
Granted	19,736	12,846	49,383	36,205
Paid	–	–	–	(13,354)
Outstanding, end of period	222,164	171,990	222,164	171,990

For the thirteen and thirty-nine-week periods ended September 25, 2011, recoveries of \$143 and \$24 were recorded in the consolidated income statement (\$370 and an expense of \$148 in 2010).

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**15. Segment Information**

	Third Quarter					
	2011			2010		
	Retail and commercial	Distribution	Total	Retail and commercial	Distribution	Total
Segment revenues	\$ 1,028,317	\$ 623,998	\$ 1,652,315	\$ 1,003,777	\$ 630,017	\$ 1,633,794
Intersegment revenues and royalties	-	(305,180)	(305,180)	-	(314,566)	(314,566)
Revenues from external customers	1,028,317	318,818	1,347,135	1,003,777	315,451	1,319,228
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	84,021	21,395	105,416	80,796	22,871	103,667
Finance income			(1,486)			(984)
Amortization, depreciation and impairment of non-financial assets			(26,947)			(26,404)
Operating profit			76,983			76,279
Finance income			1,486			984
Finance costs			(6,519)			(6,359)
Income before income tax expense			\$ 71,950			\$ 70,904

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

**RONA inc.**

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**15. Segment Information (continued)**

	Year-to-date					
	2011			2010		
	Retail and commercial	Distribution	Total	Retail and commercial	Distribution	Total
Segment revenues	\$ 2,703,067	\$ 1,869,317	\$ 4,572,384	\$ 2,762,576	\$ 1,910,787	\$ 4,673,363
Intersegment revenues and royalties	-	(936,992)	(936,992)	-	(992,996)	(992,996)
Revenues from external customers	2,703,067	932,325	3,635,392	2,762,576	917,791	3,680,367
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	153,763	49,603	203,366	207,489	63,988	271,477
Finance income			(4,197)			(3,251)
Amortization, depreciation and impairment of non-financial assets			(79,306)			(80,482)
Operating profit			119,863			187,744
Finance income			4,197			3,251
Finance costs			(19,557)			(17,844)
Income before income tax expense			\$ 104,503			\$ 173,151

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

## RONA inc.

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#### 16. Earnings per Share

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

	Third Quarter		Year-to-date	
	2011	2010	2011	2010
Net earnings attributable to owners of RONA inc.	\$ 50,113	\$ 48,012	\$ 72,848	\$ 117,325
Dividends on preferred shares, including related income taxes	(2,363)	–	(5,639)	–
Net earnings attributable to participating shares	47,750	48,012	67,209	117,325
Number of shares (in thousands)				
Weighted average number of shares used to compute basic net earnings per share attributable to owners of RONA inc.	130,368.1	130,805.0	130,278.3	130,214.3
Effect of dilutive stock options <sup>(a)</sup>	715.9	1,038.4	860.8	1,143.9
Weighted average number of shares used to compute diluted net earnings per share attributable to owners of RONA inc.	131,084.0	131,843.4	131,139.1	131,358.2
Net earnings per share attributable to owners of RONA inc.				
Basic	\$ 0.37	\$ 0.37	\$ 0.52	\$ 0.90
Diluted	\$ 0.36	\$ 0.36	\$ 0.51	\$ 0.89

(a) As at September 25, 2011, 1,322,825 common share stock options (617,569 options in 2010) were excluded from the calculation of diluted net earnings per share attributable to the Corporation's owners since these options have an antidilutive effect.

#### 17. Related Party Transactions

##### Transactions with subsidiaries and joint ventures

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

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

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

	Year-to-date	
	2011	2010
Sales of merchandise	\$ 28,758	\$ 46,840
Leases	1,268	1,216
Trade and other receivables	4,012	3,830

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

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**17. Related Party Transactions (continued)**

**Transactions with subsidiaries and joint ventures (continued)**

The Corporation's main subsidiaries, which are all Canadian, are listed below:

	2011	2010
RONA Revy inc.	100%	100%
Totem Building Supplies Ltd.	100%	100%
4536631 Canada inc.	100%	100%
4338553 Canada inc.	100%	100%
7594828 Canada inc.	100%	–
Buildrite Centres inc.	100%	100%
220 Real Estate Limited Partnership	100%	100%

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**18. First-time Adoption of IFRS**

The current interim consolidated financial statements were prepared in accordance with IFRS. The date of transition to IFRS is December 28, 2009.

The Corporation's IFRS accounting policies presented in note 3 of the interim financial statements for the quarter ended March 27, 2011 have been applied in preparing the interim consolidated financial statements for the thirty-nine-week periods ended September 25, 2011 and September 26, 2010.

The Corporation has applied IFRS 1 in preparing the consolidated statement of financial position as at the transition date. The effects of the transition to IFRS on equity, comprehensive income and reported cash flows are presented and further explained in the tables of this note.

**First-time Adoption exceptions and exemptions**

Upon transition, IFRS 1 requires certain mandatory exceptions and permits certain optional exemptions to retrospective application.

