



RONA

MANAGEMENT'S DISCUSSION AND
ANALYSIS AND CONSOLIDATED
FINANCIAL STATEMENTS
FIRST QUARTER 2012

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

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

RONA's sales include:

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

FINANCIAL STATEMENTS

This *Management's Discussion and Analysis* (MD&A) should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and related notes for the 13-week period ended March 25, 2012. These interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). The monetary amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated. RONA has filed its consolidated financial statements with the Canadian Securities Administrators and they can be viewed online at www.sedar.com or on RONA's website at www.rona.ca.

NON-GAAP PERFORMANCE MEASURES

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

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

The following 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		\$ change from 2011	% change from 2011
	March 25, 2012	March 27, 2011		
Revenues	934,934	918,211	16,723	1.8%
Cost of sales	(667,720)	(652,087)	(15,633)	(2.4%)
Gross profit	267,214	266,124	1,090	0.4%
Gross margin (gross profit/revenues)	28.58%	28.98%	-	-40 b.p.
Adjustments for network support ⁽¹⁾	19,365	19,142	223	1.2%
Adjusted gross profit	286,579	285,266	1,313	0.5%
Adjusted gross margin (adjusted gross profit/revenues)	30.65%	31.07%	-	-42 b.p.
Adjusted selling, general and administrative expense	(275,466)	(277,203)	1,737	0.6%
Rent	40,510	41,580	(1,070)	(2.6%)
EBITDA before rent	51,623	49,643	1,980	4.0%
EBITDA margin before rent (EBITDA before rent/revenues)	5.52%	5.41%	-	11 b.p.
EBITDA	11,113	8,063	3,050	37.8%
EBITDA margin (EBITDA/revenues)	1.19%	0.88%	-	31 b.p.
Finance income	(1,104)	(1,371)	267	19.5%
Amortization and depreciation of non-financial assets	(23,406)	(26,297)	2,891	11.0%
Operating profit	(13,397)	(19,605)	6,208	(31.7%)

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

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and have 13 weeks. The fiscal year ended December 25, 2011, had 52 weeks of operations, while the year ending December 30, 2012 will have 53 weeks.

UPDATE ON THE CORPORATION'S STRATEGIC ORIENTATION

As announced in February 2012, the theme of RONA's 2012 business plan is *New Realities, New Solutions*. It acknowledges the need to adapt the offering in our industry to the new expectations and to changes in the behaviour of many consumers. For a number of years RONA has foreseen the emergence in the market of proximity stores that meet the demands of consumers who want a higher level of service. RONA pioneered in this area by reinventing the proximity store in the early 2000s, and these stores have been a great success. This new plan capitalizes on our ongoing research into consumer expectations and behaviours, as well as our continual experimentation with new store formats and new retail sales approaches.

See the next page for a table summarizing the main initiatives carried out to date.

New Realities, New Solutions Plan
Update – as of May 9, 2012

<p>1. Set up new integrated digital platform</p>	<ul style="list-style-type: none"> • Finalized the website RONA.ca, consumers and businesses, which will be officially launched within a few weeks. • Launch of new integrated multi-platform advertising campaign. • RONA's first interactive annual report goes online (realtimereport.rona.ca).
<p>2. Redeployed sales volume to proximity and satellite stores in close to 20% of the corporate-store network</p>	<ul style="list-style-type: none"> • Great interest in our big-box stores now available for sub-leasing. • Ten prime sites for the redeployment of sales volume from big-box stores to proximity and satellite stores. Expansion of satellite store in Georgetown, Ontario, just one year after it opened • Scheduled June opening of a satellite store in Douglasdale, Alberta. Consistent with our strategy to redeploy sales volume from our big-box store in the Calgary area. • Opening slated for August of the first new-concept proximity store in Stony Plain, Alberta. Part of the strategy to redeploy sales volume from our big-box store in the Edmonton area. • Recruitment in late April of a RONA affiliated dealer store with three proximity stores in Oshawa, Ajax and Peterborough, Ontario, totalling close to \$30 million in retail sales. Consolidated the sales volume of our traditional store in Peterborough, Ontario, with that of the existing Millwork store recruited in this area. Phased closure of our store in the coming months. • Redeployment of the sales volume, over the next few months, of five of the ten big-box stores slated for closure in 2012: the stores in Brampton, Mississauga and Whitby, Ontario, and in Calgary North and Edmonton West, in Alberta.
<p>3. Further development of the commercial and professional segment</p>	<ul style="list-style-type: none"> • Opening of a new 120,000-square-foot distribution centre in Langley, British Columbia. • Opening of two new plumbing boutiques in Montreal and Longueuil, Quebec, under the Blan and Noble banners, and two specialized plumbing stores in Ajax and Niagara Falls, in Ontario. • Optimized recent investments: acquisitions of Don Park, MPH and Décoration 25 (20 outlets in total), addition of five outlets, 175,000-square-foot expansion of the Concord distribution centre in Ontario, and 23,000-square-foot expansion of the Montreal distribution centre, in Quebec.

Note that in addition to positioning RONA in the forefront of its industry, the *New Realities, New Solutions* plan was designed to address the three main financial priorities announced by the Corporation in the third quarter of 2011: to improve efficiency, optimize capital structure and increase return on capital. The plan will provide important leverage in improving return on capital, as it will generate an estimated annualized contribution to EBITDA of \$10 million starting in the fourth quarter 2012, more than \$30 million for fiscal 2013, and will achieve its full potential of more than \$40 million starting in 2014. The plan also calls for limited investment of close to \$70 million over two years, which will be financed by selling non-core assets. These projects meet RONA's investment criteria. They will generate an internal rate of return of close to 20% and will significantly contribute to the improvement of RONA's consolidated return on capital toward the targeted medium-term objective of more than 10%.

As shown in the summary table below, RONA's quarterly results were in line with the announced financial priorities, despite a 0.8% decrease in same-store sales and a change in its sales mix involving a higher proportion of building materials with a lower profit margin.

Q1-2012 Achievements vs 2012 Financial Priorities

Financial Priorities	Q1-2012 Achievements	In Line with Priorities
1. Improve efficiency		
Improve same-store sales	-0.8% vs -12.6%	✓
Increase in adjusted gross margin in dollars	↑ \$1.3 M	✓
Reduce selling and administration expenses existing operations	↓ \$9.4 M or 3.4%	✓
Increase EBITDA margin	1.19% vs 0.88%	✓
2. Optimize capital structure		
Sell non-strategic assets	\$1.3 M	✓
Investments in property, plant & equipment = amortization and depreciation	\$17.0 M < \$23.4 M	✓
Optimize working capital (reduction in comparable inventories)	↓ \$72 M	✓
Repurchase common shares	5.3 M or \$48.9 M	✓
3. Increase return on capital		
Increase after-tax operating income (EBIT) (past 4 quarters)	↑ \$4.3 M or 3.7% vs Q4-2011	✓
Disciplined capital management (average of past 5 quarters) ⁽¹⁾	↑ \$7.7 M or 0.3% vs Q4-2011	✓
Increase average return on capital (past 4 quarters), excluding unusual items ⁽²⁾	5.1% vs 5.0% to end of 2011	✓

⁽¹⁾ Capital = net working capital + property, plant and equipment and intangible assets + non-current assets held for sale + goodwill + current projects + other financial and non-current assets + deferred income tax assets less other non-current liabilities less deferred tax liabilities

⁽²⁾ Average return on capital = after-tax EBIT, excluding unusual items/average capital.

