

**RONA INC.**



**ANNUAL INFORMATION FORM**

**FOR THE FINANCIAL YEAR ENDED DECEMBER 25, 2005**

March 21, 2006

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*Except as otherwise indicated, the information contained herein is given as of February 21, 2006, based on the Company's most recently completed financial year ended December 25, 2005 and all dollar amounts set forth herein are expressed in Canadian dollars. The information regarding the common shares of the Company takes into account the two-for-one split which became effective on March 22, 2005.*

*In this Annual Information Form, "RONA", the "Company", "we" and "our" refer, depending on the context, either to RONA inc. or to RONA inc. together with its subsidiaries. References to "RONA stores" or to "the Company's stores" refer to affiliated, franchised and corporate stores, all of which are supplied by RONA's distribution system. References to "dealer-owners" refer to dealers who own affiliated stores or all of, or a portion of, franchised stores. References to "network retail sales" reflect the combined retail sales generated by affiliated, franchised and corporate stores. Unless otherwise indicated, references to the Company's market share and position and other similar references are based upon network retail sales. The Company's consolidated sales do not include retail sales from dealer-owned stores except for the retail sales of stores in which RONA has an equity participation of at least 50% in accordance with Canadian generally accepted accounting principles ("GAAP"). Unless otherwise indicated, same-store sales include retail sales from both corporate and franchised stores which were part of the Company's network.*

*The information appearing in the extracts from the documents listed below and specifically referred to in this Annual Information Form is incorporated herein by reference: (i) the 2005 Annual Report; and (ii) the 2005 Management Proxy Circular (the "Circular"). The foregoing documents are available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.rona.ca](http://www.rona.ca).*

*This Annual Information Form contains certain forward-looking statements, which are based on RONA's current expectations, estimates, projections and assumptions and were made by RONA in light of its experience and its perception of historical trends. All statements that address expectations or projections about the future, including statements about RONA's strategy for growth, commodity prices, costs, operating or financial results, are forward-looking statements. Some of the forward-looking statements may be identified by words like "expects", "anticipates", "plans", "intends", "believes", "projects", "could" and similar expressions. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. These statements do not reflect the potential impact of any non-recurring items or of any mergers, acquisitions, dispositions, other business combinations or other transactions that may be announced or that may occur after the date hereof. Other factors that could cause results or events to differ materially from current expectations are described in the "Risks and Uncertainties" section of Management's Discussion and Analysis on page 31 of our 2005 Annual Report.*

## **ITEM 1 - CORPORATE STRUCTURE**

### **A – Name and Incorporation**

RONA results from the amalgamation of Marchands Ro-Na Inc. and Le Groupe Ro-Na Inc. through articles of amalgamation dated January 2, 1984 under Part IA of the *Companies Act* (Quebec). Following the acquisition of Dismat inc. in 1988, the Company changed its name to Le Groupe Ro-Na Dismat inc. On May 14, 1998, the Company again changed its name and is now known as RONA inc. Over the years, the Company has modified its articles of amalgamation several times to reflect changes in its authorized share capital.

Our head office is located at 220 chemin du Tremblay, Boucherville, Quebec, Canada J4B 8H7 and our website address is [www.rona.ca](http://www.rona.ca).

Our financial year is a 52 or 53 week period ending on the last Sunday of December.

## **B – Intercorporate Relationships**

As at December 25, 2005, our significant subsidiaries were RONA Ontario Inc., which carries on its operations in the province of Ontario, RONA Revy Inc. and Totem Building Supplies Ltd. (“Totem”), which carry on their operations in Western Canada (Manitoba, Saskatchewan, Alberta and British Columbia), and Réno-Dépôt Inc. (“Réno-Dépôt”), which carries on its operations in the provinces of Quebec and Ontario. These subsidiaries are all directly or indirectly wholly owned by the Company. RONA Revy Inc., RONA Ontario Inc. and Réno-Dépôt were incorporated pursuant to the federal laws of Canada while Totem was incorporated pursuant to the laws of Alberta.

## **ITEM 2 - GENERAL DEVELOPMENT OF THE BUSINESS**

### **A – RONA’s Origins and Recent Highlights**

RONA was created in 1939 by a group of independent merchants.

On March 6, 2000, we acquired Cashway, the third largest retailer of building materials in Ontario with 66 bannered stores and one distribution centre.

Effective June 6, 2001, we acquired the majority of the assets of Revy Home Centres Inc. (“Revy”), which comprised 51 stores (including 14 big-box stores) and three distribution centres in five provinces (Ontario, Manitoba, Saskatchewan, Alberta and British Columbia).