The following mandatory exceptions apply to the Corporation:

- The estimates used by the Corporation under IFRS on the date of transition to IFRS and for the comparative period are consistent with the estimates used under GAAP at the same date, adjusted for accounting policy differences where necessary;
- Transactions entered into before the date of transition to IFRS were not retrospectively designated as hedges;
- The Corporation will prospectively attribute total comprehensive income to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- The Corporation will apply the derecognition provisions in IAS 39, *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition as permitted by an amendment to IFRS 1 issued in October 2010 and early-applied as of December 28, 2009.

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**18. First-time Adoption of IFRS (continued)**

**First-time Adoption exceptions and exemptions (continued)**

The Corporation adopted the following exemptions at the date of transition:

- The Corporation has elected not to apply IFRS 3, *Business Combinations* retrospectively to business combinations that occurred before the date of transition. See note 18.3 for an explanation of the effect of this exemption;
- The Corporation has elected to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. From the date of transition, the Corporation's accounting policy is to use the 'corridor' approach and split actuarial gains and losses into an unrecognized and a recognized portion. Further, the Corporation has elected to use the exemption not to disclose defined benefit plan surplus/deficit and experience adjustments before the date of transition (see note 18.7);
- The Corporation has elected not to apply retrospectively the recognition of borrowing costs relating to qualifying assets. It has derecognized borrowing costs included in construction projects and certain software development projects at the date of transition (see notes 18.1(a) and 18.2);
- The Corporation has elected not to apply IFRS 2, *Share-based Payments* retrospectively, to options granted before November 7, 2002 and to options granted after November 7, 2002 that vested before the date of transition (see note 18.8).

**Presentation differences**

Certain presentation differences between GAAP and IFRS have no impact on reported income or total equity.

As shown in the following tables, some line items are described differently under IFRS compared to GAAP, although the assets and liabilities included in these line items are unaffected.

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**18. First-time Adoption of IFRS (continued)**

**Reconciliation of equity**

Equity as at December 26, 2010 and September 26, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Note	2010 As at December 26	2010 As at September 26
		\$	\$
Equity under GAAP		1,921,610	1,907,122
Increase (decrease) in reported equity due to differences between GAAP and IFRS:			
Property, plant and equipment – derecognition of certain costs capitalized to property, plant and equipment under GAAP but which do not meet the capitalization criteria under IFRS	18.1(a)	(16,279)	(15,444)
Property, plant and equipment – derecognition of interest capitalized during the site construction period	18.1(a)	(18,223)	(18,067)
Depreciation of property, plant and equipment – impact of disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates to each component	18.1(b)	2,814	2,452
Additional depreciation of property, plant and equipment to reflect the start of depreciation once the item of property, plant and equipment is available for use	18.1(b)	(3,201)	(3,077)
Impairment of assets – impairment of leasehold improvements	18.1(c)	(4,207)	(4,378)
Intangible assets – derecognition of interest capitalized during the implementation period of certain software	18.2	(1,832)	(1,886)
Goodwill – derecognition of acquisition costs	18.3	(3,494)	(1,365)
Goodwill – difference in value of shares issued to finance the acquisition	18.3	722	722
Leases – reversal of deferred gains on sale and leaseback transactions	18.4	10,179	10,465
Leases – reversal of deferred transaction costs in financial position relating to sale and leaseback transactions	18.4	(2,345)	(2,412)
Financial instruments – reversal of embedded derivatives recognized on some purchase orders	18.5	(1,905)	(1,231)
Provisions – adjustment of provision for onerous contract	18.6	(1,553)	(1,923)
Defined benefit plans – recognition of unamortized actuarial gains or losses on the date of transition and reclassification of a defined contribution plan as a defined benefit plan	18.7	(13,428)	(12,110)
Defined benefit plans – impact of the maximum limit on an asset	18.7	(1,003)	(362)
Defined benefit plans – impact of minimum funding requirements	18.7	(4,959)	(6,022)
Consolidated financial statements – presentation of non-controlling interests in equity and impact of retaining non-controlling interests in subsidiaries with a deficit balance	18.9	35,920	37,190
Income taxes – income taxes on above adjustments	18.10	14,460	13,690
		(8,334)	(3,758)
<b>Equity under IFRS</b>		<b>\$ 1,913,276</b>	<b>\$ 1,903,364</b>

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**18. First-time Adoption of IFRS (continued)**

The total effect on the statement of financial position is presented in the following tables:

Former wording	Note	As at December 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
<b>ASSETS</b>					<b>ASSETS</b>
Current assets					Current
Cash		\$ 75,577	\$ –	\$ 75,577	Cash
Accounts receivable	18.1(a) / 18.1(d) / 18.3	303,836	(3,947)	299,889	Trade and other receivables
Inventory		905,467	–	905,467	Inventory
Prepaid expenses		17,955	–	17,955	Prepaid expenses
Derivative financial instruments	18.5	1,905	(1,905)	–	
Future income taxes	18.10	12,869	(12,869)	–	
		<u>1,317,609</u>	<u>(16,476)</u>	<u>1,301,133</u>	Current assets
Long-term assets					Non-current
Investments	18.1(d)	10,488	(844)	9,644	Other financial assets
Fixed assets	18.1(e)	918,273	(33,229)	885,044	Property, plant and equipment
Fixed assets held for sale	18.1(a)	20,177	(3,703)	16,474	Non-current assets held for sale
Goodwill	18.3	531,675	(2,581)	529,094	Goodwill
Intangible assets	18.1(d) / 18.2	118,747	9,476	128,223	Intangible assets
Other assets	18.2 / 18.4 / 18.7	31,043	(27,076)	3,967	Other non-current assets
Future income taxes	18.10	27,065	21,342	48,407	Deferred tax assets
		<u>\$ 2,975,077</u>	<u>\$ (53,091)</u>	<u>\$ 2,921,986</u>	Total assets

