

MANAGEMENT'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of RONA inc. as well as the financial information contained in the Management's Discussion and Analysis have been prepared by the Senior Financial Management of RONA inc. The preparation of the financial statements is based on a choice of appropriate accounting principles and methods, the application of which requires making estimates and informed judgments. It also includes ensuring that the financial information in the Management's Discussion and Analysis is consistent with the consolidated financial statements. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards and were approved by the Board of Directors.

RONA inc. maintains accounting and internal control systems which, in the opinion of management, provide reasonable assurance regarding the accuracy, relevance and reliability of financial information and the well-ordered and efficient management of the Corporation's business activities.

The Board of Directors fulfills its duty in respect of the consolidated financial statements principally through its Audit Committee. This Committee is comprised solely of outside directors and is responsible for making recommendations for the nomination of external auditors. Moreover, this Committee, which holds periodic meetings with members of management and internal and external auditors, has reviewed the consolidated financial statements of RONA inc. and recommended their approval to the Board of Directors. The internal and external auditors have access to the Committee without management.

The attached consolidated financial statements have been audited by the firm Raymond Chabot Grant Thornton LLP, Chartered Professional Accountants, and their report indicates the scope of their audit and their opinion on the consolidated financial statements.

(s) Dominique Boies

Dominique Boies

Acting Chief Executive Officer
and Executive Vice President and Chief Financial Officer

Boucherville, February 20, 2013



Raymond Chabot Grant Thornton

INDEPENDENT AUDITOR'S REPORT

Raymond Chabot Grant Thornton LLP

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To the shareholders of RONA inc.

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We have audited the accompanying consolidated financial statements of RONA inc., which comprise the consolidated statements of financial position as at December 30, 2012 and December 25, 2011 and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the years ended December 30, 2012 and December 25, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RONA inc. as at December 30, 2012 and December 25, 2011 and its financial performance and its cash flows for the years ended December 30, 2012 and December 25, 2011 in accordance with International Financial Reporting Standards (IFRS).

*Raymond Chabot Grant Thornton LLP*¹

Montréal, February 20, 2013

¹ CPA auditor, CA public accountancy permit no. A123715

RONA inc.
Consolidated Income Statements and Other Comprehensive Income
Years ended December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars, except per share amounts)

Consolidated Income Statements

	2012	2011
Revenues (Note 4)	\$ 4,884,016	\$ 4,804,584
Operating profit before goodwill impairment, restructuring costs, impairment of non-financial assets and other charges (Note 5.1)	85,563	156,900
Goodwill impairment (Note 14)	-	(117,000)
Restructuring costs, impairment of non-financial assets and other charges (Note 5.4)	(44,268)	(71,343)
Operating profit (loss)	41,295	(31,443)
Finance income (Note 25)	5,333	5,262
Finance costs (Note 25)	(20,576)	(34,729)
	(15,243)	(29,467)
Income (loss) before income tax expense	26,052	(60,910)
Income tax expense (Note 7)	(6,969)	(13,863)
Net income (loss)	\$ 19,083	\$ (74,773)
Net income (loss) attributable to:		
Owners of RONA inc.	\$ 17,297	\$ (78,382)
Non-controlling interests	1,786	3,609
	\$ 19,083	\$ (74,773)
Net income (loss) per share attributable to owners of RONA inc. (Note 29)		
Basic	\$ 0.07	\$ (0.66)
Diluted	\$ 0.07	\$ (0.66)
Consolidated Statements of Other Comprehensive Income		
Net income (loss)	\$ 19,083	\$ (74,773)
Other comprehensive income (loss) net of taxes :		
Items that will be reclassified to net income		
Cash flow hedges		
– Loss for the year	(2,666)	(920)
– Reclassification to income	574	1,632
	(2,092)	712
Items that will not be reclassified to net income		
Actuarial losses (Note 26)	(2,703)	(2,775)
Total other comprehensive loss	(4,795)	(2,063)
Total comprehensive income (loss)	\$ 14,288	\$ (76,836)
Total comprehensive income (loss) attributable to:		
Owners of RONA inc.	\$ 12,502	\$ (80,445)
Non-controlling interests	1,786	3,609
	\$ 14,288	\$ (76,836)

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

RONA inc.
Consolidated Statements of Changes in Equity
Years ended December 30, 2012 and December 25, 2011
(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	75	-	-	-	75	-	75
Issuance under stock option plans	3,534	-	(48)	-	3,486	-	3,486
Repurchase of common shares (Note 22)	(34,257)	(32,510)	-	-	(66,767)	-	(66,767)
Dividends declared on common shares	-	(17,191)	-	-	(17,191)	-	(17,191)
Dividends declared on preferred shares, including income taxes	-	(9,268)	-	-	(9,268)	-	(9,268)
Compensation cost relating to stock option plans	-	-	1,183	-	1,183	-	1,183
Deposits on common share subscriptions received	2,141	-	-	-	2,141	-	2,141
Deposits on common share subscriptions refunded	(27)	-	-	-	(27)	-	(27)
Other	-	-	-	-	-	32	32
Total transactions with owners	(28,534)	(58,969)	1,135	-	(86,368)	32	(86,336)
Income for the year	-	17,297	-	-	17,297	1,786	19,083
Other comprehensive income (loss):							
Cash flow hedges							
- Loss for the year	-	-	-	(2,666)	(2,666)	-	(2,666)
- Reclassification to income	-	-	-	574	574	-	574
Actuarial losses (Note 26)	-	(2,703)	-	-	(2,703)	-	(2,703)
Total other comprehensive loss for the year	-	(2,703)	-	(2,092)	(4,795)	-	(4,795)
Balance, December 30, 2012	\$ 764,882	\$ 1,071,426	\$ 12,521	\$ (2,597)	\$ 1,846,232	\$ 37,344	\$ 1,883,576

(a) Additional detail of share capital is provided in Note 22.

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

RONA inc.

Consolidated Statements of Changes in Equity

Years ended December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

	Share capital ^(a)	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 26, 2010	\$ 632,614	\$ 1,233,454	\$ 11,137	\$ (1,217)	\$ 1,875,988	\$ 35,809	\$ 1,911,797
Transactions with owners							
Issuance in exchange for cash	173,050	-	-	-	173,050	-	173,050
Issuance under stock option plans	1,770	-	(295)	-	1,475	-	1,475
Repurchase of common shares (Note 22)	(16,399)	(15,369)	-	-	(31,768)	-	(31,768)
Dividends declared on common shares	-	(9,134)	-	-	(9,134)	-	(9,134)
Dividends declared on preferred shares, including income taxes	-	(7,985)	-	-	(7,985)	-	(7,985)
Cash dividends paid by a subsidiary to non-controlling interests	-	-	-	-	-	(3,920)	(3,920)
Fees related to issuance of preferred shares, net of related income tax recovery of \$1,476	-	(4,008)	-	-	(4,008)	-	(4,008)
Compensation cost relating to stock option plans	-	-	1,034	-	1,034	-	1,034
Deposits on common share subscriptions received	2,456	-	-	-	2,456	-	2,456
Deposits on common share subscriptions refunded	(75)	-	-	-	(75)	-	(75)
Repurchase of a non-controlling interest (Note 9)	-	-	(490)	-	(490)	-	(490)
Other	-	-	-	-	-	28	28
Total transactions with owners	160,802	(36,496)	249	-	124,555	(3,892)	120,663
Income (loss) for the year	-	(78,382)	-	-	(78,382)	3,609	(74,773)
Other comprehensive income (loss) :							
Cash flow hedges							
- Loss for the year	-	-	-	(920)	(920)	-	(920)
- Reclassification to income	-	-	-	1,632	1,632	-	1,632
Actuarial losses (Note 26)	-	(2,775)	-	-	(2,775)	-	(2,775)
Total other comprehensive income (loss) for the year	-	(2,775)	-	712	(2,063)	-	(2,063)
Balance, December 25, 2011	\$ 793,416	\$ 1,115,801	\$ 11,386	\$ (505)	\$ 1,920,098	\$ 35,526	\$ 1,955,624

(a) Additional detail of share capital is provided in Note 22.

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

RONA inc.

Consolidated Statements of Cash Flows

Years ended December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

	2012	2011
Operating activities		
Income (loss) before income tax expense	\$ 26,052	\$ (60,910)
Adjustments:		
Depreciation, amortization and impairment of non-financial assets (Note 5.2)	115,735	149,736
Change in provision for restructuring costs	23,135	-
Change in fair value of derivative financial instruments	(628)	(159)
Net gains on disposal of assets	(3,973)	(1,123)
Goodwill impairment (Note 14)	-	117,000
Stock-based compensation expense (recovery) (Note 5.3)	3,676	(2,684)
Difference between amounts paid for post-employment benefits and current year expenses	(3,036)	(2,855)
Other	(1,223)	3,308
	<u>159,738</u>	<u>202,313</u>
Net change in working capital (Note 8)	(14,877)	66,682
	<u>144,861</u>	<u>268,995</u>
Interest received	3,825	3,898
Income taxes paid	(23,139)	(42,648)
Cash flow from operating activities	<u>125,547</u>	<u>230,245</u>
Investing activities		
Business acquisitions (Note 9)	(11,808)	(47,707)
Acquisition of property, plant and equipment (Note 12)	(37,971)	(70,198)
Acquisition of intangible assets (Note 15)	(48,403)	(39,225)
Acquisition of other financial assets	(2,968)	(6,049)
Proceeds on disposal of property, plant and equipment	16,498	10,216
Proceeds on disposal of other financial assets	2,612	4,765
Interest received	813	1,365
Cash flow from investing activities	<u>(81,227)</u>	<u>(146,833)</u>
Financing activities		
Bank loans	4,073	(326)
Net change in credit facilities	80,651	91,249
Other long-term debt	261	863
Financing costs	(80)	(2,541)
Repayment of other long-term debt	(19,991)	(33,886)
Repurchase of debentures	-	(283,171)
Proceeds from issue of common shares	5,676	4,406
Proceeds from issue of preferred shares	-	172,500
Fees related to issue of preferred shares	-	(5,484)
Repurchase of common shares (Note 22)	(66,767)	(31,768)
Cash dividends paid by a subsidiary to non-controlling interests	-	(3,920)
Dividends on common shares	(17,191)	(18,253)
Dividends on preferred shares	(9,062)	(5,458)
Interest paid	(18,033)	(26,051)
Cash flow from financing activities	<u>(40,463)</u>	<u>(141,840)</u>
Net increase (decrease) in cash	3,857	(58,428)
Cash, beginning of year	17,149	75,577
Cash, end of year	<u>\$ 21,006</u>	<u>\$ 17,149</u>

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

RONA inc.
Consolidated Statements of Financial Position
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

	2012 December 30	2011 December 25
Assets		
Current		
Cash	\$ 21,006	\$ 17,149
Trade and other receivables (Note 10)	363,152	370,094
Other financial assets (Note 11)	1,440	1,468
Current tax assets	15,145	7,616
Inventory (Note 6)	890,437	840,287
Prepaid expenses	20,162	20,836
Current assets	<u>1,311,342</u>	<u>1,257,450</u>
Non-current		
Other financial assets (Note 11)	15,045	13,617
Property, plant and equipment (Note 12)	813,901	874,246
Non-current assets held for sale (Note 13)	22,898	10,455
Goodwill (Note 14)	428,180	426,968
Intangible assets (Note 15)	143,725	126,968
Other non-current assets (Note 16)	5,114	5,435
Deferred tax assets (Note 7)	66,253	65,239
Total assets	<u>\$ 2,806,458</u>	<u>\$ 2,780,378</u>
Liabilities		
Current		
Bank loans	\$ 11,332	\$ 4,377
Trade and other payables	495,698	487,864
Dividends payable	2,258	2,527
Derivative financial instruments (Note 25)	3,553	691
Provisions (Note 20)	16,335	6,947
Instalments on long-term debt (Note 18)	11,683	20,257
Current liabilities	<u>540,859</u>	<u>522,663</u>
Non-current		
Long-term debt (Note 18)	305,020	232,073
Other non-current liabilities (Note 19)	34,741	33,653
Provisions (Note 20)	17,712	3,606
Deferred tax liabilities (Note 7)	24,550	32,759
Total liabilities	<u>922,882</u>	<u>824,754</u>
Equity		
Share capital (Note 22)	764,882	793,416
Retained earnings	1,071,426	1,115,801
Contributed surplus	12,521	11,386
Accumulated other comprehensive income	(2,597)	(505)
Total equity attributable to owners of RONA inc.	<u>1,846,232</u>	<u>1,920,098</u>
Non-controlling interests	37,344	35,526
Total equity	<u>1,883,576</u>	<u>1,955,624</u>
Total liabilities and equity	<u>\$ 2,806,458</u>	<u>\$ 2,780,378</u>

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

On behalf of the Board,

(s) *Réal Brunet*

Réal Brunet
Chairman of the Audit Committee

(s) *Robert Chevrier*

Robert Chevrier
Executive Chairman of the Board

1. Reporting entity

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 year ended December 30, 2012 and December 25, 2011 include financial data for the Corporation and its subsidiaries (collectively referred to as the "Corporation" and individually referred to as the "Corporation's entities") and the Corporation's share of the jointly controlled entities.