ANALYSIS OF CONSOLIDATED RESULTS

The results analyzed in this section are for the quarter ended March 25, 2012 and, when compared, are compared to the results for the quarter ended March 27, 2011, unless otherwise indicated.

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

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

The table below summarizes the Corporation's segment results.

Key segment figures (in thousands of dollars)	Quarters ended			
	March 25, 2012	March 27, 2011	\$ change from 2011	% change from 2011
Segment revenues				
Retail and commercial	676,088	662,610	13,478	2.0%
Distribution	546,726	537,013	9,713	1.8%
Total	1,222,814	1,199,623	23,191	1.9%
Intersegment revenues and royalties				
Retail and Commercial	(3,447)	(5,322)	1,875	35.2%
Distribution	(284,433)	(276,090)	(8,343)	(3.0%)
Total	(287,880)	(281,412)	(6,468)	(2.3%)
Revenues				
Retail and Commercial	672,641	657,288	15,353	2.3%
Distribution	262,293	260,923	1,370	0.5%
Total	934,934	918,211	16,723	1.8%
EBITDA				
Retail and Commercial	(4,594)	(4,657)	63	(1.4%)
Distribution	15,707	12,720	2,987	23.5%
Total	11,113	8,063	3,050	37.8%
EBITDA margin				
Retail and Commercial	(0.68%)	(0.71%)	-	3 b.p.
Distribution	5.99%	4.88%	-	111 b.p.
Total	1.19%	0.88%	-	31 b.p.

Revenues

Consolidated revenues for first quarter 2012 rose to \$934.9 million, up \$16.7 million or 1.8%, over the corresponding quarter in 2011. The increase is due to the opening in 2011 of new stores in the retail segment and new outlets in the commercial and professional market division. It also stems from sales growth in the distribution segment following the recruitment of new RONA dealers and member buyers, as well as the opening of new stores by existing RONA dealers.

These items were offset by a 0.8% decrease in same-store sales for our corporate and franchise stores. After a slow start in the first part of the year, particularly for our building supply stores, the trend reversed completely in February and March, with same-store sales for the building supply stores growing by 4.2% in the first quarter. Same-store sales for our operations as a whole were positive in February and March, and continued to trend upward in April. In recent months there have been strong increases in sales of wood, building materials, paint and seasonal products. Private and controlled brands continued to perform well during the quarter, with the penetration rate rising to 30% at the end of the quarter compared to 26% last year. Note that same-store sales for our proximity stores were up 2.2% for the quarter.

EBITDA

First quarter EBITDA rose to \$11.1 million, compared to \$8.1 million in first quarter 2011, up \$3.1 million, or 37.8%. EBITDA margin grew by 31 basis points, from 0.88% in first quarter 2011 to 1.19% in 2012, despite a decrease in same-store sales during the quarter. Growth in EBITDA stems mainly from the efficiency improvement measures introduced in the second quarter of 2011, to a decrease in lease expense for temporary warehousing sites and shipping costs in the distribution segment, as well as the opening of new corporate stores, particularly the proximity stores, which quickly achieved the expected level of performance. Note that the increase in EBITDA would have been higher, were it not for the additional cost of major investments in the development of the commercial and professional market division for which sales have not yet been generated. RONA's corporate store network continued to show productivity gains and increased its EBITDA margin by 57 basis points.

Amortization, Depreciation and Interest Expense

Interest expense on long-term debt and bank loans was down \$1.8 million, or 29.2% for the quarter. The decrease is due to the interest savings generated by the \$283 million debenture repurchase at the end of 2011, and to strict management of the balance sheet and spending on property, plant and equipment. Amortization and depreciation expense were also down for the quarter, from \$26.3 million to \$23.4 million, a reduction of \$2.9 million, or 11.0%, stemming from asset write-downs at the end of fiscal 2011 and a significant reduction in capital investments in 2011 and the first quarter of 2012.

Net Loss

Given the improvement in EBITDA and the decrease in amortization, depreciation and financial expense, the net loss attributable to participating shares, after the dividend on preferred shares, was reduced to \$13.3 million, or \$0.10 per share diluted, compared to \$17.6 million, or \$0.13 per share diluted in 2011, a 23% improvement.

CASH FLOWS AND FINANCIAL POSITION

For the first quarter of 2012, cash flow from operating activities before net change in working capital, interest received and income taxes paid was \$8.8 million compared to \$0.4 million in 2011. Given the seasonal nature of our operations, the net change in working capital was negative and amounted to \$139.9 million in 2012, compared to a negative change of \$141.5 million in 2011. After the net change in working capital, interest received and income taxes paid, operating activities used \$139.7 million in 2012, compared to \$160.9 million for the same period in 2011, an improvement of \$21.2 million.

The Corporation continued to exercise disciplined financial management and strictly monitored investments in property, plant and equipment. For the first quarter of 2012, RONA invested \$17.0 million in property, plant and equipment and intangible assets, which is \$5.1 million, or 23.1%, less than in 2011. These investments were used to expand operations in the Commercial and Professional Market Division, to upgrade its computer systems in order to augment operational efficiency and for maintenance work. Note that the level of investment in property, plant and equipment and intangible assets is lower than amortization and depreciation expense, which stood at \$23.4 million in first quarter 2012.

In fiscal 2011 and during the first quarter of 2012, RONA took a number of steps to optimize its capital structure. Also, in November 2011, the Corporation set up a program to repurchase, in the normal course of its activities between November 11, 2011 and November 10, 2012, up to 11,016,854 common shares, representing 10% of its 110,168,541 public float or 8.4% of its 130,520,489 common shares issued and outstanding on October 31, 2011. Shareholders may obtain, free of charge, copies of the repurchase documents filed with the Toronto Stock Exchange by writing to RONA's secretary. In the first quarter of 2012, RONA repurchased 5.3 million shares at an average price of \$9.30 per share for a total of \$48.9 million. Since the repurchase program was instituted in November 2011, the Corporation has bought back 8.9 million shares at an average price of \$9.38 per share for a total of \$83.6 million at May 9, 2012. These shares were cancelled. In December 2011, RONA renewed its revolving unsecured credit facility for a period of five years. The facility, which matured in 2012, was renewed to 2016 and the total amount available was increased from \$650 million to \$950 million.