**RONA inc.**

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**18. First-time Adoption of IFRS (continued)**

Former wording	Note	As at December 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
<b>LIABILITIES</b>					<b>LIABILITIES</b>
Current liabilities					Current
Bank loans		\$ 1,943	\$ –	\$ 1,943	Bank loans
Accounts payable and accrued liabilities	18.6 / 18.7	462,351	(8,185)	454,166	Trade and other payables
Dividends payable		9,119	–	9,119	Dividends payable
Income taxes payable		3,634	(255)	3,379	Current tax liabilities
Derivative financial instruments		1,653	–	1,653	Derivative financial instruments
	18.6	–	4,625	4,625	Provisions
Future income taxes	18.10	3,691	(3,691)	–	
Instalments on long-term debt		21,151	–	21,151	Instalments on long-term debt
		503,542	(7,506)	496,036	Current liabilities
Long-term liabilities					Non-current
Long-term debt		444,333	–	444,333	Long-term debt
Other long-term liabilities	18.4 / 18.7	33,121	(3,829)	29,292	Other non-current liabilities
	18.6	–	4,539	4,539	Provisions
Future income taxes	18.10	36,551	(2,041)	34,510	Deferred tax liabilities
Non-controlling interest	18.9	35,920	(35,920)	–	
		1,053,467	(44,757)	1,008,710	Total liabilities
<b>Shareholders' equity</b>					<b>Equity</b>
Capital stock	18.3	631,892	722	632,614	Share capital
Retained earnings		1,278,244	(43,311)	1,234,933	Retained earnings
Contributed surplus	18.8	11,474	(337)	11,137	Contributed surplus
Accumulated other comprehensive income	18.5	–	(1,217)	(1,217)	Accumulated other comprehensive income
		1,921,610	(44,143)	1,877,467	Total equity attributable to owners of RONA inc.
	18.9	–	35,809	35,809	Non-controlling interests
		1,921,610	(8,334)	1,913,276	Total equity
		\$ 2,975,077	\$ (53,091)	\$ 2,921,986	Total liabilities and equity

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**18. First-time Adoption of IFRS (continued)**

Former wording	Note	As at September 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
<b>ASSETS</b>					
Current					
Cash		\$ 150,414	\$ -	\$ 150,414	Cash
Accounts receivable	18.1(a) / 18.1(d) / 18.3	338,538	(5,076)	333,462	Trade and other receivables
		-	3,347	3,347	Other financial assets
Inventory	18.5	898,442	-	898,442	Inventory
Prepaid expenses		24,306	-	24,306	Prepaid expenses
Derivative financial instruments		1,231	(1,231)	-	
Future income taxes	18.10	14,692	(14,692)	-	
		<u>1,427,623</u>	<u>(17,652)</u>	<u>1,409,971</u>	Current assets
Long-term assets					
Investments	18.1(d)	10,912	(844)	10,068	Non-current Other financial assets
Fixed assets	18.1(e)	878,877	(34,723)	844,154	Property, plant and equipment
Fixed assets held for sale	18.1(a)	8,839	(1,957)	6,882	Non-current assets held for sale
Goodwill	18.3	495,458	(35)	495,423	Goodwill
Intangible assets	18.2	102,448	9,600	112,048	Intangible assets
Other assets	18.2 / 18.4 / 18.7	30,196	(26,835)	3,361	Other non-current assets
Future income taxes	18.10	30,376	22,500	52,876	Deferred tax assets
		<u>\$ 2,984,729</u>	<u>\$ (49,946)</u>	<u>\$ 2,934,783</u>	Total assets

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**18. First-time Adoption of IFRS (continued)**

Former wording	Note	As at September 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
<b>LIABILITIES</b>					<b>LIABILITIES</b>
Current liabilities					Current
Bank loans		\$ 11,573	\$ –	\$ 11,573	Bank loans
Accounts payable and accrued liabilities	18.6 / 18.7	511,048	(8,033)	503,015	Trade and other payables
Income taxes payable	18.10	17,002	132	17,134	Current tax liabilities
Derivative financial instruments	18.5	1,038	–	1,038	Derivative financial instruments
	18.6	–	4,832	4,832	Provisions
Future income taxes	18.10	4,309	(4,309)	–	
Instalments on long-term debt		8,503	–	8,503	Instalments on long-term debt
		<u>553,473</u>	<u>(7,378)</u>	<u>546,095</u>	Current liabilities
Long-term liabilities					Non-current
Long-term debt		424,777	–	424,777	Long-term debt
Other long-term liabilities	18.4 / 18.7	32,597	(4,584)	28,013	Other non-current liabilities
	18.6	–	4,670	4,670	Provisions
Future income taxes	18.10	29,570	(1,706)	27,864	Deferred tax liabilities
Non-controlling interest	18.9	37,190	(37,190)	–	
		<u>1,077,607</u>	<u>(46,188)</u>	<u>1,031,419</u>	Total liabilities
<b>Shareholders' equity</b>					<b>Equity</b>
Capital stock	18.3	630,698	722	631,420	Share capital
Retained earnings		1,265,211	(40,317)	1,224,894	Retained earnings
Contributed surplus	18.8	11,213	(337)	10,876	Contributed surplus
Accumulated other comprehensive income	18.5	–	(759)	(759)	Accumulated other comprehensive income
		<u>1,907,122</u>	<u>(40,691)</u>	<u>1,866,431</u>	Total equity attributable to owners of RONA inc.
	18.9	–	36,933	36,933	Non-controlling interests
		<u>1,907,122</u>	<u>(3,758)</u>	<u>1,903,364</u>	Total equity
		<u>\$ 2,984,729</u>	<u>\$ (49,946)</u>	<u>\$ 2,934,783</u>	Total liabilities and equity