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

2. Basis of presentation

(a) Declaration of conformity

These consolidated financial statements for the year ended December 30, 2012 were prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies described in Note 3 have been applied on a consistent basis for all reported periods, unless otherwise indicated.

The consolidated financial statements for the year ended December 30, 2012 (including comparative figures) were approved by the Board of Directors on February 20, 2013.

(b) Measurement basis

These consolidated financial statements were prepared under the historical cost basis, except for the evaluation of certain financial instruments at estimated fair value and the defined benefit obligation at its present value less the fair value of the plan assets and less an adjustment to reflect the application of the limit on the asset.

(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 is rounded to the nearest thousand, except per share amounts.

(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 notes to financial statements.

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 provided in the following notes:

- Note 3(d) – Inventory valuation
- Note 3(e) – Vendor rebate estimates
- Note 3(k) – Goodwill, property, plant and equipment and intangible assets impairment
- Note 3(l) – Lease classification
- Note 3(n) – Deferred tax assets and liability estimates and current tax assets and liabilities
- Note 3(o) – Provisions, contingent liabilities and contingent assets estimates
- Note 3(q) (r) (s) – Share-based payment measurement
- Note 3(u) – Allowance for doubtful accounts estimate
- Note 3(x) – Employee benefits estimates

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) Fiscal year

The Corporation's fiscal year ends on the last Sunday of December. The fiscal years ended December 30, 2012 and December 25, 2011 included 53 and 52 weeks of operations, respectively.

2. Basis of presentation (continued)

(f) 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.

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

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

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

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

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

These standards, excluding the amended IAS 1 and IFRS 9, are effective for periods beginning on or after January 1, 2013. The Corporation is currently determining the effect of adopting these new standards on its consolidated financial statements. Certain other standards were issued but have no impact on the Corporation.

3. Significant accounting policies

The accounting policies described below were applied consistently by all of the Corporation's entities.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries.

(i) Subsidiaries

A subsidiary is an entity controlled by the Corporation. RONA inc. obtains and exercises control through more than half of the voting rights for all its subsidiaries. The financial statements of the subsidiaries are included in the consolidated financial statements from the date of acquisition of control until the date the control ends.

(ii) Jointly controlled entities

Entities whose economic activities are controlled jointly by the Corporation and other venturers independent of the Corporation (joint ventures) are accounted for using the proportionate consolidation method, whereby the Corporation's share of the assets, liabilities, income and expenses is included with similar items, line by line, in the consolidated financial statements.

(iii) Eliminated transactions in the financial statements

Assets and liabilities, transactions, income and expenses from intercompany transactions are eliminated in the preparation of the consolidated financial statements.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iv) Non-controlling interests

Non-controlling interests included in equity represent the portion of a subsidiary's profit or net assets that is not held by the Corporation. Income or loss and each component of other comprehensive income are allocated to the owners of RONA inc. and to non-controlling interests. Total comprehensive income is attributed to the owners of RONA inc. and to non-controlling interests in accordance with their respective shareholdings even if this results in the non-controlling interests having a deficit balance.

(b) Business combinations

Business combinations are accounted for using the acquisition method. Under this method, the identifiable assets acquired and liabilities assumed, including contingent liabilities, are recognized, regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values. Goodwill is recorded when the identifiable intangible assets have been determined. Goodwill is the excess of the fair value of the consideration transferred over the fair value of RONA inc.'s share in the acquiree's net identifiable assets on the date of acquisition. Any excess of the identifiable net assets over the consideration transferred is recognized in income immediately.

The consideration transferred by the Corporation to acquire control of a subsidiary is calculated as the sum of the acquisition-date fair values of the assets transferred, liabilities incurred and equity interests issued by the Corporation, including the fair value of all the assets and liabilities resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

(c) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, rebates and trade and quantity discounts. The Corporation recognizes revenue at the time of sale in stores or upon delivery of the merchandise, when the sale is accepted by the customer and when collection is reasonably assured.

Revenue also includes various services provided by the Corporation, such as product installation and delivery. Revenue from the rendering of services is measured at the fair value of the consideration received or receivable. The Corporation recognizes revenue when the commercial obligations have been fulfilled, the services have been accepted by the customer and collection is reasonably assured.

Revenue also includes royalties received from franchised stores. Royalties are measured as a percentage of revenue and are recognized as earned and when collection is reasonably assured.

Interest income and expenses relating to receivables and loans and advances are reported on an accrual basis using the effective interest method.

(d) Inventory valuation

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

The cost of inventories comprises all costs of purchases and other costs incurred in bringing the inventory to its present location and condition, including realized gains or losses on qualifying cash flow hedges of foreign currency inventory purchases. Inventory is comprised mainly of finished goods.

Net realizable value is the estimated selling price in the ordinary course of business less any applicable estimated selling expenses.

Estimating the impact of certain factors on the net realizable value of inventory, such as obsolescence and losses of inventory, requires a high level of judgment. Inventory quantities, age and condition are measured and assessed regularly throughout the year.

(e) Vendor rebates

The Corporation records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction of cost of goods sold and the related inventory in the consolidated income statement and consolidated statement of financial position. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for goods or services supplied to the vendor, in which case the rebate is reflected as a reduction of operating expenses.

The Corporation recognizes these rebates when receipt is more likely than not and the amounts can be reasonably estimated.

To determine probability and estimated receipts, the Corporation uses actual purchases during the year, attainment of purchase forecasts and contractual terms and conditions. The assumptions are reassessed each year.

3. Significant accounting policies (continued)

(f) Customer rebates

The Corporation records cash consideration paid to customers as a reduction in the selling price of the product and presents it as a reduction to sales of goods in the consolidated income statement.

The Corporation recognizes these rebates when receipt is more likely than not and the amounts can be reasonably estimated.

(g) Property, plant and equipment

Property, plant and equipment are recognized at cost including capitalized interest, if applicable. When items of property, plant and equipment have different useful lives, they are recognized separately.

Borrowing costs to finance the construction of an item of property, plant and equipment that takes a substantial period of time to get ready for use are capitalized from the date the work is undertaken until the date activities that are necessary to prepare the asset for its intended use are all substantially completed. The capitalization of borrowing and other similar costs is suspended during prolonged periods in which the active development is suspended.

Depreciation begins when the items of property, plant and equipment are available for use and is recognized on a straight-line basis in order to depreciate the cost of the assets, less their residual values, over their estimated useful lives which are the following:

Parking lots	15 years
Buildings	15 to 40 years
Leasehold improvements	Lease term
Furniture and equipment	3 to 20 years
Computer hardware	5 years
Assets under finance leases	5 to 10 years

Depreciation methods, useful lives and residual values are reassessed annually.

The Corporation owns some properties that are leased to affiliated merchants in the RONA group. These properties are not considered as investment property because they are used in the supply of goods and the operations of these merchants generate cash flows that are not solely attributable to these properties. Accordingly, they are presented with property, plant and equipment.

Land for future development is held for eventual development as a real estate asset to be occupied by its owners.

(h) Non-current assets held for sale

A non-current asset or group of assets which the Corporation intends to sell is classified as held for sale and presented separately in the statement of financial situation if the following conditions are met:

- Its sale within one year is highly probable;
- The asset (or group of assets) is available for immediate sale in its present condition;
- Management is committed to a plan to sell the asset (or group of assets) and there is an active program to locate a buyer for sale at a price that is reasonable in relation to its current fair value.

Assets held for sale are measured at the lower of their carrying amount immediately before their classification as assets held for sale and their fair value less cost to sell. An asset that is classified as held for sale is no longer depreciated.

(i) Intangible assets

Software, trademarks with finite useful lives, dealer recruitment costs, customer relationships and preferential price leases are carried at cost less accumulated amortization and accumulated impairment losses. Acquired computer software is capitalized on the basis of the costs incurred to acquire licences and install the specific software.

Amortization is calculated on the cost of the asset less its residual value. Software is amortized on a straight-line basis over periods ranging from five to ten years. Trademarks are amortized on a straight-line basis over periods ranging from five to seven years. Dealer recruitment costs are amortized on a straight-line basis over a period of five years. Customer relationships are amortized on a straight-line basis over a period of ten years. Preferential price leases are amortized on a straight-line basis over the term of the lease. The amortization method, useful life and residual values are reviewed annually.

Trademarks with indefinite useful lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Amortization of intangible assets is included in depreciation, amortization and impairment of non-financial assets in the consolidated income statement.

Borrowing costs are capitalized in intangible assets using the same method as for property, plant and equipment.

3. Significant accounting policies (continued)

(j) Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identifiable and recorded separately. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it is impaired. Goodwill is measured at cost less accumulated impairment losses.

(k) Impairment of non-current assets

At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets with finite useful lives are assessed to determine if there is any evidence that an asset is impaired. If there is such evidence, the recoverable amount of the asset is estimated. The recoverable amount of intangible assets with indefinite useful lives or that are not ready for use and goodwill is estimated on the same date each year.

The recoverable amount of an asset or a cash generating unit is the higher of value-in-use and fair value less costs to sell. To determine value-in-use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the process of measuring expected future cash flows, the Corporation makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

Assets that cannot be tested individually for the impairment test are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets ("cash-generating unit" or "CGU"). For the impairment test of goodwill, CGUs to which goodwill has been allocated are grouped so that the level at which the impairment is tested represents the lowest level at which management monitors goodwill for internal management purposes. CGU groupings are limited to the operating sector. Goodwill acquired in a business combination is allocated to CGU groups that are expected to benefit from synergies of the related business combination.

The Corporation's corporate assets do not generate separate cash flows. If there is evidence that a corporate asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of an asset or its CGU is higher than its recoverable amount. Impairment charges are recognized in income.

Impairment losses recognized for a CGU (or group of CGU) first reduce the carrying amount of any goodwill allocated to that CGU and then reduce the carrying amounts of the other assets of the CGU (or group of CGU) pro rata on the basis of the carrying amount of each asset in the CGU (or group of CGU).

An impairment loss recognized for goodwill may not be reversed. On each reporting date, the Corporation assesses if there is an indication that impairment losses recognized in previous periods for other assets have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized.

(l) Leased assets

Leases in which substantially all the risks and rewards of ownership of an asset are transferred to the Corporation are classified as finance leases. On initial recognition, the leased asset is carried at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Following initial recognition, the asset is carried using the applicable accounting method for that type of asset.