RONA's balance sheet remains strong. On March 25, 2012, the Corporation's total debt was \$456.5 million, compared to \$435.4 million on March 27, 2011. The ratio of total net debt to capital was 19.5%, compared to 17.4% in 2011. The ratio of total debt to EBITDA (past 12 months), excluding unusual items, was 1.7 at March 25, 2012 compared to 1.5 in 2011.

The table below presents a synopsis of the Corporation's contractual obligations as at March 25, 2012, including off-balance-sheet operating lease agreements used in the normal course of business. The Corporation has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed bank loans), which do not appear in the table. The Corporation has guaranteed a bank loan amounting to \$1.2 million. The loan has an indefinite term and no assets have been given as security. Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 64% of the cost of the inventories to a maximum of \$45.0 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 \$16.1 million were outstanding as at March 25, 2012 for the purchase of various, mainly seasonal, products.

**Contractual obligations by term
(as at March 25, 2012)**

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 or more years
Long-term loans and credit facilities	415,155	4,446	9,520	396,738	4,451
Obligations under finance leases	1,422	464	654	294	10
Operating leases	1,021,678	138,596	254,091	203,043	425,948
Other long-term obligations	18,042	12,392	5,650	-	-
Total	1,456,297	155,898	269,915	600,075	430,409

**Outstanding shares
(as at April 27, 2012)**

Common shares	122,887,095
Unexercised options	2,068,350
Total	124,955,445

SUMMARY OF QUARTERLY RESULTS

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation and construction activities. The strongest period of the year is from spring to fall, and over 80% of the Corporation's net annual earnings are generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation and construction sectors during the winter. Poor weather conditions can also have a major impact on sales. With the increase in the proportion of our activities related to the retail sector, the seasonal impact of the first quarter has been more pronounced in 2010, 2011 and 2012 than in previous years. The second quarter is always the strongest of the year, followed by the third quarter.

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

	2012	2011				2010			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	934.9	1,169.2	1,347.1	1,370.0	918.2	1,139.2	1,319.2	1,404.2	956.9
EBITDA	11.1	37.2	105.4	89.9	8.1	64.8	103.7	133.1	34.8
EBITDA (excluding unusual items)	11.1	65.9	105.4	89.9	8.1	64.8	103.7	133.1	34.8
Net earnings (loss) attributable to participating shares	(13.3)	(153.6)	47.8	37.0	(17.6)	20.0	48.0	66.3	3.0
Net earnings (loss) attributable to participating shares (excluding unusual items)	(13.3)	19.7	47.8	37.0	(17.6)	20.0	48.0	66.3	3.0
Diluted earnings (loss) per share \$	(0.10)	(1.19)	0.36	0.28	(0.13)	0.15	0.36	0.51	0.02
Diluted earnings (loss) per share \$ (excluding unusual items)	(0.10)	0.15	0.36	0.28	(0.13)	0.15	0.36	0.51	0.02

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

Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
-0.8%	-2.3%	-5.1%	-9.6%	-12.6%	-6.4%	-2.3%	+0.9%	+10.8%

DIVIDENDS ON PREFERRED SHARES

At its meeting on May 9, 2012, RONA's Board of Directors declared a quarterly dividend of \$0.3299 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on July 2, 2012 to holders of record on June 15, 2012.

2012 OUTLOOK

- In the immediate future, we will benefit from the measures introduced in second quarter 2011, which will have a positive impact on efficiency and optimization of our capital structure. Note that the repurchase of debentures, in particular, will save close to \$2.5 million in interest expense each quarter.
- We have observed a slight upward trend in the past few months/quarters in same-store sales, but we are still conservative in our outlook for fiscal 2012, given consumer caution and low confidence levels.
- We are encouraged by the early start to the season in our industry and are counting on our effective marketing, merchandising and in-store service programs, as well as our more targeted approach in the regions, to persuade Canadian consumers to make RONA their primary destination for their renovation projects.
- Our proximity stores have again outperformed all of our other stores in recent quarters. The *New Realities, New Solutions* plan will have a positive impact on sales and operating efficiency. The additional EBITDA contribution coming from this plan is estimated at \$40 million. This contribution will start to materialize and gradually increase in coming quarters, with the major part of the recurring benefit associated with the plan being recorded in 2013 and the full impact materializing in 2014.
- There are also many opportunities for regional market consolidation. RONA has a unique distribution and affiliate dealer network that is very well positioned to take advantage of these opportunities. RONA dealers plan to invest more than \$60 million in 2012.
- The offering for dealers who wish to join RONA is also very attractive given the roll-out of the new proximity store concept, excellent buying conditions, an experienced support team, an integrated and adaptable regional development strategy, and a pioneering succession program.

RISKS AND UNCERTAINTIES

Monitoring and improving its operations are constant concerns at RONA. In view of this, risk identification and management are critical. RONA has identified and assessed the major business risks that could have negative consequences on the achievement of its objectives and, by extension, on the Corporation's performance. A formal framework to manage strategic risks has been adopted.

RONA manages these risks on an ongoing basis and has introduced several activities with the goal of mitigating the main risks outlined in the following section in order to lessen their financial impact.

Market and competition

The home renovation, hardware and gardening industry is highly competitive. RONA's competitors include large national and multinational chains, regional groups and independent stores. Trends in the renovation and construction sectors have a direct impact on RONA. The Corporation's sales are related, to a certain extent, to the number of housing starts, home resales, consumer interest in renovation and housing costs. In addition, the demand for home renovation, hardware and gardening products relies on consumer tastes and emerging trends, which means RONA has to keep in close touch with customer needs and demands. RONA enjoys a solid diversification of its activities, by geography, segment, banner and store format. The sector in which RONA does business is highly seasonal in nature. Changes in weather patterns have a certain impact on sales, and sales in the first quarter are always lower than in the other three because there is so little home renovation activity during the winter. These various factors can have a significant impact on the Corporation's financial position.

The economy

A significant portion of spending in the renovation, hardware and gardening sector is discretionary and therefore sensitive to economic conditions, the strength of the economy and consumer purchasing power. In addition, the price of lumber and other construction materials fluctuates with market demand, which in turn affects the Corporation's sales. As explained, economic conditions have an impact on RONA's results. While economic recovery is underway, 2011 saw a decline in consumer confidence over the year, as well as a slowdown in new housing and resale activity. However, RONA has a tightly managed balance sheet, a diversified business model, and has improved operational efficiency as a result of the PEP program implementation. As it has done in the past, management is taking proactive steps in response to the current economic conditions. Furthermore, various factors such as the exchange rate, the unemployment rate, interest rates, general credit conditions and commodity prices like lumber, copper, gas, electricity and natural gas can all have a negative impact on the Corporation's financial results.