## RONA inc.

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#### 18. First-time Adoption of IFRS (continued)

##### Reconciliation of total comprehensive income

Total comprehensive income for the year ended December 26, 2010 and for the thirteen and thirty-nine-week periods ended September 26, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Note	2010		
		as at December 26 Year-to-date	as at September 26 third Quarter Year-to-date	
Comprehensive income under GAAP		\$ 143,221	\$ 50,214	\$ 121,069
Increase (decrease) in reported income due to differences between GAAP and IFRS:				
Property, plant and equipment – derecognition of certain costs capitalized to property, plant and equipment under GAAP but which do not meet the capitalization criteria under IFRS	18.1(a)	(4,364)	(911)	(3,528)
Property, plant and equipment – impact of derecognition of interest capitalized during the site construction period	18.1(a)	39	68	195
Depreciation of property, plant and equipment – impact of disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates to each component	18.1(b)	1,837	461	1,475
Additional depreciation of property, plant and equipment to reflect the start of depreciation once the item of property, plant and equipment is available for use	18.1(b)	(723)	(155)	(600)
Impairment of assets – impact of impairment of leasehold improvements on depreciation	18.1(c)	556	150	385
Intangible assets – derecognition of interest capitalized during the implementation period of certain software	18.2	213	55	159
Goodwill – derecognition of acquisition costs	18.3	(4,062)	(562)	(1,472)
Leases – reversal of deferred gains on sale and leaseback transactions, net of the reversal of related deferred transaction costs in financial position	18.4	(879)	(220)	(659)
Financial instruments – reversal of embedded derivatives recognized on some purchase orders	18.5	(652)	(1,382)	22
Provisions – adjustment of provision for onerous contract	18.6	(1,553)	(1,923)	(1,923)
Defined benefit plans – impact of the recognition of unamortized actuarial gains or losses on the date of transition, impact of the maximum limit on an asset and impact of minimum funding requirements	18.7	(466)	144	430
Consolidated financial statements – impact of retaining non-controlling interests for subsidiaries with a deficit balance	18.9	111	89	257
Consolidated financial statements – elimination of non-controlling interests which are no longer deducted from comprehensive income		5,465	1,727	4,140
Income taxes – income taxes on above adjustments	18.10	1,505	607	455
Income taxes – income taxes on other comprehensive income	18.5	483	391	301
		(2,490)	(1,461)	(363)
<b>Total comprehensive income under IFRS</b>		<b>\$ 140,731</b>	<b>\$ 48,753</b>	<b>\$ 120,706</b>

RONA inc.

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18. First-time Adoption of IFRS (continued)

The total effect on the statement of comprehensive income is presented in the following table:

Former wording	Note	For the year ended December 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
Sales	18.11	\$ 4,799,865	\$ 19,724	\$ 4,819,589	Revenues
Operating income	18.1 / 18.2 / 18.3 / 18.4 / 18.5 / 18.6 / 18.7 / 18.9	228,731	(6,703)	222,028	Operating profit
Finance income		4,394	-	4,394	Finance income
Interest on long-term debt and bank loans	18.1(a)	(22,521)	(1,540)	(24,061)	Finance costs
		(18,127)	(1,540)	(19,667)	
Earnings before income taxes and non-controlling interest		210,604	(8,243)	202,361	Income before income tax expense
Income taxes	18.10	(61,918)	1,505	(60,413)	Income tax expense
<b>Earnings before non-controlling interest</b>		148,686	(6,738)	141,948	
Non-controlling interest	18.9	(5,465)	5,465	-	
<b>Net earnings</b>		143,221	(1,273)	141,948	<b>Net income</b>
<b>Other comprehensive income, net of taxes:</b>					<b>Other comprehensive income, net of taxes:</b>
Cash flow hedges					Cash flow hedges
- loss for the period	18.5	-	(1,490)	(1,490)	- loss for the period
- reclassification to earnings	18.5	-	273	273	- reclassification to income or loss
<b>Comprehensive income</b>		<b>\$ 143,221</b>	<b>\$ (2,490)</b>	<b>\$ 140,731</b>	<b>Total comprehensive income</b>
<b>Comprehensive income attributable to:</b>					<b>Total comprehensive income attributable to:</b>
Shareholders		\$ 143,221	\$ (7,955)	\$ 135,266	Owners of RONA inc.
	18.9	-	5,465	5,465	Non-controlling interests
		<b>\$ 143,221</b>	<b>\$ (2,490)</b>	<b>\$ 140,731</b>	