All other leases are operating leases and, accordingly, the related leased asset is not included in the Corporation's consolidated statement of financial position. Lease payments under an operating lease are recognized in income on a straight-line basis over the lease term. Lease benefits are recognized as a reduction of total lease expenses over the lease term. Deferred lease incentives are recognized on a straight-line basis over the lease term.

(m) Other non-current assets

Other non-current assets include, among others, financing costs which are amortized on a straight-line basis over the financing term.

(n) Income taxes

Income tax expense includes current tax and deferred tax. Income tax expense is recognized in income, except where it relates to items that are recognized directly in other comprehensive income or in equity, in which case it is recognized directly in other comprehensive income or equity.

Current taxes are taxes that are expected to be paid on taxable income for the year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period and include any income tax adjustment in respect of prior years.

Deferred income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

3. Significant accounting policies (continued)

(n) Income taxes (continued)

The Corporation recognizes an income tax expense in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax returns by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon enacted or substantively enacted tax laws and estimates of future taxable income. To the extent estimates differ from the actual amounts determined when preparing the final tax returns, earnings would be affected in a subsequent period.

(o) Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events for an amount that can be estimated reliably, and it is likely that an outflow of economic resources will be required to settle the obligation. Provisions that expire in more than 12 months are determined by discounting expected future cash flows if the effect of discounting is material, at a pre-tax rate that reflects market assessment of the time value of money and the risks specific to the liability.

A provision for an onerous contract is recognized when the economic benefits expected to be received under the contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating or performing the contract. Before establishing a provision, the Corporation recognizes any impairment loss that has occurred on the assets dedicated to that contract.

A provision for restructuring costs is recognized when the Corporation has established a detailed formal plan for the restructuring and the Corporation has started to implement or has publicly announced the restructuring. There is no provision for future operating losses.

A guarantee provision is recognized when the related goods or services are sold. The provision is based on historical data on guarantees.

Provisions are reviewed at the end of each reporting period and are adjusted to reflect the best estimates at that date.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. In a business combination, contingent liabilities are recognized based on the purchase price allocation between identifiable assets acquired and liabilities assumed through the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

Probable receipts of economic benefits for the Corporation that do not yet meet asset recognition criteria are treated as contingent assets that are not recognized in the statement of financial position.

If all or a portion of the expenditure required to settle a provision is reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when it is virtually certain that reimbursement will be received if the entity settles the obligation.

(p) Other non-current liabilities

Other liabilities include deferred lease obligations resulting from the recognition, by the Corporation, of the rental expense on a straight-line basis over the lease term when leases contain a predetermined fixed escalation of the minimum rent.

(q) Stock option plans

Compensation expense related to options issued by the Corporation is measured at the fair value of the options at the grant date and recognized over the applicable stock option vesting period, which is the expected service period of the employees. The compensation expense credit is attributed to contributed surplus when the expense is recognized in net income.

Compensation expense recognized is adjusted to reflect the number of options that has been estimated by management for which conditions attaching to service will be fulfilled as of the grant date until the vesting date so that the ultimately recognized expense corresponds to the options that have actually vested. When options are exercised or shares are purchased, any consideration received from employees as well as the related compensation cost recorded as contributed surplus are credited to share capital.

(r) Share unit plan for officers

The Corporation offers a restricted share unit plan (RSU) to officers and key employees of the Corporation. The RSUs are vested over a maximum term of three years based on performance targets and passage of time.

The fair value of RSUs is recognized as a compensation expense on a straight-line basis over the vesting period. 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.

3. Significant accounting policies (continued)

(s) Share unit plan for directors

Members of the Corporation's Board of Directors, who are not Corporation's management, may elect to receive all or a portion of their annual fees in the form of deferred share units (DSUs). The DSU compensation liability is recognized at fair value based on the number of units outstanding and the market value of the Corporation's common shares. Fair value changes are recognized as compensation expense with a corresponding charge to trade and other payables.

(t) Foreign currency

Foreign currency transactions are translated into the Corporation's functional currency, the Canadian dollar, using the exchange rate prevailing at the date of the transactions.

Foreign currency denominated monetary assets and liabilities are translated into the functional currency using the exchange rates prevailing at the closing date.

Non-monetary items are translated at the historical rates of exchange. Revenues and expenses are translated at the rates of exchange in effect on the transaction date or at the average exchange rates for the period.

Foreign exchange gains and losses resulting from the settlement of transactions and from the remeasurement of monetary and non-monetary items at the closing date are recognized in income.

(u) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value plus transaction costs directly attributable to the acquisition or issuance of a financial asset or financial liability and subsequent measurement depends on their classification as described below:

- Cash, trade and other receivables and loans and advances (included in other financial assets) are classified as loans and receivables. Cash is recorded at amortized cost which generally corresponds to initial measurement. Trade and other receivables are recorded at amortized cost which generally corresponds to initial measurement less any allowance for doubtful accounts. Loans and advances are subsequently measured at amortized cost using the effective interest method.
- Bank loans, trade and other payables, dividends payable and long-term debt are classified as financial liabilities at amortized cost and are measured at amortized cost using the effective interest method.

With the exception of transaction costs associated with the revolving credit which are presented as other non-current assets, transaction costs associated with financial liabilities measured at amortized cost are carried as a reduction in the carrying amount of the related financial liability. These costs are amortized over the term of the related financial liability using the effective interest method.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired. All financial assets except for those measured at fair value through the consolidated income statements are subject to review for impairment at least at each reporting date.

(v) Derivative financial instruments and cash flow hedges

The Corporation uses derivative financial instruments to manage foreign exchange risk. The Corporation does not use derivative financial instruments for speculative or trading purposes.

At the initial designation of the hedge, the Corporation formally documents the relationship between the hedging instrument and the hedged instrument, the risk management objectives, the strategy for undertaking the hedge and how the effectiveness of the hedging relationship will be assessed. At the inception of the hedge and on an ongoing basis, the Corporation assesses if the hedge is expected to be "highly effective" in achieving offsetting changes in fair value or cash flows of the hedged items throughout the periods for which the hedge is designated.

Derivatives are carried initially at fair value, attributable transaction costs are recognized in income as incurred. After initial recognition, derivatives are measured at fair value and resulting changes are recognized as follows.

When a derivative is designated as a hedging instrument for a hedge of changes in cash flows attributable to a particular risk associated with a highly probable forecast transaction that could affect income, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the cash flow hedge reserve in equity. The amount recognized in other comprehensive income is reclassified to the income statement over the period in which the hedged cash flows affect income; the amount is recognized in the same line of other comprehensive income as the hedged item. Any ineffective portion of fair value changes of the derivative is recognized immediately in income.

When a hedge no longer meets the criteria for hedge accounting, expired, is sold, cancelled, exercised or when its designation is cancelled, the Corporation discontinues hedge accounting prospectively. The cumulative loss or gain at that date in other comprehensive income remains in the hedge reserve in equity until the forecast transaction occurs. When the hedged item is a non-financial asset, the associated cumulative loss or gain recognized in other comprehensive income is transferred to the initial cost of the asset when recognized. If the forecast transaction is no longer expected to occur, the balance of other comprehensive income is transferred immediately to income. In other cases, the associated loss or gain recognized in other comprehensive income is transferred to income over the periods in which the hedged item affects income.

3. Significant accounting policies (continued)

(w) Equity

Share capital represents the amount received for shares issued. When the securities are issued on a business acquisition, the amount recognized is the fair value at the acquisition date.

Treasury shares represent the cost of the Corporation's shares held by joint ventures.

Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements.

Retained earnings include all current and prior period retained profits. Also included are fees related to the issuance of shares, net of income tax recoveries.

Contributed surplus includes the compensation cost relating to the Corporation's stock option plans. It also includes gains on the disposal of RONA inc.'s common shares by the subsidiaries and joint ventures.

The cash flow hedge reserve consists of the effective portion of the cumulative net change in the fair value of a hedging instrument in a cash flow hedge associated with unrealized hedging transactions.

Non-controlling interests consist of the subsidiary's equity that the Corporation does not hold directly or indirectly.

Dividends on common shares attributable to shareholders are presented in other liabilities when approved prior to the reporting date.

Cumulative dividends on preferred shares are classified as other liabilities and are recognized with the passage of time.

(x) Employee benefits

Defined benefit plans

The asset or liability recognized in the statement of financial position for the defined benefit plans is the present value of the defined benefit obligations at the reporting date less the fair value of plan assets and certain adjustments, as described below:

- Unrecognized amount due to the limit of the asset.
- Liability recognized for minimum financing requirements

The actuarial valuation of the defined benefit obligations uses the projected unit credit method, and management's best estimate of expected salary escalation, retirement ages of employees and the mortality rate. The Corporation's obligations under the defined benefit plans are measured separately for each plan by estimating the amount of employees' future benefits that relates to services rendered during the current and prior periods.

Discount rates for obligations are determined with reference to the market rate of return, at the closing date, by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses resulting from calculating the present value of the defined benefit obligations and fair value of plan assets are recognized in the consolidated statement of other comprehensive income and recognized immediately in retained earnings without recycling in the consolidated income statement.

The defined benefit asset amount may not exceed the present value of any economic benefit available in the form of a future refund or a reduction in future plan contributions (the "asset limit"). Minimum funding requirements applicable to the Corporation plans are included in the calculation of the present value of the economic benefits. An additional liability is recognized, equivalent to the obligation in respect of the minimum funding requirement for defined benefit plans when the Corporation does not have an unconditional right to the surplus. The change in the liability recognized during the period is included in the consolidated statement of other comprehensive income.

The expected return on plan assets is based on the fair value of the plan assets and is recognized in income.

Past service costs from plan amendments are deferred and included in income on a straight-line basis over the average remaining period until the benefits become vested. If benefit entitlements vest immediately, the benefit cost is recognized immediately in income.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and will have no legal or constructive obligations to pay further contributions.

Contributions to defined contribution plans are included in employee benefits expense over periods in which the services are rendered by employees.

3. Significant accounting policies (continued)

(y) Income per share and information pertaining to number of shares

Basic and diluted income per share are presented for common shares, calculated by dividing net income attributable to owners of RONA inc., adjusted for dividends on preferred shares including related taxes, by the weighted average number of common shares outstanding during the year, adjusted by the number of treasury shares.

Diluted income per share is calculated taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the year or the issuance date.

(z) Segment information

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Corporation. Results for all segments for which discrete financial information is available are regularly reviewed by the Corporation's President and Chief Executive Officer to make decisions about resources to be allocated to the segments and assess their performance.

In identifying reportable operating segments, management uses differences in products and services offered. Operating segments have been combined because they share economic characteristics, similar products and clients. Revenue from the distribution segment is provided from supply activities to affiliated, franchised and corporate stores. Retail and commercial segment revenue is provided from the sale of various products and services directly to consumers.

The accounting conventions that apply to the operating segments are the same as those described in accounting policies. The Corporation accounts for intersegment operations in the ordinary course of business at fair value.