Human resources

To achieve its goals, the Corporation has to attract, train and retain a high number of competent employees while still keeping payroll costs under control. The Corporation's ability to control labour costs is subject to a number of external factors, including remuneration and group insurance rates. An inability to attract, train and retain skilled employees can have an impact on the Corporation's growth capacity and financial performance.

Information technology

Because of the Corporation's particular business model and growth through acquisitions, its information technology structure is complex. The Corporation has made significant IT investments and will continue to do so in its stores, distribution centres and administrative centres. These investments allow it to integrate its systems, simplify the structure of its technology platform, meet operational needs and take advantage of technological advances. An inability to integrate its systems within a reasonable time frame could prevent it from achieving its expected financial goals.

Reputation

The Corporation sells a variety of products with many different brands, including its own private brand. Consumer perception of the Corporation could be harmed if there were damage to the reputation of these brands. A number of other factors could also affect RONA's reputation and seriously impact its performance, including non-compliance with laws or regulations (especially with respect to the environment), legal proceedings against the Corporation or the disclosure of personal or confidential information.

Supply chain

The Corporation must plan for and satisfy its store needs for merchandise and therefore depends on national and international suppliers to provide timely delivery of merchandise at reasonable prices, while meeting quality standards. It is important for RONA to establish solid and lasting relationships with its suppliers in order to avoid stock-outs or unexpected changes in the price of merchandise. RONA must pursue optimum management of the supply chain, as an inability to do so could affect its financial situation.

Acquisition, Recruitment, Integration, Development

Acquisitions and recruitment are two of the four vectors of RONA's development strategy. While the Corporation wants to recruit or make acquisitions, nothing guarantees the availability of businesses that meet its rigorous selection criteria. RONA's goal is to quickly integrate and build loyalty in all acquired and recruited businesses to achieve the expected benefits. RONA's desire to expand may also be hampered by an inability to find locations appropriate for development. When redeploying points of sales at new sites, the Corporation may not have access to the appropriate location in due time and could incur important fees considering its future engagements. Although recruited businesses, called "dealers," are bound by commercial contracts with RONA and benefit from favourable purchase conditions, an experienced support team, an integrated and customized regional development strategy and a succession program, all designed to keep these businesses loyal to RONA, and although RONA considers that it has maintained good relations with these businesses for many years, there is no guarantee that all of these businesses will maintain relations with RONA in the future, which could have an adverse impact on the financial results of RONA's distribution arm. Furthermore, although under the terms of their commercial contracts with RONA these businesses agree to comply with certain RONA guidelines with respect to merchandising, advertising, brand image and purchasing, RONA does incur the risk that some dealers may not meet their commitments, which would have an adverse impact on the financial results of RONA's distribution business and on its reputation and image.

Legal and regulatory requirements

RONA makes every effort to comply with all laws and regulations, but legal proceedings or third-party lawsuits could negatively affect the Corporation's position and financial results.

Accounting standards

The International Financial Reporting Standards applicable in 2012 are complex, involving numerous assumptions and estimates, and may be subject to interpretation by RONA management. These rules are also subject to change. Amendments to these principles, assumptions and estimates could have repercussions on RONA's financial results. In the quarter ended March 25, 2012, there has been no major change since the publication of the annual *Management's Discussion and Analysis* for the fiscal year ended December 25, 2011.

Availability of financing

RONA may not have access to the financing needed for certain growth vectors. This could prevent it from concluding business acquisitions, or delay capital investments. Limited availability of financing may affect the Corporation in a number of different ways. Lack of financing may affect RONA's ability to pursue its growth objectives or prevent it from acquiring other stores or delay investment in existing stores. The Corporation may not be able to achieve its growth objectives, which would negatively affect its financial results. Management currently believes that RONA has the necessary funding for its development.

CHANGES IN ACCOUNTING STANDARDS

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

PRINCIPAL ACCOUNTING ESTIMATES

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA has evaluated the effectiveness of internal control over financial reporting as at March 25, 2012 in accordance with the MI 52-109 guidelines. This evaluation has allowed the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer to conclude that the Corporation's internal control over financial reporting is effective and provides reasonable assurance that the Corporation's financial reporting is reliable and that its consolidated financial statements are prepared in accordance with International Financial Reporting Standards.

FORWARD-LOOKING STATEMENTS

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

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

The forward-looking statements in this MD&A reflect the Corporation's expectations as at May 9, 2012, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ADDITIONAL INFORMATION

This MD&A was prepared on May 9, 2012. The reader will find additional information concerning RONA, including the Corporation's Annual Information Form, on the Corporation's website at www.rona.ca or on the SEDAR website at www.sedar.com.

(s) Dominique Boies

Dominique Boies
Executive Vice President
and Chief Financial Officer

(s) Robert Dutton

Robert Dutton
President and
Chief Executive Officer

RONA inc.**Consolidated Income Statements and Other Comprehensive Income**

Thirteen-week periods ended March 25, 2012 and March 27, 2011

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

Consolidated Income Statements

	2012	2011
Revenues	\$ 934,934	\$ 918,211
Operating profit	(13,397)	(19,605)
Finance income	1,104	1,371
Finance costs	(4,453)	(6,287)
	(3,349)	(4,916)
Income before income tax expense	(16,746)	(24,521)
Income tax expense (Note 5)	4,479	6,866
Net income	\$ (12,267)	\$ (17,655)
Net income attributable to:		
Owners of RONA inc.	\$ (10,933)	\$ (16,761)
Non-controlling interests	(1,334)	(894)
	\$ (12,267)	\$ (17,655)
Net income per share attributable to owners of RONA inc. (Note 13)		
Basic and diluted	\$ (0.10)	\$ (0.13)
Consolidated Statements of Other Comprehensive Income		
Net income	\$ (12,267)	\$ (17,655)
Other comprehensive income net of taxes :		
Cash flow hedges		
– Loss for the period	(1,064)	(732)
– Reclassification to income	825	1,574
Actuarial losses (Note 15)	(1,448)	(322)
Total other comprehensive income	(1,687)	520
Total comprehensive income	\$ (13,954)	\$ (17,135)
Total comprehensive income attributable to:		
Owners of RONA inc.	\$ (12,620)	\$ (16,241)
Non-controlling interests	(1,334)	(894)
	\$ (13,954)	\$ (17,135)

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

RONA inc.