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**18. First-time Adoption of IFRS (continued)**

The total effect on the statement of comprehensive income is presented in the following table:

Former wording	Note	For the thirteen-week period ended September 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
Sales	18.11	\$ 1,313,708	\$ 5,520	\$ 1,319,228	Revenues
Operating income	18.1 / 18.2 / 18.3 / 18.4 / 18.5 / 18.6 / 18.7 / 18.9	78,592	(2,313)	76,279	Operating profit
Finance income		984	–	984	Finance income
Interest on long-term debt and bank loans	18.1(a)	(5,863)	(496)	(6,359)	Finance costs
		(4,879)	(496)	(5,375)	
Earnings before income taxes and non-controlling interest		73,713	(2,809)	70,904	Income before income tax expense
Income taxes	18.10	(21,772)	607	(21,165)	Income tax expense
<b>Earnings before non-controlling interest</b>		51,941	(2,202)	49,739	
Non-controlling interest	18.9	(1,727)	1,727	–	
<b>Net earnings</b>		50,214	(475)	49,739	<b>Net income</b>
<b>Other comprehensive income, net of taxes:</b>					<b>Other comprehensive income, net of taxes:</b>
Cash flow hedges					Cash flow hedges
- loss for the period	18.5	–	(1,000)	(1,000)	- loss for the period
- reclassification to earnings	18.5	–	14	14	- reclassification to income or loss
<b>Comprehensive income</b>		<b>\$ 50,214</b>	<b>\$ (1,461)</b>	<b>\$ 48,753</b>	<b>Total comprehensive income</b>
<b>Comprehensive income attributable to:</b>					<b>Total comprehensive income attributable to:</b>
Shareholders		\$ 50,214	\$ (3,188)	\$ 47,026	Owners of RONA inc.
	18.9	–	1,727	1,727	Non-controlling interests
		<b>\$ 50,214</b>	<b>\$ (1,461)</b>	<b>\$ 48,753</b>	

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**18. First-time Adoption of IFRS (continued)**

The total effect on the statement of comprehensive income is presented in the following table:

Former wording	Note	For the thirty-nine-week period ended September 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
Sales	18.11	\$ 3,663,298	\$ 17,069	\$ 3,680,367	Revenues
Operating income	18.1 / 18.2 / 18.3 / 18.4 / 18.5 / 18.6 / 18.7 / 18.9	190,799	(3,055)	187,744	Operating profit
Finance income		3,251	–	3,251	Finance income
Interest on long-term debt and bank loans	18.1(a)	(16,700)	(1,144)	(17,844)	Finance costs
		(13,449)	(1,144)	(14,593)	
Earnings before income taxes and non-controlling interest		177,350	(4,199)	173,151	Income before income tax expense
Income taxes	18.10	(52,141)	455	(51,686)	Income tax expense
<b>Earnings before non-controlling interest</b>		<b>125,209</b>	<b>(3,744)</b>	<b>121,465</b>	
Non-controlling interest	18.9	(4,140)	4,140	–	
<b>Net earnings</b>		<b>121,069</b>	<b>396</b>	<b>121,465</b>	<b>Net income</b>
<b>Other comprehensive income, net of taxes:</b>					<b>Other comprehensive income, net of taxes:</b>
Cash flow hedges					Cash flow hedges
- loss for the period	18.5	–	(933)	(933)	- loss for the period
- reclassification to earnings	18.5	–	174	174	- reclassification to income or loss
<b>Comprehensive income</b>		<b>\$ 121,069</b>	<b>\$ (363)</b>	<b>\$ 120,706</b>	<b>Total comprehensive income</b>
<b>Comprehensive income attributable to:</b>					<b>Total comprehensive income attributable to:</b>
Shareholders		\$ 121,069	\$ (4,503)	\$ 116,566	Owners of RONA inc.
	18.9	–	4,140	4,140	Non-controlling interests
		<b>\$ 121,069</b>	<b>\$ (363)</b>	<b>\$ 120,706</b>	

## RONA inc.

### Notes to Interim Consolidated Financial Statements

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#### 18. First-time Adoption of IFRS (continued)

##### Notes to reconciliation of equity and comprehensive income

##### 18.1 Property, plant and equipment

###### *(a) Derecognition of certain costs and borrowing costs capitalized to property, plant and equipment*

Under GAAP, certain costs had been capitalized to the cost of property, plant and equipment which do not meet the criteria for capitalization under IFRS and consequently have been derecognized. This resulted in a decrease in the following line items:

	2010	2010
	As at December 26	As at September 26
Property, plant and equipment	\$ (13,541)	\$ (13,829)
Non-current assets held for sale	(1,801)	(1,008)
Trade and other receivables	(937)	(607)
Impact of transition to IFRS	\$ (16,279)	\$ (15,444)