4. Revenues

	2012	2011
Sales of goods	\$ 4,811,955	\$ 4,739,484
Rendering of services	47,118	41,027
Royalties received	24,943	24,073
Total revenues	\$ 4,884,016	\$ 4,804,584

5. Supplemental information on income and charges

5.1 Operating profit before goodwill impairment, restructuring costs, impairment of non-financial assets and other charges

	2012	2011
Revenues	\$ 4,884,016	\$ 4,804,584
Cost of sales (Note 6)	(3,544,833)	(3,436,636)
Gross profit	1,339,183	1,367,948
Selling, general and administrative expenses	(1,283,712)	(1,232,747)
Net gains on disposal of assets	3,973	1,123
Other income	26,119	20,576
Operating profit before goodwill impairment, restructuring costs, impairment of non-financial assets and other charges	\$ 85,563	\$ 156,900

5.2 Depreciation, amortization and impairment of non-financial assets

	2012	2011
Depreciation of property, plant and equipment	\$ 69,571	\$ 80,348
Depreciation of leasehold property included in property, plant and equipment	565	1,860
Amortization of intangible assets	26,867	23,831
Amortization of other non-current assets	1,193	877
Impairment of non-financial assets	17,539	42,820
Total depreciation, amortization and impairment of non-financial assets	\$ 115,735	\$ 149,736

5.3 Employee benefits expense

	2012	2011
Salaries	\$ 491,835	\$ 477,674
Defined benefit expense	392	892
Defined contribution expense (Note 26)	12,810	10,473
Stock-based compensation expense (recovery) (Note 23)	3,676	(2,684)
Severance	17,657	9,254
Other fringe benefits	105,166	105,037
Total employee benefits expense	\$ 631,536	\$ 600,646

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5. Supplemental information on income and charges (continued)

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

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

Total restructuring costs, impairment of non-financial assets and other charges were as follows:

	2012	2011
Costs relating to the liquidation of store inventory	\$ 7,507	\$ 18,700
Severance (Note 20)	3,516	-
Impairment of non-financial assets	6,254	42,820
Onerous contracts (Note 20)	25,043	-
Other charges	1,948	9,823
Restructuring costs, impairment of non-financial assets and other charges	\$ 44,268	\$ 71,343

6. Inventory

For the year ended December 30, 2012, an amount of \$3,544,833 in inventory, before restructuring charges, was expensed in the consolidated income statement (\$3,436,636 in 2011).

For the year ended December 30, 2012, an inventory write-down charge of \$28,772 (\$49,363 in 2011) of which \$7,507 (\$18,700 in 2011) is included in restructuring costs (Note 5.4) was recognized in the consolidated income statement. No reversal of previous write-downs was recognized.

7. Income tax

Income tax expense

The relationship between the expected tax expense based on the Corporation's effective tax rate 26.90% as at December 30, 2012 (27.31% as at December 25, 2011) and the reported tax expense in income can be reconciled as follows, also showing major components of tax expense:

	2012	2011
Income before income tax expense	\$ 26,052	\$ (60,910)
Corporation's tax rate	26.90%	27.31%
Expected tax expense	7,008	(16,631)
Non-deductible (taxable) items	(262)	324
Non-deductible goodwill impairment	-	29,552
Other	223	618
Income tax expense	\$ 6,969	\$ 13,863
Current tax expense		
Current tax expense for the year	\$ 14,629	\$ 30,611
Prior period adjustments	(6)	24
Total current tax expense	\$ 14,623	\$ 30,635
Deferred tax expense		
Recognition and reversal of temporary differences	\$ (7,743)	\$ (17,139)
Decrease in tax rate	89	367
Total deferred tax expense	\$ (7,654)	\$ (16,772)
Total income tax expense	\$ 6,969	\$ 13,863
Income taxes recognized in other comprehensive income		
	2012	2011
Cash flow hedges		
Before tax	\$ (2,863)	\$ (691)
Deferred tax income	770	186
Net of tax	\$ (2,093)	\$ (505)
Actuarial losses		
Before tax	\$ (3,674)	\$ (3,770)
Deferred tax income	971	995
Net of tax	\$ (2,703)	\$ (2,775)

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7. Income tax (continued)

The consolidated effective tax rate was a rate of 26.75% and a negative tax rate of 22.76%, respectively, for the years ended December 30, 2012 and December 25, 2011. The change in the effective tax rate is primarily attributable to the change in the Corporation's combined statutory rate and the impairment of non-deductible goodwill in 2011.

Deferred tax assets and liabilities

Recognized deferred tax assets (liabilities):

	As at December 30, 2012		
	Assets	Liabilities	Net
Non-capital losses	\$ 13,045	\$ 1,292	\$ 14,337
Capital losses	441	20	461
Direct costs related to business acquisitions	103	402	505
Expenses not deducted	22,219	3,406	25,625
Property, plant and equipment and intangible assets	23,509	(22,294)	1,215
Goodwill	(1,748)	(7,221)	(8,969)
Share issue expenses	-	1,280	1,280
Deferred revenues	6,702	-	6,702
Incentive payments received	-	(2,017)	(2,017)
Pension plans	800	881	1,681
Derivatives	956	11	967
Other	226	(310)	(84)
Net deferred tax assets (liabilities)	\$ 66,253	\$ (24,550)	\$ 41,703

	As at December 25, 2011		
	Assets	Liabilities	Net
Non-capital losses	\$ 13,839	\$ -	\$ 13,839
Capital losses	183	-	183
Direct costs related to business acquisitions	848	-	848
Expenses not deducted	10,655	-	10,655
Property, plant and equipment and intangible assets	24,163	(21,110)	3,053
Goodwill	702	(8,004)	(7,302)
Share issue expenses	1,970	-	1,970
Deferred revenues	6,826	-	6,826
Incentive payments received	-	(2,284)	(2,284)
Pension plans	1,930	(73)	1,857
Derivatives	273	-	273
Other	3,850	(1,288)	2,562
Net deferred tax assets (liabilities)	\$ 65,239	\$ (32,759)	\$ 32,480

Changes in deferred tax assets (liabilities) during the year:

	Balance as at December 25, 2011	Income (loss)	Business acquisitions	Other comprehensive income	Other	Balance as at December 30, 2012
Non-capital losses	\$ 13,839	\$ 498	\$ -	\$ -	\$ -	\$ 14,337
Capital losses	183	278	-	-	-	461
Direct costs related to business acquisitions	848	(343)	-	-	-	505
Expenses not deducted	10,655	14,970	-	-	-	25,625
Property, plant and equipment and intangible assets	3,053	(1,619)	(219)	-	-	1,215
Goodwill	(7,302)	(1,667)	-	-	-	(8,969)
Share issue expenses	1,970	(690)	-	-	-	1,280
Deferred revenue	6,826	(124)	-	-	-	6,702
Incentive payments received	(2,284)	267	-	-	-	(2,017)
Pension plans	1,857	(1,147)	-	971	-	1,681
Derivatives	273	(76)	-	770	-	967
Other	2,562	(2,693)	-	-	47	(84)
Net deferred tax assets	\$ 32,480	\$ 7,654	\$ (219)	\$ 1,741	\$ 47	\$ 41,703

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7. Income tax (continued)

Changes in deferred tax assets (liabilities) during the year (continued):

	Balance as at December 26, 2010	Income (loss)	Business acquisitions	Other comprehensive income	Other	Balance as at December 25, 2011
Non-capital losses	\$ 9,203	\$ 4,636	\$ -	\$ -	\$ -	\$ 13,839
Capital losses	58	125	-	-	-	183
Direct costs related to business acquisitions	81	767	-	-	-	848
Expenses not deducted	9,909	746	-	-	-	10,655
Property, plant and equipment and intangible assets	(3,063)	7,418	(1,302)	-	-	3,053
Goodwill	(9,548)	2,246	-	-	-	(7,302)
Share issue expenses	1,216	(721)	-	-	1,475	1,970
Deferred revenue	6,241	585	-	-	-	6,826
Incentive payments received	(1,638)	(646)	-	-	-	(2,284)
Pension plans	1,544	(682)	-	995	-	1,857
Derivatives	-	87	-	186	-	273
Other	446	2,211	-	-	(95)	2,562
Net deferred tax assets	\$ 14,449	\$ 16,772	\$ (1,302)	\$ 1,181	\$ 1,380	\$ 32,480

All deferred tax assets have been recognized in the statement of financial position, including deductible temporary differences, tax losses and unused tax credits.

8. Cash flow information

The changes in working capital items are detailed as follows:

	2012	2011
Trade and other receivables	\$ 4,926	\$ (69,688)
Inventory	(44,425)	84,183
Prepaid expenses	789	(2,715)
Derivative financial instruments	1,399	(387)
Trade and other payables	22,075	53,900
Provisions ^(a)	359	1,389
	\$ (14,877)	\$ 66,682

^(a) Excludes the change in provision for restructuring costs which is presented as a separate line item in the consolidated statement of cash flows.

9. Business acquisitions

On October 29, 2012, the Corporation acquired the assets of a dealer located in Alberta, operating in the retail and commercial segment.

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

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

During 2011, the Corporation acquired five companies in the retail and commercial segment and one company in the distribution segment through share or asset purchases.

Moreover, during 2011, the Corporation acquired the non-controlling 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.

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9. Business acquisitions (continued)

The consideration paid for these acquisitions amounted to \$15,067 (\$56,195 in 2011). Direct acquisition costs of \$119 were recognized in selling, general and administrative expenses for the year ended December 30, 2012 (\$666 in 2011). The Corporation financed these acquisitions from its available cash and existing credit facilities.

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

	2012	2011
Trade and other receivables	\$ 2,478	\$ 6,298
Inventory	6,579	19,956
Other current assets	156	244
Property, plant and equipment	10,007	30,040
Goodwill on acquisition	1,212	16,777
Intangible assets	-	45
Current liabilities	(5,114)	(15,251)
Long-term debt	(32)	(1,144)
Deferred tax liabilities	(219)	(770)
Cost of acquisitions	15,067	56,195
Less: Balances of purchase prices	(3,259)	(8,488)
Cash consideration paid	\$ 11,808	\$ 47,707

The Corporation does not expect the goodwill to be deductible for tax purposes (\$6,989 in 2011).

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

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

10. Trade and other receivables

	2012 As at December 30	2011 As at December 25
Trade accounts		
Retail and commercial customers	\$ 286,622	\$ 260,319
Affiliated and franchised stores	65,773	93,927
Joint ventures	2,087	3,510
	354,482	357,756
Other accounts receivable	8,670	12,338
	\$ 363,152	\$ 370,094

11. Other financial assets

	2012 As at December 30	2011 As at December 25
Companies subject to significant influence		
Shares, at equity value	\$ 4,986	\$ 4,845
Loans and advances, at cost		
Mortgages and term notes, weighted average rate of 5.94% (6.7% in 2011), maturing at various dates until 2019	11,499	10,240
	16,485	15,085
Other current financial assets	1,440	1,468
Other non-current financial assets	\$ 15,045	\$ 13,617

Interest income related to the loans and advances presented above amounted to \$1,602 (\$1,687 in 2011) and is included in Finance income on the consolidated income statement.

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12. Property, plant and equipment

	Land and parking lots	Buildings	Leasehold improvements	Furniture and equipment	Computer hardware	Projects in process ^(a)	Assets under finance leases			Total
							Land for future development	Furniture and equipment	Computer hardware	
Cost	\$ 313,063	\$ 362,280	\$ 245,235	\$ 424,364	\$ 112,082	\$ 6,127	\$ 39,445	\$ 7,096	\$ 1,150	\$ 1,510,842
Accumulated depreciation	30,682	90,823	149,222	269,526	89,162	-	-	6,038	1,143	636,596
Balance, December 25, 2011	282,381	271,457	96,013	154,838	22,920	6,127	39,445	1,058	7	874,246
Depreciation for the year	(2,645)	(13,171)	(11,901)	(32,469)	(9,385)	-	-	(561)	(4)	(70,136)
Acquisitions through business combinations	3,734	5,510	-	752	11	-	-	-	-	10,007
Other acquisitions	884	1,512	5,580	16,588	7,436	5,948	23	-	-	37,971
Disposals of property, plant and equipment	(31)	(77)	(15)	(552)	(15)	-	-	-	-	(690)
Transfers between classes of property, plant and equipment	-	1,403	27	3,243	142	(4,625)	-	(187)	(3)	-
Transfers between property, plant and equipment and non-current assets held for sale	(14,551)	(9,577)	(149)	-	-	-	-	-	-	(24,277)
Impairment (Note 5.2)	(901)	(4,785)	(6,016)	(1,222)	(151)	-	-	(4)	-	(13,079)
Other changes	(82)	(106)	(120)	179	451	(456)	-	(7)	-	(141)
Total changes	(13,592)	(19,291)	(12,594)	(13,481)	(1,511)	867	23	(759)	(7)	(60,345)
Balance, December 30, 2012	268,789	252,166	83,419	141,357	21,409	6,994	39,468	299	-	813,901
Cost	300,276	353,314	247,269	448,498	118,938	6,994	39,468	4,352	961	1,520,070
Accumulated depreciation	31,487	101,148	163,850	307,141	97,529	-	-	4,053	961	706,169
Balance, December 30, 2012	\$ 268,789	\$ 252,166	\$ 83,419	\$ 141,357	\$ 21,409	\$ 6,994	\$ 39,468	\$ 299	\$ -	\$ 813,901

(a) Projects in process include the costs related to the construction of the buildings which will be used for store operations.