Consolidated Statements of Changes in Equity

Thirteen-week periods ended March 25, 2012 and March 27, 2011

(unaudited and in thousands of Canadian dollars)

	Share Capital ^(a)	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 25, 2011	\$ 793,416	\$ 1,115,801	\$ 11,386	\$ (505)	\$ 1,920,098	\$ 35,526	\$ 1,955,624
Transactions with owners							
Issuance in exchange for cash	1	-	-	-	1	-	1
Issuance under stock option plans	3,331	-	-	-	3,331	-	3,331
Repurchase of common shares (Note 10)	(25,607)	(23,269)	-	-	(48,876)	-	(48,876)
Dividends declared on common shares ^(b)	-	(8,692)	-	-	(8,692)	-	(8,692)
Dividends declared on preferred shares, including income taxes ^(c)	-	(2,322)	-	-	(2,322)	-	(2,322)
Compensation cost relating to stock option plans	-	-	215	-	215	-	215
Deposits on common share subscriptions received	176	-	-	-	176	-	176
Deposits on common share subscriptions refunded	(27)	-	-	-	(27)	-	(27)
Other	-	-	-	-	-	40	40
Total transactions with owners	(22,126)	(34,283)	215	-	(56,194)	40	(56,154)
Net income for the period	-	(10,933)	-	-	(10,933)	(1,334)	(12,267)
Other comprehensive income :							
Cash flow hedges							
- Loss for the period	-	-	-	(1,064)	(1,064)	-	(1,064)
- Reclassification to income or loss	-	-	-	825	825	-	825
Actuarial losses	-	(1,448)	-	-	(1,448)	-	(1,448)
Total other comprehensive income for the period	-	(1,448)	-	(239)	(1,687)	-	(1,687)
Balance, March 25, 2012	\$ 771,290	\$ 1,069,137	\$ 11,601	\$ (744)	\$ 1,851,284	\$ 34,232	\$ 1,885,516

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

(b) During 2012, RONA inc. declared a dividend of \$0.07 per share on common shares

(c) During 2012, RONA inc. declared a dividend of \$0.3227 per share on preferred shares

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

RONA inc.

Consolidated Statements of Changes in Equity

Thirteen-week periods ended March 25, 2012 and March 27, 2011

(unaudited and in thousands of Canadian dollars)

	Share capital ^(a)	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 26, 2010	\$ 632,614	\$ 1,233,454	\$ 11,137	\$ (1,217)	\$ 1,875,988	\$ 35,809	\$ 1,911,797
Transactions with owners							
Issuance in exchange for cash	172,550	-	-	-	172,550	-	172,550
Issuance under stock option plans	785	-	(204)	-	581	-	581
Dividends declared on common shares	-	(2)	-	-	(2)	-	(2)
Dividends on preferred shares	-	(807)	-	-	(807)	-	(807)
Fees related to issuance of preferred shares, net of related income tax recovery of \$1,482	-	(4,026)	-	-	(4,026)	-	(4,026)
Compensation cost relating to stock option plans	-	-	258	-	258	-	258
Deposits on common share subscriptions received	396	-	-	-	396	-	396
Deposits on common share subscriptions refunded	(75)	-	-	-	(75)	-	(75)
Repurchase of a non-controlling interest (Note 6)	-	-	(490)	-	(490)	-	(490)
Other	-	-	-	-	-	72	72
Total transactions with owners	173,656	(4,835)	(436)	-	168,385	72	168,457
Net loss for the period	-	(16,761)	-	-	(16,761)	(894)	(17,655)
Other comprehensive income :							
Cash flow hedges							
- Current period losses	-	-	-	(732)	(732)	-	(732)
- Reclassification to income or loss	-	-	-	1,574	1,574	-	1,574
Actuarial losses (Note 15)	-	(322)	-	-	(322)	-	(322)
Total comprehensive income (loss) for the period	-	(322)	-	842	520	-	520
Balance, March 27, 2011	\$ 806,270	\$ 1,211,536	\$ 10,701	\$ (375)	\$ 2,028,132	\$ 34,987	\$ 2,063,119

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

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

RONA inc.

Consolidated Statements of Cash Flows

Thirteen-week periods ended March 25, 2012 and March 27, 2011
(unaudited and in thousands of Canadian dollars)

	2012	2011
Operating activities		
Loss before income tax expense	\$ (16,746)	\$ (24,521)
Adjustments:		
Depreciation and amortization of non-financial assets (Note 3.2)	23,406	26,297
Change in fair value of derivative financial instruments	205	(210)
Net gains on disposal of assets	(265)	(474)
Stock-based compensation expense (recovery) (Note 11)	499	(647)
Difference between amounts paid for post-employment benefits and current period expenses	1,641	(289)
Other	50	277
	<u>8,790</u>	<u>433</u>
Net change in working capital	<u>(139,861)</u>	<u>(141,497)</u>
	<u>(131,071)</u>	<u>(141,064)</u>
Interest received	975	711
Income taxes paid	<u>(9,620)</u>	<u>(20,584)</u>
Cash flow from operating activities	<u>(139,716)</u>	<u>(160,937)</u>
Investing activities		
Business acquisitions (Note 6)	(3,367)	(4,552)
Acquisition of property, plant and equipment	(7,483)	(16,340)
Acquisition of intangible assets	(9,559)	(5,827)
Acquisition of other financial assets	(1,549)	(2,572)
Proceeds on disposal of property, plant and equipment	1,292	437
Proceeds on disposal of other financial assets	619	1,617
Interest received	213	196
Cash flow from investing activities	<u>(19,834)</u>	<u>(27,041)</u>
Financing activities		
Bank loans	2,106	2,577
Other long-term debt	184,549	651
Financing costs	(78)	-
Repayment of other long-term debt	(4,636)	(10,555)
Proceeds from issue of common shares	3,481	951
Proceeds from issue of preferred shares	-	172,500
Fees related to issue of preferred shares	-	(5,508)
Repurchase of common shares (Note 10)	(48,876)	-
Dividends on common shares	-	(9,121)
Dividends on preferred shares	(2,283)	-
Interest paid	(5,215)	(11,523)
Cash flow from financing activities	<u>129,048</u>	<u>139,972</u>
Net decrease in cash	<u>(30,502)</u>	<u>(48,006)</u>
Cash, beginning of period	<u>17,149</u>	<u>75,577</u>
Cash (bank overdraft), end of period	<u>\$ (13,353)</u>	<u>\$ 27,571</u>

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

RONA inc.