As a result, operating profit decreased by \$2,823 as at December 26, 2010 (\$415 and \$2,384, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010) and financing costs increased by \$1,540 as at December 26, 2010 (\$496 and \$1,144, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

At the date of transition, the Corporation elected to apply the IFRS 1 exemption on borrowing costs and derecognized all capitalized interest related to construction projects before the date of transition. This resulted in a decrease in the following line items:

	2010	2010
	As at December 26	As at September 26
Property, plant and equipment	\$ (16,321)	\$ (17,118)
Non-current assets held for sale	(1,902)	(949)
Impact of transition to IFRS	\$ (18,223)	\$ (18,067)

Depreciation under IFRS is based on the adjusted amount, which results in a \$39 increase in operating profit for the year ended December 26, 2010 (\$68 and \$195, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

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## Notes to Interim Consolidated Financial Statements

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### 18. First-time Adoption of IFRS (continued)

#### Notes to reconciliation of equity and comprehensive income (continued)

##### 18.1 Property, plant and equipment (continued)

###### *(b) Depreciation and amortization*

In order to comply with IFRS, the Corporation retrospectively amended the recognition of items of property, plant and equipment having different useful lives to recognize them separately. The Corporation therefore retrospectively calculated the depreciation of building components. As a result, the net carrying amount of property, plant and equipment increased by \$2,814 as at December 26, 2010 (\$2,452 as at September 26, 2010) and the depreciation expense decreased by \$1,837 for the year ended December 26, 2010 (\$461 and \$1,475 respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

Additionally, under IFRS, depreciation begins when the asset is available for use whereas under GAAP depreciation commences when the asset is utilized by the Corporation. This resulted in a \$3,201 decrease in property, plant and equipment as at December 26, 2010 (\$3,077 as at September 26, 2010) and a \$723 increase in the depreciation expense for the year ended December 26, 2010 (\$155 and \$600, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

###### *(c) Impairment losses recognized at the date of transition*

The Corporation applied IAS 36, *Impairment of Assets*, in determining whether any impairment losses arose at the date of transition to IFRS.

GAAP uses a two-step approach for impairment testing to determine the recoverable amount. First, a recoverability test is performed by comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset fails the recoverability test, then an impairment loss is calculated as the excess of the asset's carrying amount over its fair value. IFRS recognizes an impairment loss if the recoverable amount is less than the carrying amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected from continuing use of the asset.

Accordingly, as at December 26, 2010, a cumulative impairment loss of \$4,207 (\$4,378 as at September 26, 2010) was recognized to reduce the value of leasehold improvements of two stores in the retail and commercial store segment in a loss position and whose value in use determined using a pre-tax discount rate of 13.0% is below the carrying amount. Under IFRS, depreciation is calculated using the adjusted amount, thereby resulting in a \$556 decrease in depreciation expense for the year ended December 26, 2010 (\$150 and \$385, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

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#### 18. First-time Adoption of IFRS (continued)

##### Notes to reconciliation of equity and comprehensive income (continued)

##### 18.1 Property, plant and equipment (continued)

###### (d) Presentation differences

A building leased to an affiliated dealer of the RONA group and used in the supply of goods has been classified as an item of property, plant and equipment in the current financial statements rather than an investment property. An amount of \$844 as at December 26, 2010 (\$844 as at September 26, 2010) has therefore been reclassified from other financial assets to property, plant and equipment.

As at December 26, 2010 an amount of \$573 related to a project in progress was reclassified from trade and other receivables to property, plant and equipment (\$383) and intangible assets (\$190) (property, plant and equipment (\$383) and intangible assets (\$130) as at September 26, 2010).

###### (e) Summary of transition-related adjustments

Property, plant and equipment is adjusted as follows:

		2010	2010
	Ref.	As at December 26	As at September 26
Derecognition of certain costs capitalized to property, plant and equipment	a)	\$ (13,541)	\$ (13,829)
Derecognition of interest capitalized prior to transition date	a)	(16,321)	(17,118)
Disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates	b)	2,814	2,452
Additional depreciation once an item of property, plant and equipment is available for use	b)	(3,201)	(3,077)
Asset impairment – impairment loss on leasehold improvements	c)	(4,207)	(4,378)
Reclassification of a building leased to a dealer	d)	844	844
Reclassification of an amount related to a project in progress	d)	383	383
Impact of transition to IFRS		<u>\$ (33,229)</u>	<u>\$ (34,723)</u>

##### 18.2 Intangible assets

The Corporation elected to apply the exemption in IFRS 1 for borrowing costs and derecognized all interest capitalized during the implementation period of certain software which commenced before the date of transition. This resulted in a \$1,832 reduction in intangible assets as at December 26, 2010 (\$1,886 as at September 26, 2010). Amortization under IFRS is based on the revalued amount, thereby resulting in a \$213 decrease in amortization expense for the year ended December 26, 2010 (\$55 and \$159, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

For consistency with IFRS presentation, an amount of \$11,118 of dealer recruitment costs as at December 26, 2010 (\$11,356 as at September 26, 2010), has been reclassified from other non-current assets to intangible assets.