In connection with the Revy acquisition, Société générale de financement du Québec, Capital d’Amérique CDPQ inc., a wholly-owned subsidiary of Caisse de dépôt et placement du Québec, and ITM Entreprises S.A. (“ITM”), a French distribution company, invested in the equity of the Company through a share subscription as well as the purchase of subordinated debentures which have since been reimbursed in full. To our knowledge, in 2003, ITM sold all the shares it held in the share capital of RONA.

On November 5, 2002, we completed a public offering. The Toronto Stock Exchange then approved the listing of our Common Shares under the symbol “RON”. On May 21, 2003, we completed the closing of another issue of Common Shares for an amount of approximately \$130 million.

On September 10, 2003, we completed the acquisition of all of the issued and outstanding shares of Réno-Dépôt for total consideration of approximately \$371 million, including closing adjustments. In connection with this acquisition, the vendors agreed not to compete with Réno-Dépôt’s operations in Quebec and Ontario for three years following the closing of the transaction.

On December 19, 2003, Standard & Poor’s confirmed the listing of our Common Shares on the S&P/TSX composite index.

On March 22, 2005, RONA proceeded with a two-for-one stock split of the Common Shares of the Company.

On April 14, 2005 we completed the acquisition of Totem, a home improvement leader in Alberta. This acquisition was completed for a total cash payment of approximately \$100 million. The network acquired from Totem represents 16 points of sale in Alberta, namely, 14 retail stores and 2 stores for contractors.

## **B – Trends**

For a discussion of industry and other trends, commitments, events or uncertainties reasonably expected to have a material effect on our business, financial condition or results of operations, see “Item 3 – Narrative Description of the Business – Industry Overview”.

## **ITEM 3 - NARRATIVE DESCRIPTION OF THE BUSINESS**

### **A – Overview**

RONA is a Canadian retailer and distributor of hardware, home improvement and gardening products. Through a multi-format, multi-banner network with locations throughout Canada, we aim to address the growing needs of virtually every consumer segment of the hardware, home improvement and gardening products market, from large metropolitan areas to small rural communities. As at February 21, 2006, we had reached the vast majority of Canadian consumers through our network comprising 581 affiliated, franchised and corporate stores, totalling more than 13.3 million square feet of retail space.

Our distribution system ensures the distribution of our products to all our stores. Our company has a pan-Canadian distribution infrastructure, which enables us to distribute to all our types of stores, including big-box, traditional and specialized stores.

### **B – Industry Overview**

#### ***Size and Fragmented Nature of the Hardware, Home Improvement and Gardening Products Marketplace***

The hardware, home improvement and gardening products industry serves a large market that includes the entire Canadian population. This industry is very competitive and fragmented, with numerous local and regional businesses. We believe that RONA is well positioned to compete effectively in this fragmented marketplace and that this fragmentation provides it with a significant opportunity for consolidation.

According to our estimates, in 2005, the four largest players in Canada accounted for almost half of the total Canadian market, with no one company exceeding 16%. Based on companies’ estimated sales and available industry data, approximately 5,000 independent operators share the other half of the total Canadian market for hardware, home improvement and gardening products.

#### ***Seasonal Nature of the Industry***

Our industry sector is seasonal. First quarter sales are always weaker than sales in the other three quarters, due to the low level of activity in the renovation sector in winter. In addition, bad weather can impact our sales, particularly of seasonal products. Moreover, fluctuations in the price of lumber and other building materials can have an impact on our sales.

#### ***Industry Segments***

As mentioned above, the hardware, home improvement and gardening products segment is highly competitive. Our competitors are large national and international chains and regional groups or independent stores. Nonetheless, management believes that RONA has demonstrated its ability to prosper in this environment and in all

market segments. We have a number of advantages: a portfolio of banners and multiple store formats, evolving concepts, locations coast-to-coast and a major distribution network.

### C – Our Business

RONA has two distinct operating segments: distribution, and consumer sales through corporate and franchised stores (this last segment is also referred to herein as “retail sales operations”).

#### 2005

	<u>Distribution</u> \$(000's)	<u>Corporate and franchised stores</u> \$(000's)	<u>Total</u> \$(000's)
Segment sales	2,109,551	2,912,090	5,021,641
Intersegment sales and royalties	(947,141)	(9,434)	(956,575)
Sales	1,162,410	2,902,656	4,065,066

#### 2004

	<u>Distribution</u> \$(000's)	<u>Corporate and franchised stores</u> \$(000's)	<u>Total</u> \$(000's)
Segment sales	1,922,795	2,589,028	4,511,823
Intersegment sales and royalties	(821,786)	(9,999)	(831,785)
Sales	1,101,009	2,579,029	3,680,038