Consolidated Statements of Financial Position

as at March 25, 2012, March 27, 2011 and December 25, 2011

(unaudited and in thousands of Canadian dollars)

	2012 March 25	2011 March 27	2011 December 25
Assets			
Current			
Cash	\$ -	\$ 27,571	\$ 17,149
Trade and other receivables	408,815	365,784	370,094
Other financial assets	1,526	2,578	1,468
Current tax assets	22,770	23,171	7,616
Inventory (Note 4)	1,027,825	1,074,066	840,287
Prepaid expenses	25,973	25,447	20,836
Current assets	1,486,909	1,518,617	1,257,450
Non-current			
Other financial assets	14,681	11,746	13,617
Property, plant and equipment	867,369	882,986	874,246
Non-current assets held for sale (Note 7)	9,475	16,203	10,455
Goodwill	428,168	532,865	426,968
Intangible assets	129,795	127,741	126,968
Other non-current assets	4,742	3,530	5,435
Deferred tax assets	52,913	52,177	65,239
Total assets	\$ 2,994,052	\$ 3,145,865	\$ 2,780,378
Liabilities			
Current			
Bank overdraft	\$ 13,353	\$ -	\$ -
Bank loans	9,364	4,520	4,377
Trade and other payables	572,882	542,704	487,864
Dividends payable	11,014	796	2,527
Derivative financial instruments	1,016	513	691
Provisions (Note 8)	6,929	5,262	6,947
Instalments on long-term debt	17,203	25,634	20,257
Current liabilities	631,761	579,429	522,663
Non-current			
Long-term debt	416,568	432,807	232,073
Other non-current liabilities	35,153	30,857	33,653
Provisions (Note 8)	3,606	4,080	3,606
Deferred tax liabilities	21,448	35,573	32,759
Total liabilities	1,108,536	1,082,746	824,754
Equity			
Share capital (Note 10)	771,290	806,270	793,416
Retained earnings	1,069,137	1,211,536	1,115,801
Contributed surplus	11,601	10,701	11,386
Accumulated other comprehensive income	(744)	(375)	(505)
Total equity attributable to owners of RONA inc.	1,851,284	2,028,132	1,920,098
Non-controlling interests	34,232	34,987	35,526
Total equity	1,885,516	2,063,119	1,955,624
Total liabilities and equity	\$ 2,994,052	\$ 3,145,865	\$ 2,780,378

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

Notes to Interim Consolidated Financial Statements

as at March 25, 2012 and March 27, 2011

(unaudited and in thousands of Canadian dollars)

1. Reporting entity

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

The Corporation's consolidated financial statements for the thirteen-week periods ended March 25, 2012 and March 27, 2011 include financial data for the Corporation and its subsidiaries (collectively referred to as the "Corporation" and individually referred to as the "Corporation's entities") and the Corporation's share of the jointly controlled entities.

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

2. Basis of presentation

(a) General information and declaration of conformity

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

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

The preparation of financial statements in accordance with IAS 34 requires the use of certain accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 2 of the Corporation's consolidated financial statements for the year ended December 25, 2011. There has not been any significant change in judgments, estimates or assumptions disclosed in prior fiscal years. These interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 25, 2011, which are included in the Corporation's 2011 annual report.

The interim consolidated financial statements for the thirteen-week period ended March 25, 2012 (including comparative figures) were approved by the Board of Directors on May 9, 2012.

(b) Seasonal fluctuations

The interim period results of operations do not necessarily reflect results for the full year because of seasonal fluctuations that characterize the hardware, home improvement and gardening products industry. Since the seasonal fluctuations result in significant variances for certain assets and liabilities, a Statement of Financial Position as at March 27, 2011 is also presented for comparative purposes.

(c) Comparative figures

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

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

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

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

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

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

Notes to Interim Consolidated Financial Statements

as at March 25, 2012 and March 27, 2011

(unaudited and in thousands of Canadian dollars)

2. Basis of presentation (continued)

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

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

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

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

An amended version of IAS 1, *Presentation of financial statements*, requires entities to group together items within other comprehensive income that may be reclassified to the income or loss section of the income statement. This amendment is effective for periods beginning on or after 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 obligation discount rate, streamlines the presentation of changes in assets and obligations arising from defined benefit plans and enhances the disclosure requirements for defined benefit plans.

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

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

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

3. Supplemental information on income and charges

3.1 Operating profit

	2012	2011
Revenues	\$ 934,934	\$ 918,211
Cost of sales (Note 4)	(667,720)	(652,087)
Gross profit	267,214	266,124
Selling, general and administrative expenses	(286,340)	(290,811)
Net gains on disposal of assets	265	474
Other income	5,464	4,608
Operating profit	\$ (13,397)	\$ (19,605)

3.2 Depreciation and amortization of non-financial assets

	2012	2011
Depreciation of property, plant and equipment	\$ 16,651	\$ 19,228
Depreciation of leasehold property included in property, plant and equipment	114	965
Amortization of intangible assets	6,289	5,961
Amortization of other non-current assets	352	143
Total depreciation and amortization of non-financial assets	\$ 23,406	\$ 26,297

RONA inc.

Notes to Interim Consolidated Financial Statements

as at March 25, 2012 and March 27, 2011

(unaudited and in thousands of Canadian dollars)

3. Supplemental information on income and charges (continued)

3.3 Employee benefits expense

	2012	2011
Salaries	\$ 121,291	\$ 117,971
Defined benefit expense	86	371
Defined contribution expense	2,530	2,226
Stock-based compensation expense (recovery)	499	(647)
Other fringe benefits	29,826	27,538
Total employee benefits expense	\$ 154,232	\$ 147,459

4. Inventory

For the thirteen-week period ended March 25, 2012, an amount of \$667,720 in inventory was expensed in the consolidated income statement (\$652,087 in 2011).

For the thirteen-week period ended March 25, 2012, an inventory write-down charge of \$5,559 (\$6,839 in 2011) was recognized in the consolidated income statement. No reversal of previous write-downs was recognized.

5. Income tax

The consolidated effective tax rate was 26.75% and 28.00%, respectively, for the thirteen-week periods ended March 25, 2012 and March 27, 2011. The change in the effective tax rate is primarily attributable to the change in the Corporation's combined statutory rate.

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

6. Business acquisitions

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

During the thirteen-week period ended March 27, 2011, the Corporation acquired one company in the retail and commercial segment through asset purchase.

Moreover, during the thirteen-week period ended on March 27, 2011, the Corporation acquired the minority interests in the assets of a store previously held by one of its 51%-owned subsidiaries. This transaction resulted in a \$490 decrease in non-controlling interests with a corresponding change in contributed surplus.

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

The consideration paid for these acquisitions amounted to \$4,846 (\$7,308 in 2011). Direct acquisition costs of \$88 were recognized in selling, general and administrative expenses for the thirteen-week period ended March 25, 2012 (\$251 in 2011). The Corporation financed these acquisitions from its available cash and existing credit facilities.