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**18. First-time Adoption of IFRS (continued)**

**Notes to reconciliation of equity and comprehensive income (continued)**

**18.3 Goodwill and business combinations**

The Corporation has elected to not restate business combinations that occurred before the date of transition. Consequently, the other specifications of the exemption were applied and no adjustment was required at transition for intangible assets included in goodwill or those which do not meet the criteria for capitalization under IFRS. At the date of transition and as at December 26, 2010, this goodwill was tested for impairment based on conditions prevailing at those dates, and no impairment was identified. The amount of goodwill recognized upon transition has therefore not been adjusted.

Acquisition costs associated with business combinations during the year ended December 26, 2010 were derecognized under IFRS. This resulted in a \$3,303 decrease in goodwill (\$757 as at September 26, 2010), a \$192 decrease in trade and other receivables (\$608 as at September 26, 2010), a \$4,062 decrease in operating profit for the year ended December 26, 2010 (\$562 and \$1,472, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010) and a \$567 decrease in income tax expense (\$0 and \$107, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

During the third quarter ended September 26, 2010, goodwill and share capital were increased by \$722 for the difference in the value of the Corporation's shares under IFRS issued to finance the business acquisition and their value under GAAP. Since these shares were issued as payment for a business combination, under GAAP, their value is based on market prices in effect several days preceding and following the closing date of the transaction. Under IFRS, shares issued for a business combination are valued using the fair value of the shares at the date of acquisition.

**18.4 Leases**

For all sale and leaseback transactions at fair value, which result in an operating lease for the lessee, all gains must be immediately recorded in income or loss under IFRS. Under GAAP, these gains were deferred and recorded in income over the lease term. As at December 26, 2010, other non-current liabilities were reduced by \$10,179 (\$10,465 as at September 26, 2010) and deferred transaction costs on sale and leaseback transactions recognized in other non-current assets were reduced by \$2,345 (\$2,412 as at September 26, 2010). Operating profit was reduced by \$879 for the year ended December 26, 2010 (\$220 and \$659, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

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**18. First-time Adoption of IFRS (continued)**

**Notes to reconciliation of equity and comprehensive income (continued)**

**18.5 Financial instruments (continued)**

Under IFRS, 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 GAAP, entities could choose whether to account for embedded derivatives separately. Under GAAP, the Corporation had elected to account for them separately and, accordingly, derecognized \$1,905 in derivative financial instruments presented in assets as at December 26, 2010 (\$1,231 as at September 26, 2010) and decreased operating profit by \$652 for the year ended December 26, 2010 (decrease of \$1,382 and increase of \$22, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

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 Corporation introduced a cash flow hedge accounting strategy for IFRS purposes only. This resulted in a \$1,700 increase in operating profit and a \$1,217 decrease in other comprehensive income, net of a \$483 deferred tax expense, for the year ended December 26, 2010. For the thirteen and thirty-nine-week periods ended September 26, 2010, operating profit increased by \$1,377 and \$1,060, respectively, and other comprehensive income decreased by \$985 and \$758, net of deferred tax expense of \$391 and \$301, respectively.

**18.6 Provisions**

As at December 26, 2010, trade and other payables in the amount of \$7,612 (\$7,578 as at September 26, 2010) were reclassified to provisions to present provisions separately as required under IFRS.

Following the closure of two stores in the retail and commercial segment in 2008, a provision for onerous contracts was recognized for non-cancellable operating leases for commercial stores the Corporation no longer uses.

Under GAAP, when the contract is an operating lease, the fair value of the obligation at the date when the asset ceases to be utilized is based on rents receivable under the terms of the contract reduced by estimated sublease payments that could reasonably be obtained for the asset even when the entity has no intention of entering into a sublease contract.

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#### 18. First-time Adoption of IFRS (continued)

##### Notes to reconciliation of equity and comprehensive income (continued)

##### 18.6 Provisions (continued)

Under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the provision must be reviewed at the end of each reporting period. The provision recognized must be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. During the third quarter ended September 26, 2010, the Corporation reviewed its assumptions, including the subleasing assumptions, which resulted in an increase in the following:

	2010	2010
	As at December 26	As at September 26
Reclassification of trade and other payables to current provisions	\$ 4,094	\$ 3,950
Impact of revised assumptions related to provisions including subleasing assumptions	531	882
Impact of transition to IFRS on current provisions	\$ 4,625	\$ 4,832

  

	2010	2010
	As at December 26	As at September 26
Reclassification of trade and other payables to non-current provisions	\$ 3,518	\$ 3,628
Impact of revised assumptions related to provisions including subleasing assumptions	1,021	1,042
Impact of transition to IFRS on non-current provisions	\$ 4,539	\$ 4,670

Operating profit was reduced by \$1,553 for the year ended December 26, 2010 (\$1,923 for the thirteen and thirty-nine-week periods ended September 26, 2010).

##### 18.7 Pension and other employee obligations

At the date of transition, the Corporation elected to apply the IFRS 1 exemption and to recognize all cumulative actuarial gains and losses in retained earnings. This resulted in a \$12,582 decrease in the defined benefit asset (\$11,106 as at September 26, 2010) and a \$0 increase in other non-current liabilities (\$43 as at September 26, 2010), representing the unamortized net actuarial loss as at December 26, 2010. One pension plan, classified as defined contribution under GAAP, has been reclassified as defined benefit under IFRS, resulting in a \$1,418 increase in non-current liabilities (\$1,416 as at September 26, 2010) and a \$573 reduction in trade and other payables as at December 26, 2010 (\$455 as at September 26, 2010).