For the year ended December 30, 2012, there was no interest capitalized in property, plant and equipment (\$524 in 2011). The weighted average rate used in determining borrowing costs capitalized was 5.44% in 2011.

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12. Property, plant and equipment (continued)

	Assets under finance leases									Total
	Land and parking lots	Buildings	Leasehold improvements	Furniture and equipment	Computer hardware	Projects in process ^(a)	Land for future development	Furniture and equipment	Computer hardware	
Cost	\$ 271,475	\$ 307,212	\$ 235,077	\$ 397,191	\$ 100,434	\$ 59,132	\$ 37,843	\$ 12,704	\$ 15,428	\$ 1,436,496
Accumulated depreciation	27,820	75,149	115,218	231,288	76,572	1,182	-	9,011	15,212	551,452
Balance, December 26, 2010	243,655	232,063	119,859	165,903	23,862	57,950	37,843	3,693	216	885,044
Depreciation for the year	(2,856)	(12,413)	(16,266)	(39,018)	(9,818)	-	-	(1,650)	(187)	(82,208)
Acquisitions through business combinations	10,950	13,422	3	5,359	306	-	-	-	-	30,040
Other acquisitions	2,448	5,460	7,419	32,202	11,561	9,475	1,633	-	-	70,198
Disposals of property, plant and equipment	(307)	(965)	(109)	(382)	(85)	-	-	(460)	-	(2,308)
Transfers between classes of property, plant and equipment	37,861	32,533	32	2,315	340	(73,113)	71	(39)	-	-
Transfers between property, plant and equipment and non-current assets held for sale	(594)	(1,335)	-	-	-	-	-	-	-	(1,929)
Impairment (Note 5.2)	-	(1,136)	(14,947)	(11,908)	(1,727)	-	-	-	-	(29,718)
Other changes	(8,776)	3,828	22	367	(1,519)	11,815	(102)	(486)	(22)	5,127
Total changes	38,726	39,394	(23,846)	(11,065)	(942)	(51,823)	1,602	(2,635)	(209)	(10,798)
Balance, December 25, 2011	282,381	271,457	96,013	154,838	22,920	6,127	39,445	1,058	7	874,246
Cost	313,063	362,280	245,235	424,364	112,082	6,127	39,445	7,096	1,150	1,510,842
Accumulated depreciation	30,682	90,823	149,222	269,526	89,162	-	-	6,038	1,143	636,596
Balance, December 25, 2011	\$ 282,381	\$ 271,457	\$ 96,013	\$ 154,838	\$ 22,920	\$ 6,127	\$ 39,445	\$ 1,058	\$ 7	\$ 874,246

(a) Projects in process include the costs related to the construction of the buildings which will be used for store operations.

13. 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 December 30	2011 As at December 25
Balance at beginning	\$ 10,455	\$ 16,474
Additions	24,277	5,632
Disposals	(11,834)	(7,948)
Reclassification to property, plant and equipment	-	(3,703)
Balance at end	22,898	10,455
Non-current assets held for sale		
Land	13,154	9,392
Buildings	9,744	1,063
Total	\$ 22,898	\$ 10,455

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14. Goodwill

	2012 As at December 30	2011 As at December 25
Balance, beginning of year	\$ 426,968	\$ 529,094
Acquisition through business combinations (Note 9)	1,212	16,777
Impairment	-	(117,000)
Adjustment related to the purchase price allocation of an acquisition	-	(1,903)
Balance, end of year	<u>\$ 428,180</u>	<u>\$ 426,968</u>

For the purpose of the annual impairment testing, goodwill is allocated to the following CGU groups, which are the groups of units expected to benefit from the synergies of the business combinations:

	2012 As at December 30	2011 As at December 25
Corporate and franchised stores	\$ 187,692	\$ 187,056
Commercial and professional stores	130,416	130,416
Distribution	110,072	109,496
Goodwill allocation	<u>\$ 428,180</u>	<u>\$ 426,968</u>

The Corporation performed its annual test for goodwill impairment as at December 30, 2012. The carrying amounts of the CGU groups have been determined using the value in use. To determine value in use, five-year cash flow forecasts were prepared using the budget and strategic plan approved by the Board of Directors. Cash flow forecasts for periods beyond that of the budget and strategic plan were prepared using a stable growth rate for future periods, not exceeding the rate of long term average growth of the Corporation's sectors of activity. These forecasts were based on historical data and future trends expected by the Corporation.

For the impairment test carried out as at December 30, 2012, management's key assumptions were average annual increases in same-store sales of 1.3% (average of 2.25% as at December 25, 2011) for the first five years and thereafter at 2.25% (2.25% as at December 25, 2011).

The Corporation's valuation model also takes account of working capital and capital investments to maintain the condition of the assets of each CGU group.

Forecasted cash flows are discounted using pre-tax rates ranging from 11.8% to 11.9% (11.8% to 11.9% in 2011) which reflect current market assessments of the time value of money and the risks specific to the asset.

The fair value of each CGU group was higher than its carrying amount. The most sensitive assumptions used in the impairment testing model include forecasted organic growth in sales and gross margins, weighted average cost of capital and the anticipated degree of attainment of returns from business transformation initiatives. Failure to meet certain of those assumptions could have an impact on the estimated recoverable values of the Corporation's CGU groups.

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15. Intangible assets

	Trademarks – useful life			Dealer recruitment costs	Customer relationships	Preferential price leases	Total
	Finite	Indefinite	Software				
Cost	\$ 2,174	\$ 2,721	\$ 242,671	\$ 23,341	\$ 450	\$ 418	\$ 271,775
Accumulated amortization	2,008	–	129,605	12,643	202	349	144,807
Balance, December 25, 2011	166	2,721	113,066	10,698	248	69	126,968
Amortization for the year	(132)	–	(21,556)	(5,087)	(23)	(69)	(26,867)
Other acquisitions	–	–	42,067	6,336	–	–	48,403
Impairment (Note 5.2)	–	–	(4,460)	–	–	–	(4,460)
Other changes	–	–	(92)	(227)	–	–	(319)
Total changes	(132)	–	15,959	1,022	(23)	(69)	16,757
Balance, December 30, 2012	34	2,721	129,025	11,720	225	–	143,725
Cost	2,174	2,721	284,985	26,991	450	418	317,739
Accumulated amortization	2,140	–	155,960	15,271	225	418	174,014
Balance, December 30, 2012	\$ 34	\$ 2,721	\$ 129,025	\$ 11,720	\$ 225	\$ –	\$ 143,725

	Trademarks – useful life			Dealer recruitment costs	Customer relationships	Preferential price leases	Total
	Finite	Indefinite	Software				
Cost	\$ 2,174	\$ 2,721	\$ 216,281	\$ 24,658	\$ 450	\$ 418	\$ 246,702
Accumulated amortization	1,574	–	103,027	13,540	180	158	118,479
Balance, December 26, 2010	600	2,721	113,254	11,118	270	260	128,223
Amortization for the year	(227)	–	(19,262)	(4,129)	(22)	(191)	(23,831)
Acquisitions through business combinations	–	–	45	–	–	–	45
Other acquisitions	–	–	33,578	5,647	–	–	39,225
Impairment (Note 5.2)	(207)	–	(12,895)	–	–	–	(13,102)
Other changes	–	–	(1,654)	(1,938)	–	–	(3,592)
Total changes	(434)	–	(188)	(420)	(22)	(191)	(1,255)
Balance, December 25, 2011	166	2,721	113,066	10,698	248	69	126,968
Cost	2,174	2,721	242,671	23,341	450	418	271,775
Accumulated amortization	2,008	–	129,605	12,643	202	349	144,807
Balance, December 25, 2011	\$ 166	\$ 2,721	\$ 113,066	\$ 10,698	\$ 248	\$ 69	\$ 126,968

Amortization

Amortization of intangible assets is included in depreciation, amortization and impairment of non-financial assets in the consolidated income statement.

For the year ended December 30, 2012, capitalized interest on software amounted to \$568 (\$800 in 2011) and the weighted average rate used in determining borrowing costs capitalized was 3.84% (5.44% in 2011).

Intangible assets with indefinite useful lives

These assets are comprised of trademarks designated as such according to the following criteria:

- Long-term return outlook
- Age of the trademark
- Global positioning of the trademark in its market in terms of volume of activity and awareness.

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16. Other non-current assets

	2012	2011
	As at December 30	As at December 25
Credit facilities financing costs	\$ 2,089	\$ 3,199
Defined benefit assets (Note 26)	2,760	1,940
Other	265	296
Balance, end of year	<u>\$ 5,114</u>	<u>\$ 5,435</u>

Amortization of other non-current assets, included in depreciation, amortization and impairment of non-financial assets in the consolidated income statement, amounted to \$1,193 for the year ended December 30, 2012 (\$877 in 2011).

17. Bank loans

a) Other subsidiaries

Bank loans are secured by an assignment of certain assets, notably trade and other receivables, inventory and property, plant and equipment, in the amount of \$33,438 (\$32,423 in 2011). These bank loans bear interest at rates varying from prime rate to prime rate plus 2.00% and are renewable annually. As at December 30, 2012, the interest rates varied from 3.00% to 5.00% (3.00% to 3.50% in 2011). The amount authorized for these credit facilities was \$20,860 (\$19,060 in 2011) and the amount used was \$10,066 (\$4,795 in 2011).

b) Joint ventures

Bank loans are secured by an assignment of certain assets of joint ventures, notably trade and other receivables, inventory and property, plant and equipment. The Corporation's share of these assets amounted to \$5,765 (\$5,510 in 2011). These bank loans bear interest at rates varying from prime rate to prime rate plus 0.50% and are renewable annually. As at December 30, 2012, the interest rates varied from 3.00% to 3.50% (3.00% to 3.50% in 2011). The amount authorized for these credit facilities was \$11,500 (\$11,500 in 2011) and the amount used was \$3,765 (\$2,605 in 2011).

18. Long-term debt

	2012	2011
	As at December 30	As at December 25
Debentures, unsecured, par value \$116,829, rate of 5.40%, maturing in 2016 ^(a)	\$ 116,202	\$ 116,068
Credit facilities, at a weighted average rate of 3.03% (2.47% in 2011), maturing in 2016	171,900	91,249
Mortgage loans, secured by assets having a non-depreciated cost of \$106,907 (\$90,943 in 2011), rates varying from prime rate less 0.25% to 8.50% in 2012 (same rates in 2011), maturing on various dates until 2020	18,362	26,107
Obligations under finance leases, rates varying from 4.19% to 10.60% (same rates in 2011), maturing on various dates until 2017	816	1,592
Balances of purchase prices, rates varying from 0.00% to 6.00% (same rates in 2011), payable on various dates until 2015	9,423	16,314
Shares issued and fully paid		
Class D preferred shares (1,000,000 shares in 2011) ^(b)	-	1,000
	<u>316,703</u>	<u>252,330</u>
Instalments due within one year	11,683	20,257
	<u>\$ 305,020</u>	<u>\$ 232,073</u>

(a) Effective rate of 5.55%.