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

as at March 25, 2012 and March 27, 2011
(unaudited and in thousands of Canadian dollars)

6. Business acquisitions (continued)

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

	2012	2011
Trade and other receivables	\$ 2,111	\$ 211
Inventory	3,326	1,319
Other current assets	126	5
Property, plant and equipment	1,987	2,065
Goodwill on acquisition	1,200	4,261
Intangible assets	-	12
Bank loans	(2,881)	-
Current liabilities	(990)	(565)
Long-term debt	(32)	-
Deferred tax liabilities	(1)	-
Cost of acquisitions	(4,846)	7,308
Less: Balances of purchase prices	(1,479)	(2,756)
Cash consideration paid	\$ 3,367	\$ 4,552

The Corporation does not expect the goodwill to be deductible for tax purposes (\$3,105 in 2011).

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

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

7. Non-current assets held for sale

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

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

	2012 As at March 25
Balance at beginning	\$ 10,455
Disposals	(980)
Balance at end	\$ 9,475

	2011 As at March 27
Balance at beginning	\$ 16,474
Disposals	(271)
Balance at end	\$ 16,203

	2012 As at March 25	2011 As at March 27
Non-current assets held for sale		
Land	\$ 8,699	\$ 15,427
Buildings	776	776
	\$ 9,475	\$ 16,203

Notes to Interim Consolidated Financial Statements

as at March 25, 2012 and March 27, 2011

(unaudited and in thousands of Canadian dollars)

8. Provisions and contingent liabilities

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 25, 2011	\$ 3,792	\$ 5,710	\$ 1,051	\$ 10,553
Provisions created during the period	361	500	62	923
Provisions used during the period	(225)	(550)	(11)	(786)
Provisions reversed during the period	(205)	-	-	(205)
Accretion expense	-	50	-	50
Balance, March 25, 2012	3,723	5,710	1,102	10,535
Current	3,723	2,104	1,102	6,929
Non-current	-	3,606	-	3,606
	\$ 3,723	\$ 5,710	\$ 1,102	\$ 10,535

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 26, 2010	\$ 3,222	\$ 5,757	\$ 185	\$ 9,164
Provisions created during the period	670	-	86	756
Provisions used during the period	(163)	(333)	(59)	(555)
Provisions reversed during the period	(102)	-	-	(102)
Accretion expense	-	79	-	79
Balance, March 27, 2011	3,627	5,503	212	9,342
Current	3,627	1,423	212	5,262
Non-current	-	4,080	-	4,080
	\$ 3,627	\$ 5,503	\$ 212	\$ 9,342

Litigation

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

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

Onerous contracts

In 2008, following store closures, a provision for onerous contracts was recognized for non-cancellable operating leases for commercial stores which are no longer used at a weighted average discount rate of 4.55% (5.50% in 2011). 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 still in effect expires in 2024.

9. Guarantees and contingencies

Guarantees

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

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

Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 64% of the cost of the inventories to a maximum of \$44,961. 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.

Notes to Interim Consolidated Financial Statements

as at March 25, 2012 and March 27, 2011

(unaudited and in thousands of Canadian dollars)

9. Guarantees and contingencies (continued)

Contingencies

Various claims and litigation arise in the course of the Corporation's activities and its insurers have taken up the Corporation's defence in some of these cases. In addition, upon the acquisition of Réno-Dépôt Inc., the vendor committed to indemnify the Corporation for litigation which the Corporation assumed in the course of this acquisition.

Management does not expect that the outcome of these claims and litigation will have a material and adverse effect on the Corporation's results and deemed its allowances adequate in this regard.

10. Share capital

Authorized

Unlimited number of shares

Common without par value

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

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

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

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

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

Class C preferred shares, issuable in series

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

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

Issued and fully paid:

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

	Common shares		Preferred shares		Treasury shares		Deposits on common share subscriptions ^(a)		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 25, 2011	127,200,189	\$ 618,934	6,900,000	\$ 172,500	(76,981)	\$ (475)	-	\$ 2,457	134,023,208	\$ 793,416
Issuance in exchange for cash	74	1	-	-	-	-	-	-	74	1
Issuance under stock option plans	960,000	3,331	-	-	-	-	-	-	960,000	3,331
Issuance in exchange for common share subscription deposits	259,057	2,477	-	-	(3,844)	(48)	-	(2,429)	255,213	-
Repurchase of common shares	(5,254,500)	(25,607)	-	-	-	-	-	-	(5,254,500)	(25,607)
Deposits on common share subscriptions received	-	-	-	-	-	-	-	176	-	176
Deposits on common share subscriptions refunded	-	-	-	-	-	-	-	(27)	-	(27)
Balance, March 25, 2012	123,164,820	\$ 599,136	6,900,000	\$ 172,500	(80,825)	\$ (523)	-	\$ 177	129,983,995	\$ 771,290

(a) Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at March 25, 2012, the number of outstanding common shares would have increased by 19,723.

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

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10. Share capital (continued)**Issued and fully paid (continued):**

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

	Common shares		Preferred shares		Treasury shares		Deposits on common share subscriptions ^(a)		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 26, 2010	130,071,782	\$ 630,264	-	\$ -	(73,334)	\$ (424)	-	\$ 2,774	129,998,448	\$ 632,614
Issuance in exchange for cash	3,583	50	6,900,000	172,500	-	-	-	-	6,903,583	172,550
Issuance under stock option plans	43,775	785	-	-	-	-	-	-	43,775	785
Issuance in exchange for common share subscription deposits	193,683	2,748	-	-	(3,647)	(51)	-	(2,697)	190,036	-
Deposits on common share subscriptions received	-	-	-	-	-	-	-	396	-	396
Deposits on common share subscriptions refunded	-	-	-	-	-	-	-	(75)	-	(75)
Balance, March 27, 2011	130,312,823	\$ 633,847	6,900,000	\$ 172,500	(76,981)	\$ (475)	-	\$ 398	137,135,842	\$ 806,270

(a) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at March 27, 2011, the number of outstanding common shares would have increased by 27,867.

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

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

During the thirteen-week period ended March 25, 2012, the Corporation redeemed for cancellation a total of 5,254,500 common shares for a total cost of \$48,876. Of the total cost, \$25,607 represents the stated value of common shares. The remaining \$23,269 was recorded in retained earnings.

11. Stock-based compensation**Stock option plans*****Stock option plan of May 1, 2002***

On May 1, 2002, the Corporation adopted a stock option plan for designated senior executives pursuant to which options for a maximum of 3,740,000 common shares may be granted. Options granted under the plan may be exercised since the Corporation made a public share offering on November 5, 2002. As at March 25, 2012, the exercise price of the 2,920,000 options granted upon adoption of the plan was \$3.47 and all options had been exercised (1,770,500 options in 2011). The fair value of each option granted was estimated at the grant date using the Black-Scholes option pricing model.

No compensation cost was expensed with respect to this plan for the thirteen-week periods ended March 25, 2012 and March 27, 2011.