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### Notes to Interim Consolidated Financial Statements

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#### 18. First-time Adoption of IFRS (continued)

##### Notes to reconciliation of equity and comprehensive income (continued)

##### 18.7 Pension and other employee obligations (continued)

The Corporation may no longer 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. As a result, following adoption of IFRS 1, the Corporation reversed the defined benefit asset balance of \$1,003 as at December 26, 2010 (\$361 as at September 26, 2010).

Under IFRS, an entity must record an additional liability equivalent to the minimum funding obligation for defined benefit plans if it does not have an unconditional right to the surplus, which resulted in a \$4,931 increase in the Corporation's other non-current liabilities (\$4,422 as at September 26, 2010) and a \$28 decrease in other assets as at December 26, 2010 (\$1,600 as at September 26, 2010).

Adjustments to pension and other employee obligations led to a \$466 decrease in operating profit for the year ended December 26, 2010 (increases of \$144 and \$430, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010).

##### 18.8 Share-based payment

IFRS 2, *Share-based Payment*, requires that stock option grant tranches with different vesting dates be recognized separately and fair value determined for each grant. As at December 26, 2010, compensation cost was recalculated using the new method, which led to a \$337 reduction in contributed surplus (\$337 as at September 26, 2010).

##### 18.9 Consolidation

Non-controlling interests are presented differently under IFRS than under GAAP. In the statement of financial position, they are classified in equity, separately from equity attributable to the owners of RONA inc. and they are presented in net income and then as an attribution of net income.

Under IAS 27, *Consolidated and separate financial statements* and the mandatory exception in IFRS 1, from the date of transition, the subsidiaries' income or loss is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Under GAAP, the Corporation recognized an additional expense in income to offset the deficit balance of the non-controlling interests. Accordingly, as at December 26, 2010, the Corporation reduced non-controlling interests by \$111 (\$89 and \$257, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010) and increased operating profit in the same amount for the year ended December 26, 2010 and for the thirteen and thirty-nine-week periods ended September 26, 2010.

**RONA inc.**  
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**18. First-time Adoption of IFRS (continued)**

**Notes to reconciliation of equity and comprehensive income (continued)**

**18.10 Income taxes**

The following table shows the effect of transition adjustments on the Corporation's current and deferred tax assets and liabilities:

	2010 As at December 26	2010 As at September 26
Property, plant and equipment	\$ 10,042	\$ 9,884
Intangible assets	535	607
Leases	(2,077)	(2,136)
Financial instruments	541	350
Pension and other employee obligations	5,019	4,788
Provisions	400	495
Other	–	(297)
<b>Total</b>	<b>\$ 14,460</b>	<b>\$ 13,691</b>
Increase in deferred tax assets	\$ 8,473	\$ 7,808
Decrease (increase) in current tax liabilities	255	(132)
Decrease in deferred tax liabilities	5,732	6,015
<b>Total</b>	<b>\$ 14,460</b>	<b>\$ 13,691</b>

A \$1,505 decrease in income tax expense was recognized in net income for the year ended December 26, 2010 (\$607 and \$455, respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010) for income tax on all previously-mentioned adjustments.

Additionally, \$12,869 in deferred tax amounts (\$14,692 as at September 26, 2010) in current assets and \$3,691 (\$4,309 as at September 26, 2010) in current liabilities have been reclassified in non-current assets and non-current liabilities, respectively, in accordance with the IFRS presentation as at December 26, 2010.

**18.11 Revenue**

Revenue in the amount of \$19,724 for the year ended December 26, 2010 (\$5,520 and \$17,069 respectively, for the thirteen and thirty-nine-week periods ended September 26, 2010) has been reclassified to conform to the presentation under IFRS related to not offsetting revenues and expenses.

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**18. First-time Adoption of IFRS (continued)**

**18.12 Statement of cash flows**

Interest received has been classified in operating cash flows and investing cash flows according to their nature. Interest paid has been classified in financing cash flows because it is a cost of obtaining financial resources.

There are no other significant differences between the statements of cash flows under IFRS and under GAAP.

**19. Events after the Reporting Period**

On November 3, 2011 the Corporation announced an offer to purchase (conducted as a modified « Dutch Auction »), by way of two successive offers each of which is open for a distinct period of time, up to \$200,000 aggregate principal amount of its 5.40% Debentures due October 20, 2016. This repurchase is payable in cash from the Corporation's available cash and existing credit facilities. In addition, the Corporation renegotiated with a financial institution a new back-stop credit facility of \$200,000 maturing in 2016.

On November 8, 2011, the Corporation announced a normal course issuer bid to repurchase for cancellation, from November 11, 2011 to November 10, 2012, up to 11,016,854 common shares representing 8.4% of the 130,520,489 common shares issued and outstanding as at October 31, 2011.

**20. Authorization of Financial Statements**

The unaudited interim consolidated financial statements for the thirteen and thirty-nine-week periods ended September 25, 2011 (including comparative figures) were authorized by the Board of Directors on November 8, 2011.