(b) During the year, the Corporation redeemed 1,000,000 shares (1,000,000 shares in 2011) for a cash consideration of \$1,000 (\$1,000 in 2011).

18. Long-term debt (continued)

Credit facilities

On December 23, 2011, the Corporation concluded the renewal of its existing credit facility for a five-year period. This facility, which was to mature in 2012, was renewed to 2016 and the total available amount was increased from \$650,000 to \$950,000. The premium on the base interest rate and borrowing costs varies in accordance with the credit rating assigned to the unsecured debentures.

Credit facilities can be used to issue letters of guarantee and credit letters for imports. As at December 30, 2012, the letters of guarantee issued amounted to \$1,152 (\$1,216 in 2011). For the year 2012, the weighted average interest rate on the revolving credit was 3.01% (2.2% in 2011).

Letters of credit

The Corporation also has an unsecured credit facility up to an amount of \$55,000, utilized for the issuance of letters of credit for imports. The terms and conditions to be respected are the same as for the revolving credit. As at December 30, 2012, the amount used was \$24,229 (\$40,046 in 2011).

Maturities for obligations under finance leases are as follows:

			2012
	Future minimum lease payments	Interest	Value of the future minimum lease payments
Less than 1 year	\$ 317	\$ 39	\$ 278
Between 1 – 5 years	589	51	538
Over 5 years	–	–	–
	<u>\$ 906</u>	<u>\$ 90</u>	<u>\$ 816</u>

			2011
	Future minimum lease payments	Interest	Value of the future minimum lease payments
Less than 1 year	\$ 851	\$ 91	\$ 760
Between 1 – 5 years	925	122	803
Over 5 years	30	1	29
	<u>\$ 1,806</u>	<u>\$ 214</u>	<u>\$ 1,592</u>

The instalments on other long-term debt and share repurchases for the next years are as follows:

	2012	2011
	As at December 30	As at December 25
Less than 1 year	\$ 11,405	\$ 17,881
Between 1 – 5 years	128,145	135,860
Over 5 years	4,437	5,748
	<u>\$ 143,987</u>	<u>\$ 159,489</u>

19. Other non-current liabilities

	2012	2011
	As at December 30	As at December 25
Deferred lease obligations due to straight-line basis	\$ 25,166	\$ 25,521
Defined benefit liability (Note 26)	9,575	8,132
Balance, end of year	<u>\$ 34,741</u>	<u>\$ 33,653</u>

20. Provisions and contingent liabilities

	Litigation	Onerous contracts	Product warranties	Restructuring ^(a)		Total
				Severance	Onerous contracts	
Balance, December 25, 2011	\$ 3,792	\$ 5,710	\$ 1,051	\$ –	\$ –	\$ 10,553
Provisions created during the year	2,097	1,630	533	3,516	25,043	32,819
Provisions used during the year	(1,177)	(2,042)	(143)	(2,090)	(3,334)	(8,786)
Provisions reversed during the year	(676)	–	–	–	–	(676)
Accretion expense	–	91	–	–	46	137
Balance, December 30, 2012	4,036	5,389	1,441	1,426	21,755	34,047
Current	4,036	1,711	1,441	1,426	7,721	16,335
Non-current	–	3,678	–	–	14,034	17,712
	\$ 4,036	\$ 5,389	\$ 1,441	\$ 1,426	\$ 21,755	\$ 34,047

(a) Refer to Note 5.4 for additional information.

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 26, 2010	\$ 3,222	\$ 5,757	\$ 185	\$ 9,164
Provisions created during the year	3,006	368	1,153	4,527
Provisions used during the year	(1,098)	(638)	(59)	(1,795)
Provisions reversed during the year	(1,338)	–	(228)	(1,566)
Accretion expense	–	223	–	223
Balance, December 25, 2011	3,792	5,710	1,051	10,553
Current	3,792	2,104	1,051	6,947
Non-current	–	3,606	–	3,606
	\$ 3,792	\$ 5,710	\$ 1,051	\$ 10,553

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

Restructuring

In 2012, following store closures, provisions for onerous contracts were recognized for non-cancellable operating leases for commercial stores which are no longer used at a weighted average discount rate of 4.25%. The provisions were estimated using contractual obligations at the time of initial recognition and sublease revenue assumptions based on market data. The remaining terms of these leases vary from one to 15 years.

Other

Following a store closure in 2008, a provision for onerous contracts was recognized for a non-cancellable operating lease for a commercial store which is no longer used at a weighted average discount rate of 4.25% (4.65% in 2011). The provision was estimated using the contractual obligation at the time of initial recognition and sublease revenue assumptions based on market data. The lease, still in effect, expires in 2024.

21. Guarantees, commitments and contingencies

Guarantees

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

Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 65% of the cost of the inventories to a maximum of \$47,011. 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.

Commitments

The Corporation has entered into operating lease agreements expiring until 2028 which call for lease payments of \$51,270 for the rental of automotive equipment, computer hardware, distribution equipment, a warehouse and the building housing the head office and the distribution centre in Quebec.

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21. Guarantees, commitments and contingencies (continued)**Commitments (continued)**

The Corporation has also entered into operating lease agreements expiring until 2027 for corporate store space for minimum lease payments of \$858,612.

As part of the operation of big-box stores with dealer-owners, the Corporation is initially involved as a primary tenant and then signs a subleasing agreement with the dealer-owners. In this respect, the Corporation is committed under agreements expiring until 2023 which call for minimum lease payments of \$51,601 for the rental of premises and land on which the Corporation erected a building. In consideration thereof, the Corporation has signed subleasing agreements for an equivalent amount.

The minimum lease payments and minimum amounts receivable under operating lease agreements and other commitments for the next years are as follows:

	2012		2011	
	Minimum lease payments	Minimum amounts Receivable	Minimum lease payments	Minimum amounts receivable
Less than 1 year	\$ 142,603	\$ 9,787	\$ 139,813	\$ 8,856
Between 1 – 5 years	450,782	26,494	465,248	27,598
Over 5 years	376,088	15,551	446,921	20,680
	\$ 969,473	\$ 51,832	\$ 1,051,982	\$ 57,134

The Corporation leases several buildings for its stores as operating leases, the majority of which are non-cancellable. The leases are usually for a term of 20 years and have a renewal clause at the market rates prevailing at that time.

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.

22. 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 (Note 18)

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22. Share capital (continued)

Issued and fully paid:

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

	Common shares		Preferred shares ^(b)		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	6,866	75	-	-	-	-	-	-	6,866	75
Issuance under stock option plans	974,625	3,534	-	-	-	-	-	-	974,625	3,534
Issuance in exchange for common share subscription deposits	259,057	2,477	-	-	(3,844)	(48)	-	(2,429)	255,213	-
Repurchase of common shares	(7,032,700)	(34,257)	-	-	-	-	-	-	(7,032,700)	(34,257)
Deposits on common share subscriptions received	-	-	-	-	-	-	-	2,141	-	2,141
Deposits on common share subscriptions refunded	-	-	-	-	-	-	-	(27)	-	(27)
Balance, December 30, 2012	121,408,037	\$ 590,763	6,900,000	\$ 172,500	(80,825)	\$ (523)	-	\$ 2,142	128,227,212	\$ 764,882

- (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 December 30, 2012, the number of outstanding common shares would have increased by 204,194.
- (b) Class A preferred shares, Series 6 (Note 24).

	Common shares		Preferred shares ^(b)		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	49,499	550	6,900,000	172,500	-	-	-	-	6,949,499	173,050
Issuance under stock option plans	255,525	1,770	-	-	-	-	-	-	255,525	1,770
Issuance in exchange for common share subscription deposits	193,683	2,749	-	-	(3,647)	(51)	-	(2,698)	190,036	-
Repurchase of common shares	(3,370,300)	(16,399)	-	-	-	-	-	-	(3,370,300)	(16,399)
Deposits on common share subscriptions received	-	-	-	-	-	-	-	2,456	-	2,456
Deposits on common share subscriptions refunded	-	-	-	-	-	-	-	(75)	-	(75)
Balance, December 25, 2011	127,200,189	\$ 618,934	6,900,000	\$ 172,500	(76,981)	\$ (475)	-	\$ 2,457	134,023,208	\$ 793,416

- (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 December 25, 2011, the number of outstanding common shares would have increased by 261,886.
- (b) Class A preferred shares, Series 6 (Note 24).

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 year ended December 30, 2012, the Corporation redeemed for cancellation a total of 7,032,700 common shares (3,370,300 in 2011) for a total cost of \$66,767 (\$31,768 in 2011). Of the total cost, \$34,257 (\$16,399 in 2011) represents the stated value of common shares. The remaining \$32,510 (\$15,369 in 2011) was recorded in retained earnings.

23. 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 December 30, 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 (1,960,000 options in 2011). The fair value of each option granted was estimated at the grant date using the Black-Scholes option pricing model.

No compensation cost was expensed with respect to this plan for the years ended December 30, 2012 and December 25, 2011.

Stock option plan of October 24, 2002

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

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

As at December 30, 2012, the 3,891,887 options granted (3,242,352 options in 2011) have exercise prices ranging from \$9.38 to \$26.87 in 2012 (\$9.97 to \$26.87 in 2011) and of this number, 187,050 options have been exercised (172,425 options in 2011), 619,758 options have expired (same number of options in 2011) and 1,091,869 options have been forfeited (835,994 options in 2011).

The weighted average fair value of stock options granted of \$2.79 for the year ended December 30, 2012 (\$4.64 in 2011) was estimated for each option tranche at the grant date using the Black-Scholes option pricing model on the basis of the following weighted average assumptions for the options granted during the period:

	2012	2011
Share price at date of grant	\$9.83	\$13.61
Risk-free interest rate	1.48 to 1.96%	1.67 to 3.35%
Expected share price volatility	27.11 to 28.62%	27.60 to 28.13%
Expected dividend rate	1.24 to 1.50%	1.00 to 1.39%
Expected life	7 to 10 years	7 to 10 years
Exercise price at date of grant	\$9.90	\$13.65

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

Compensation cost expensed with respect to this plan amounted to \$1,183 for the year ended December 30, 2012 (\$1,034 in 2011).

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

	As at December 30, 2012		As at December 25, 2011	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	2,574,175	\$ 10.32	2,727,794	\$ 9.99
Granted	649,535	9.90	384,900	13.65
Exercised	(974,625)	3.58	(255,525)	5.77
Forfeited	(255,875)	12.55	(282,994)	15.74
Outstanding, end of year	1,993,210	13.19	2,574,175	10.32
Options exercisable, end of year	1,264,110	\$ 14.29	1,824,200	\$ 9.05

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23. Stock-based compensation (continued)

Stock option plans (continued)

The weighted average price of the common shares acquired by option holders having exercised 974,625 options (255,525 options in 2011) for the year ended December 30, 2012 was \$9.44 (\$11.62 in 2011).