Stock option plan of October 24, 2002

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

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11. Stock-based compensation (continued)

Stock option plans (continued)

Stock option plan of October 24, 2002 (continued)

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

As at March 25, 2012, the 3,713,452 options granted (3,182,352 options in 2011) have exercise prices ranging from \$9.38 to \$26.87 in 2012 (\$10.62 to \$26.87 in 2011) and of this number, 172,425 options have been exercised (150,175 options in 2011), 619,758 options have expired (619,758 options in 2011) and 852,919 options have been forfeited (568,350 options in 2011).

The weighted average fair value of stock options granted of \$2.64 for the thirteen-week period ended March 25, 2012 (\$4.95 in 2011) was estimated for each option tranche at the grant date using the Black-Scholes option pricing model on the basis of the following weighted average assumptions for the options granted during the period:

	2012	2011
Share price at date of grant	\$9.39	\$14.26
Risk-free interest rate	1.55 to 1.96%	2.92 to 3.35 %
Expected share price volatility	27.11 to 27.70%	27.60 to 28.13 %
Expected dividend rate	1.50%	1.00 %
Expected life	7 to 10 years	7 to 10 years
Exercise price at date of grant	\$9.38	\$14.33

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

Compensation cost expensed with respect to this plan amounts to \$215 for the thirteen-week period ended March 25, 2012 (\$258 in 2011).

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 March 25, 2012	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,574,175	\$10.32
Granted	471,100	9.38
Exercised	(960,000)	3.47
Forfeited	(16,925)	15.41
Outstanding, end of period	2,068,350	13.24
Options exercisable, end of period	1,112,535	\$14.80

	2011 As at March 27	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,727,794	\$ 9.99
Granted	324,900	14.33
Exercised	(43,775)	13.27
Forfeited	(15,350)	20.77
Outstanding, end of period	2,993,569	10.36
Options exercisable, end of period	2,170,994	\$ 9.08

The weighted average price of the common shares acquired by option holders having exercised 960,000 options (43,775 options in 2011) for the thirteen-week period ended March 25, 2012 is \$9.33 (\$14.42 in 2011).

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11. Stock-based compensation (continued)

Stock option plans (continued)

Stock option plan of October 24, 2002 (continued)

The following table summarizes information relating to stock options outstanding as at March 25, 2012:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 9.38	March 5, 2022	471,100	-
\$ 9.97	September 21, 2021	60,000	-
\$ 10.62	March 11, 2019	352,350	265,025
\$ 14.18	March 1, 2018	142,675	142,675
\$ 14.29	December 16, 2013	322,200	322,200
\$ 14.33	March 7, 2021	271,200	68,160
\$ 15.44	March 9, 2020	273,025	138,675
\$ 20.27	December 22, 2014	72,750	72,750
\$ 23.58	March 8, 2017	103,050	103,050
		2,068,350	1,112,535

Share unit plan for officers

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

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

	2012 As at March 25	2011 As at March 27
Number of restricted share units:		
Outstanding, beginning of period	1,117,225	935,325
Granted	571,541	390,000
Expired	-	(113,000)
Forfeited	(44,100)	(15,700)
Outstanding, end of period	1,644,666	1,196,625

For the thirteen-week period ended March 25, 2012, a charge of \$55 was recorded in the consolidated income statement (reversal of \$1,212 in 2011).

Share unit plan for directors

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

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

RONA inc.

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11. Stock-based compensation (continued)

Share unit plan for directors

	2012 As at March 25	2011 As at March 27
Number of deferred share units		
Balance, beginning of period	234,968	172,781
Granted	31,696	14,481
Balance, end of period	266,664	187,262

The charge recorded in the consolidated income statement for the thirteen-week period ended March 25, 2012 amounts to \$229 (\$307 in 2011).

12. Segment Information

	2012			2011		
	Retail and commercial	Distribution	Total	Retail and commercial	Distribution	Total
Segment revenues	\$ 676,088	\$ 546,726	\$ 1,222,814	\$ 662,610	\$ 537,013	\$ 1,199,623
Intersegment revenues and royalties	(3,447)	(284,433)	(287,880)	(5,322)	(276,090)	(281,412)
Revenues from external customers	672,641	262,293	934,934	657,288	260,923	918,211
Income before finance costs, amortization and depreciation of non-financial assets and income tax expense	(4,594)	15,707	11,113	(4,657)	12,720	8,063
Finance income			(1,104)			(1,371)
Amortization and depreciation of non-financial assets			(23,406)			(26,297)
Operating loss			(13,397)			(19,605)
Finance income			1,104			1,371
Finance costs			(4,453)			(6,287)
Loss before income tax expense			\$ (16,746)			\$ (24,521)

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

13. Earnings per share

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

	2012	2011
Net loss attributable to owners of RONA inc.	\$ (10,933)	\$ (16,761)
Dividends on preferred shares, including related income taxes	(2,322)	(807)
Net loss attributable to participating shares	(13,255)	(17,568)
Number of shares (in thousands)		
Weighted average number of shares used to compute basic net loss per share attributable to owners of RONA inc.	126,600.0	130,200.7
Effect of dilutive stock options ^(a)	-	-
Weighted average number of shares used to compute diluted net loss per share attributable to owners of RONA inc.	126,600.0	130,200.7
Net loss per share attributable to owners of RONA inc.		
Basic and diluted	\$ (0.10)	\$ (0.13)

(a) As at March 25, 2012, 2,068,350 stock options (2,993,569 options in 2011) were excluded from the calculation of diluted net loss per share attributable to the Corporation's owners since these options have an antidilutive effect.

RONA inc.

Notes to Interim Consolidated Financial Statements

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14. Related party transactions with subsidiaries and joint ventures

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

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

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

	<u>2012</u>		<u>2011</u>
Sales of merchandise	\$ 7,645	\$	8,939
Leases	598		414
Trade and other receivables	4,882		5,816

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

15. Change in accounting policy

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

	<u>as at March 27, 2011</u>	
Reconciliation of total comprehensive income		
Total comprehensive income under IFRS, as presented in the quarterly financial statements	\$	(16,813)
Impact of change in accounting policy regarding actuarial losses and other items relating to the defined benefit pension plans		<u>(322)</u>
Total comprehensive income under IFRS, as presented in the quarterly financial statement after the change in accounting policy	\$	(17,135)
Reconciliation of equity		
Total equity under IFRS, as presented in the quarterly financial statements including the reclassification of comparative figures	\$	2,064,920
Impact of change in accounting policy regarding actuarial losses and other items relating to the defined benefit pension plans		<u>(1,801)</u>
Total comprehensive income under IFRS, as presented in the quarterly financial statement after the change in accounting policy	\$	<u>2,063,119</u>