The following table summarizes information relating to stock options outstanding as at December 30, 2012:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 9.38	March 5, 2022	380,400	98,400
\$ 9.97	September 21, 2021	60,000	15,000
\$ 10.62	March 11, 2019	307,300	268,250
\$ 11.15	November 19, 2022	50,000	-
\$ 11.33	November 20, 2022	128,435	-
\$ 14.18	March 1, 2018	129,475	129,475
\$ 14.29	December 16, 2013	322,200	322,200
\$ 14.33	March 7, 2021	212,475	92,010
\$ 15.44	March 9, 2020	232,575	168,425
\$ 20.27	December 22, 2014	71,500	71,500
\$ 23.58	March 8, 2017	98,850	98,850
		1,993,210	1,264,110

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 December 30	2011 As at December 25
Number of restricted share units:		
Outstanding, beginning of year	1,117,225	935,325
Granted	761,354	419,000
Expired	(243,341)	(113,000)
Forfeited	(524,061)	(115,684)
Paid	(128,809)	(8,416)
Outstanding, end of year	982,368	1,117,225

For the year ended December 30, 2012, an expense of \$677 was recorded in the consolidated income statement (recovery of \$3,968 in 2011).

23. 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 will be redeemable and the value of the units will be payable only when the unit holder ceases to be a director.

	2012 As at December 30	2011 As at December 25
Number of deferred share units:		
Balance, beginning of year	234,968	172,781
Granted	133,984	77,877
Paid	(58,824)	(15,690)
Balance, end of year	310,128	234,968

The expense recorded in the consolidated income statement for the year ended December 30, 2012 amounted to \$1,816 (\$250 in 2011).

24. Capital disclosures

The Corporation maintains a level of capital that is sufficient to meet several objectives, including an acceptable total debt-to-capital ratio to provide access to adequate funding sources to support current operations and fulfilment of its business plan.

Total net debt includes bank loans and long-term debt less cash. The Corporation's capital includes total net debt and equity.

As at December 30, 2012, the Corporation's net debt-to-capital ratio was 14.02% (10.91% in 2011).

The Corporation manages its capital structure and makes adjustments in light of changes in activities, economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, repurchase its shares for cancellation or sell assets to reduce debt.

Dividends on common shares

The Board of Directors approved a dividend policy under which a cash dividend will be payable on a semi-annual basis to holders of common shares when declared. This dividend policy is reviewed by the Board of Directors from time-to-time in light of the Corporation's cash flows, earnings, financial position and other relevant factors.

At its February 22, 2012 meeting, RONA's Board of Directors declared a semi-annual dividend of \$0.07 per common share, which was paid on March 26, 2012 to shareholders of record on March 9, 2012.

At its August 7, 2012 meeting, RONA's Board of Directors declared a semi-annual dividend of \$0.07 per common share, which was paid on September 25, 2012 to shareholders of record on September 10, 2012.

Dividends on preferred shares

During the year ended December 30, 2012, the following dividends were declared on the Series 6, Class A preferred shares, adjusted every five years:

At its February 22, 2012 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3227 per share which was paid on March 30, 2012 to shareholders of record on March 15, 2012.

At its May 9, 2012 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3299 per share which was paid on July 2, 2012 to shareholders of record on June 15, 2012.

At its August 7, 2012 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3299 per share which was paid on October 1, 2012 to shareholders of record on September 14, 2012.

At its November 6, 2012 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3300 per share which was paid on December 31, 2012 to shareholders of record on December 17, 2012.

The dividend policy on preferred shares is reviewed by the Board of Directors from time-to-time in light of the Corporation's cash flows, earnings, financial position and other relevant factors.

24. Capital disclosures (continued)

Credit facilities

The Corporation's credit facilities include certain covenants affecting, among others, the leverage ratio and the interest coverage ratios. These ratios are submitted to the Board of Directors each quarter. The Corporation is in compliance with the ratios for the years ended December 30, 2012 and December 25, 2011. Other than covenants related to its credit facilities, the Corporation is not subject to any other externally imposed capital requirements.

25. Financial instruments and risk management

The carrying amounts and fair values of financial instruments are as follows:

	As at December 30, 2012		As at December 25, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables				
Cash	\$ 21,006	\$ 21,006	\$ 17,149	\$ 17,149
Trade and other receivables	363,152	363,152	370,094	370,094
Loans and advances	11,499	11,499	10,240	10,233
Other financial liabilities				
Bank loans	11,332	11,332	4,377	4,377
Trade and other payables	495,698	495,698	487,864	487,864
Dividends payable	2,258	2,258	2,527	2,527
Debentures	116,202	123,652	116,068	113,816
Obligations under finance leases	816	816	1,592	1,592
Mortgage loans and balances of purchase prices	27,785	27,021	42,421	41,501
Credit facility	171,900	171,900	91,249	91,249
Preferred shares	-	-	1,000	1,000
Financial liabilities at fair value designated as cash flow hedges				
Derivative financial instruments	3,553	3,553	691	691

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

- The fair value of trade and other receivables and trade and other payables is comparable to their carrying amount, given the short maturity periods;
- The fair value of loans and advances, mortgage loans and balances of purchase prices was determined based on discounted cash flows using effective interest rates available to the Corporation at the end of the reporting period;
- The fair value of bank loans and credit facility is comparable to their carrying amount since they bear interest at rates comparable to market rates at the end of the reporting period;
- The fair value of obligations related to leased assets is comparable to their carrying amount because they bear interest at rates comparable to market rates at the end of the reporting period;
- The fair value of debentures was determined using their bid price at the end of the reporting period;
- The fair value of class D preferred shares, included in long-term debt, approximates their carrying amount (redemption value);
- The fair value of derivative instruments was determined by comparing the original rates of the derivatives with rates prevailing at the revaluation date for contracts having equal values and maturities (observable market data).

Realized gains or losses of \$629 (\$159 in 2011) in respect of derivative financial instruments designated as cash flow hedges have been classified in income and recognized in the statement of income on the same line as the hedged item, i.e. in the cost of sales.

Fair value hierarchy

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation's financial instruments that are recognized at fair value at year end are composed of derivative financial instruments only and are classified in level 2. There were no transfers between levels or changes in the valuation technique during the year.

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25. **Financial instruments and risk management (continued)**

Finance income and finance costs

Revenues, expenses, profit and loss recognized in net income, generated by financial assets or liabilities, which are not recognized at fair value through net income, are as follows:

	2012	2011
Interest on trade and other receivables	\$ 3,731	\$ 3,575
Interest on other financial assets	1,602	1,687
Total finance income	\$ 5,333	\$ 5,262
Interest on long-term debt	\$ 18,473	\$ 22,613
Interest on bank loans	2,103	2,276
Finance costs related to repurchase of debentures	-	9,840
Total finance costs	\$ 20,576	\$ 34,729

Objectives and methods relating to risk management

The Corporation, in the normal course of business, is exposed to various risks related to financial instruments. The principal types of risk are credit risk, liquidity risk, exchange risk and exposure to foreign currencies as well as interest rate risk.

The Corporation manages risk in close collaboration with the Board of Directors. The objectives are to ensure the availability of sufficient cash flows for the short and medium term by reducing risk exposure related to capital markets.

The Corporation does not actively negotiate financial assets for speculative purposes and does not trade options. The principal financial risk to which the Corporation is exposed is described below.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfill some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risks relate to trade receivables and the Corporation's loans and advances. The Corporation may also be exposed to credit risk from its cash and its forward exchange contracts, which is managed by only dealing with reputable financial institutions.

To manage credit risk from accounts receivable and loans and advances receivable, the Corporation has mortgages on some movable and immovable property owned by the debtors as well as guarantees. It examines their financial stability on a regular basis. The Corporation records allowances, determined on a client-per-client basis, at the balance sheet date to account for potential losses.

The Corporation considers that the credit quality of all its financial assets that are not impaired or overdue at the reporting date is good.

The aging of trade receivables is as follows:

	2012 As at December 30	2011 As at December 25
Current	\$ 247,051	\$ 243,546
Past due 0 - 30 days	49,470	58,925
Past due 31-120 days	38,033	44,647
Past due over 121 days	34,676	26,465
Trade receivables	369,230	373,583
Less: allowance for doubtful accounts	14,748	15,827
	\$ 354,482	\$ 357,756

The allowance for doubtful accounts is mainly for customer accounts over 121 days past due.

The following table provides the change in allowance for doubtful accounts for trade receivables:

	2012	2011
Balance, beginning of year	\$ 15,827	\$ 15,090
Doubtful accounts (recovery) expense	(1,079)	737
Balance, end of year	\$ 14,748	\$ 15,827

25. Financial instruments and risk management (continued)

Credit risk (continued)

As at December 30, 2012, the maximum exposure to credit risk is \$395,657 (\$397,483 as at December 25, 2011) which represents the carrying amount of financial instruments classified as assets, including cash in the amount of \$21,006 (\$17,149 as at December 25, 2011).

In the consolidated income statement, the doubtful accounts expense is recorded in selling, general and administrative expenses.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Corporation prepares budget and cash forecasts to ensure that it has sufficient funds to fulfill its obligations. In recent years, the Corporation financed the growth of its capacity, increase in sales, working capital requirements and acquisitions primarily through cash flows from operations, a debenture issue and the use of its revolving credit on a regular basis.

The following tables present the financial liability instalments payable when contractually due including interest payments, where applicable:

As at December 30, 2012	Total	Less than 1 year	1 – 2 years	3 – 4 years	5 years and more
Debentures	\$ 140,854	\$ 6,291	\$ 12,583	\$ 121,980	\$ –
Mortgage loans and balances of purchase prices	27,785	11,392	7,141	3,644	5,608
Obligations under finance leases	907	317	421	169	–
Bank loans	11,332	11,332	–	–	–
Trade and other payables	492,813	492,813	–	–	–
Dividends payable	2,258	2,258	–	–	–
Derivative financial instruments	3,553	3,553	–	–	–
Total	\$ 679,502	\$ 527,956	\$ 20,145	\$ 125,793	\$ 5,608

As at December 25, 2011	Total	Less than 1 year	1 – 2 years	3 – 4 years	5 years and more
Debentures	\$ 146,505	\$ 6,412	\$ 12,583	\$ 127,510	\$ –
Mortgage loans and balances of purchase prices	42,421	16,881	16,229	3,563	5,748
Obligations under finance leases	1,806	851	588	337	30
Preferred shares	1,000	1,000	–	–	–
Bank loans	4,377	4,377	–	–	–
Trade and other payables	485,083	485,083	–	–	–
Dividends payable	2,527	2,527	–	–	–
Derivative financial instruments	691	691	–	–	–
Total	\$ 684,410	\$ 517,822	\$ 29,400	\$ 131,410	\$ 5,778

Exchange risk and foreign currency sensitivity

The Corporation is exposed to exchange risk as a result of its U.S. dollar purchases. To limit the impact of fluctuations of the Canadian dollar over the U.S. dollar on net income, the Corporation uses foreign exchange forward contracts. The Corporation does not use derivative financial instruments for speculative or trade purposes.

As at December 30, 2012, the par value of foreign exchange forward contracts was U.S. \$85,800 (U.S. \$91,300 in 2011). The average rate of these contracts was 0.9978 (0.9986 in 2011) and they expire on various dates until June 2013.

On December 30, 2012, a 1% increase or decrease in the exchange rate of the Canadian dollar compared to the U.S. dollar, assuming that all other variables were constant, would have resulted in a \$103 (\$119 as at December 25, 2011) decrease or increase in the Corporation's net income and equity for the year ended December 30, 2012.

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25. **Financial instruments and risk management (continued)**

Interest rate risk

In the normal course of business, the Corporation is exposed to interest rate fluctuation risk as a result of the floating-rate loans and debts receivable and loans payable. The Corporation manages its interest rate fluctuation exposure by allocating its financial debt between fixed and floating-rate instruments. The carrying amount of these instruments is as follows:

	2012 As at December 30	2011 As at December 25
Fixed rate instruments		
Financial assets	\$ -	\$ -
Financial liabilities	133,454	146,207
	<u>\$ (133,454)</u>	<u>\$ (146,207)</u>
Floating rate Instruments		
Financial assets	\$ 11,499	\$ 10,240
Financial liabilities	183,250	105,123
	<u>\$ (171,751)</u>	<u>\$ (94,883)</u>

On December 30, 2012, a 25-basis-point increase or decrease in interest rates, assuming that all other variables were constant, would have resulted in a \$310 (\$170 as at December 25, 2011) decrease or increase in the Corporation's net income and equity for the year ended December 30, 2012.

26. **Post-employment benefits**

The Corporation has eight defined contribution pension plans (seven in 2011) and five defined benefit pension plans (five in 2011). The most significant defined benefit plans are primarily based on final salaries. The Corporation does not offer post-employment medical insurance.

The total expense was \$12,810 for the year ended December 30, 2012 (\$10,473 in 2011) for defined contribution pension plans.

The Corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations are performed on defined benefit plans for funding purposes every year.

Combined information relating to the defined benefit pension plans is as follows:

	2012 As at December 30	2011 As at December 25
Defined benefit obligations		
Balance, beginning of year	\$ 58,320	\$ 51,924
Current service cost	821	868
Contributions by plan participants	271	454
Interest cost	2,875	2,841
Benefits paid	(2,815)	(1,792)
Actuarial losses	5,426	3,643
Past service costs	1,748	382
Balance, end of year	<u>66,646</u>	<u>58,320</u>
Plan assets		
Fair value, beginning of year	53,710	51,614
Expected return on plan assets	3,304	3,199
Actuarial gains (losses)	595	(4,507)
Employer contributions	5,191	4,742
Contributions by plan participants	271	454
Benefits paid	(2,816)	(1,792)
Fair value, end of year	<u>60,255</u>	<u>53,710</u>
Funding status – deficit	(6,391)	(4,610)
Liability recognized for minimum funding requirements	(424)	(1,582)
Net defined benefit liability	<u>\$ (6,815)</u>	<u>\$ (6,192)</u>

The above amounts relate mainly to plans that are not fully funded.

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26. Post-employment benefits (continued)

The defined benefit asset (liability) is presented as follows in the Corporation's statement of financial position:

	2012 As at December 30	2011 As at December 25
Defined benefit asset included in other non-current assets (Note 16)	\$ 2,760	\$ 1,940
Defined benefit liability included in other non-current liabilities (Note 19)	(9,575)	(8,132)
Net defined benefit liability	\$ (6,815)	\$ (6,192)

Plan assets do not include financial instruments or any asset occupied or in use by the Corporation. Plan assets are allocated to the following main investment categories:

	2012 As at December 30	2011 As at December 25
Equity securities	42%	54%
Debt securities	58%	46%
	100%	100%

Total defined benefit pension cost recognized in net income for the years ended December 30, 2012 and December 25, 2011 was as follows:

	2012	2011
Current service cost	\$ 821	\$ 868
Finance cost related to obligations	2,875	2,841
Expected return on plan assets	(3,304)	(3,199)
Past service cost	-	382
Severance	1,748	-
Defined benefit cost	\$ 2,140	\$ 892

Amounts recognized in other comprehensive income

	2012	2011
Actuarial losses	\$ (4,831)	\$ (8,150)
Impact of asset limit	-	1,003
Impact of subsequent revaluation of liability in respect of minimum funding requirements	1,157	3,377
Total	(3,674)	(3,770)
Less : Deferred taxes	971	995
Amounts recognized in other comprehensive income	\$ (2,703)	\$ (2,775)

Cumulative amounts recognized in other comprehensive income

	Actuarial losses	Impact of asset limit	Revaluation of liability in respect of minimum funding requirements	Total
Balance, December 26, 2010	\$ (4,935)	\$ 416	\$ 1,311	\$ (3,208)
Amounts recognized in 2011	(8,150)	1,003	3,377	(3,770)
Balance, December 25, 2011	(13,085)	1,419	4,688	(6,978)
Amounts recognized in 2012	(4,831)	-	1,157	(3,674)
Balance, December 30, 2012	\$ (17,916)	\$ 1,419	\$ 5,845	\$ (10,652)

26. Post-employment benefits (continued)

Actuarial assumptions

The weighted average significant actuarial assumptions adopted in measuring the defined benefit obligations and total cost of defined benefit plans for the years ended December 30, 2012 and December 25, 2011 are as follows:

	2012 As at December 30	2011 As at December 25
Defined benefit obligations		
Discount rate	4.50%	5.00%
Expected rate of compensation increase	0.90%	1.90%
Employee benefit costs		
Discount rate	5.00%	5.50%
Expected rate of return on plan assets	6.00%	6.00%
Expected rate of compensation increase	1.90%	3.60%

The total expected return on assets is based on the expected rate of return by asset category using a modelling tool that generates various expected return scenarios by asset category over an extended period. Expected plan expenses are deducted from this rate.

The effective return on plan assets was \$3,899 for the year ended December 30, 2012 (negative effective return of \$1,308 in 2011).

Mortality assumptions are based on statistics and mortality tables published in Canada, i.e. the UP94 mortality table projected dynamically using the AA scale.

The assumptions were developed by management under consideration of expert advice provided by independent actuarial appraisers. These assumptions have led to the amounts determined as the Corporation's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary.

Based on historical data, the Corporation expects contributions of \$1,325 to be paid for 2013.

Changes in the Corporation's defined benefit pension plans may also be summarized as follows (amounts prior to the date of transition to IFRS are not presented as the Corporation applied the exemption provided in IFRS 1):

	2012 As at December 30	2011 As at December 25	2010 As at December 26	2009 As at December 28
Defined benefit obligations	\$ 66,646	\$ 58,320	\$ 51,924	\$ 45,216
Fair value of plan assets	60,255	53,710	51,614	46,669
Plan deficit	\$ (6,391)	\$ (4,610)	\$ (310)	\$ 1,453
Experience gains (losses) :				
Plan assets	\$ 595	\$ (4,507)	\$ (98)	\$ -
Plan obligations	\$ (690)	\$ (359)	\$ 70	\$ -

27. Information on joint ventures

The Corporation's main joint ventures are listed below:

	2012	2011
Northumberland Building Materials Ltd.	49.90%	49.90%
9065-9129 Québec inc.	49.00%	49.00%
9051-5107 Québec inc.	42.10%	42.10%
9171-4220 Québec inc.	20.00%	20.00%

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(in thousands of Canadian dollars)

27. Information on joint ventures (continued)

The Corporation's share in the assets, liabilities, income (loss) and cash flows relating to its interests in joint ventures is as follows:

	2012	2011
Current assets	\$ 8,171	\$ 9,147
Non-current assets	13,752	13,926
Current liabilities	4,019	5,298
Non-current liabilities	5,948	6,331
Revenues	33,114	33,623
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	1,976	1,928
Net income	642	523
Cash flows from operating activities	1,449	1,357
Cash flows from investing activities	(156)	(521)
Cash flows from financing activities	(1,747)	(703)

28. Segment Information

	2012			2011		
	Retail and commercial	Distribution	Total	Retail and commercial	Distribution	Total
Segment revenues	\$ 3,692,229	\$ 2,418,192	\$ 6,110,421	\$ 3,660,827	\$ 2,331,597	\$ 5,992,424
Intersegment revenues and royalties	(17,008)	(1,209,397)	(1,226,405)	(27,815)	(1,160,025)	(1,187,840)
Revenues from external customers	3,675,221	1,208,795	4,884,016	3,633,012	1,171,572	4,804,584
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	101,420	60,943	162,363	179,149	61,406	240,555
Finance income			(5,333)			(5,262)
Goodwill impairment			-			(117,000)
Amortization, depreciation and impairment of non-financial assets			(115,735)			(149,736)
Operating profit (loss) ^(a)			41,295			(31,443)
Finance income			5,333			5,262
Finance costs			(20,576)			(34,729)
Income (loss) before income tax expense			\$ 26,052			\$ (60,910)

(a) For the year ended December 30, 2012, these amounts include restructuring costs, impairment of non-financial assets and other charges totalling \$44,268 pre-tax (\$71,343 pre-tax in 2011) (Note 5.4).

29. Income per share

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

	2012	2011
Net income (loss) attributable to owners of RONA inc. ^(a)	\$ 17,297	\$ (78,382)
Dividends on preferred shares, including related income taxes	(9,268)	(7,985)
Net income (loss) attributable to participating shares	8,029	(86,367)
Number of shares (in thousands)		
Weighted average number of shares used to compute basic net income (loss) per share attributable to owners of RONA inc.	122,851	129,984
Effect of dilutive stock options ^(b)	-	-
Weighted average number of shares used to compute diluted net income (loss) per share attributable to owners of RONA inc.	122,851	129,984
Net income (loss) per share attributable to owners of RONA inc.		
Basic	\$ 0.07	\$ (0.66)
Diluted	\$ 0.07	\$ (0.66)

(a) For the year ended December 30, 2012, these amounts include restructuring costs, impairment of non-financial assets and other charges totalling \$44,268 pre-tax (\$71,343 pre-tax in 2011) (Note 5.4). In addition the 2011 net loss attributable to owners of RONA inc. includes a goodwill impairment charge of \$117,000.

(b) As at December 30, 2012, 1,993,210 stock options (2,574,175 options in 2011) were excluded from the calculation of diluted net income (loss) per share attributable to the Corporation's owners since these options have an antidilutive effect.

30. Related party transactions

Transactions with key management personnel

Key management of the Corporation are the members of the Board of Directors, which includes the President and Chief Executive Officer, and Senior Vice-Presidents. For the years ended December 30, 2012 and December 25, 2011, their compensation included the following:

	2012	2011
Short-term employee benefits	\$ 3,211	\$ 5,592
Post-employment benefits	496	997
Share-based payments	2,771	(780)
Severance	4,519	-
	<u>\$ 10,997</u>	<u>\$ 5,809</u>

Short-term employee benefits consist of a lump-sum cash payment, directors' fees and fees for Board of Directors members. The remuneration of the President and Chief Executive Officer and the Senior Vice-Presidents consists primarily of a salary and a short-term incentive bonus based on individual performance measurements and corporate objectives. The President and Chief Executive Officer and the Senior Vice-Presidents are also entitled to various indirect benefits, such as automobile allowance, health care and financial planning services.

For the President and Chief Executive Officer, post-employment benefits are a basic defined benefit plan and a complementary defined benefit plan. Benefits under these plans are calculated on years of service, multiplied by 2% of three-year average best earnings (subject to applicable limits).

The Senior Vice-Presidents' pension plan consists of a basic defined contribution plan and a complementary defined benefit plan. Since January 1, 2000, amounts accrue annually in the basic plan up to the maximum amount authorized by the tax authorities. Retirement income for the Vice-Presidents under the basic plan, in combination with the complementary plan, should be equivalent to the annual accumulation since January 1, 2000 of 18% of the annual salary paid in a given year plus an annual yield. The complementary plan provides for vesting of the employer's contribution over ten years and certain non-competition restrictions.

Share-based payments consist of the RSUs, DSUs and stock options described in Note 23.

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:

	2012	2011
Sales of merchandise	\$ 41,592	\$ 35,882
Leases	1,646	1,604
Trade and other receivables	2,087	3,510

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

The Corporation's main subsidiaries, which are all Canadian, with ownership and voting rights held, are listed below:

	2012	2011
RONA Revy inc.	100%	100%
4536631 Canada inc.	100%	100%
7594828 Canada inc.	100%	100%
220 Real Estate Limited Partnership	100%	100%
Totem Building Supplies Ltd.	-	100%
4338553 Canada inc.	-	100%
Buildrite Centres inc.	-	100%

In the year ended December 30, 2012, Totem Building Supplies Ltd. was merged with RONA Revy inc. and 4338553 Canada inc. and Buildrite Centres inc. were merged with 4536631 Canada inc.