#### *Retail Sales Operations*

In our retail sales operations, we classify the stores that are part of our network according to two basic criteria: type of ownership and store format. Thus, to reach our customers, we offer a national network of stores under various banners designed to serve the targeted profiles. As at February 21, 2006, February 23, 2005 and February 29, 2004, our retail network consisted of:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<i>Number of RONA stores</i>			
Big-box .....	67	66	63
Proximity (traditional).....	333	300	291
Specialized.....	181	184	174
Total store count.....	581	550	528
Of the total store count, number of stores opened/remodelled/relocated .....	124	108	120

Stores that are part of our network fall within one of three types of ownership (corporate, franchised and affiliated). Each of these types of ownership has the following attributes:

Ownership Type	RONA's Typical Equity Participation	RONA's Economic Interest	Number of RONA stores		
			As at February 21, 2006	As at February 23, 2005	As at February 29, 2004
Corporate	More than 50%	Distribution and retail sales	157	139	133
Franchised	From 0% to 50%	Royalties on sales, distribution sales and retail sales	24	24	23
Affiliated	0%	Distribution sales	400	387	372
		<u>Total</u>	<u>581</u>	<u>550</u>	<u>528</u>

Affiliated stores of our network are owned by independent dealer-owners who have entered into a commercial agreement with RONA. Pursuant to these agreements, dealer-owners are committed to respecting certain RONA guidelines regarding marketing, advertising, image and buying loyalty.

Franchised stores are owned either by dealer-owners or by dealer-owners in partnership with RONA. The latter dealer-owners also enter into commercial agreements with RONA which include certain obligations relating to the affiliated stores. In most cases, these agreements allow us to manage product selection and supply and product assortment and to exercise control over the site on which such stores are operated through leasing and subleasing agreements.

#### *Our Network Retail Sales*

##### **Big-Box Stores**

Network retail sales of our affiliated, franchised and corporate stores represented approximately \$5 billion for the twelve-month period ended December 25, 2005. For the same period, our network retail sales for big-box stores alone amounted to approximately \$2.3 billion. These warehouse-type home centres offer an extensive variety of products ranging from hardware products, tools and building materials to gardening items, paint and decoration products and seasonal items.

We have developed or acquired the following banners for these big-box stores:

- RONA L'entrepôt/RONA Home & Garden/Réno-Dépôt/RONA Le Régional: The stores operating under these banners generally vary from 75,000 to 165,000 square feet in size and offer over 40,000 products.

##### **Proximity (Traditional) Stores**

For the twelve-month period ended December 25, 2005, our network retail sales for traditional stores amounted to approximately \$1.7 billion. Our network of traditional stores includes small or medium-sized neighbourhood hardware stores that are an integral part of the social fabric in their communities. Their objective is to meet the basic needs of our customers in hardware and seasonal items and to offer an extended selection of painting and interior decorating products. In addition to these hardware stores, our traditional stores include

renovation centres. The management and employees of the stores operating under the proximity store banners are recognized as specialists in building materials and paint. The renovation centres offer a wide range of seasonal products and a complete assortment of other basic merchandise. These centres, which RONA refers to as proximity stores, generally have an average area of 40,000 square feet.

We have developed the following banners for the proximity (traditional) stores:

- RONA Le Quincaillier/RONA Hardware/RONA L'express: These stores serve a broad customer base and offer a complete range of hardware, painting and seasonal products in stores that are generally between 5,000 and 25,000 square feet in size.
- RONA Le Rénovateur/RONA Home Centre: These stores generally vary between 5,000 and 60,000 square feet in size.
- Totem: These stores established exclusively in Alberta serve “do-it-yourselfers” and craftsmen looking for specialized home renovation products and services. These stores are approximately 30,000 square feet in size.

### **Specialized Stores**

For the twelve-month period ended December 25, 2005, our network retail sales for specialized stores amounted to \$1.1 billion. The specialized stores are adapted to the needs of specific target groups such as general contractors, tradesmen and gardeners. Specialized stores offer a selection of products which are better suited to the daily activities of experts.

We have developed the following banners for our specialized stores:

- RONA Cashway/RONA Lansing/RONA Building Centre/RONA L'express Matériaux: These stores mainly serve contractors, home improvement specialists, “do-it-yourselfers”, tradesmen and craftsmen. These stores generally range in size from 5,000 to 60,000 square feet and they are specialized in lumber and building materials.
- BOTANIX: These stores offer our customers advice regarding plant selection, upkeep and landscaping. Customers can take advantage of the wide range of plants and gardening items we offer. These stores offer knowledgeable staff and a large selection of products.

### *Product Offering*

Our product offering features over 100,000 different products from more than 2,500 suppliers. We purchase about 95% of our products from suppliers having a place of business in Canada. Furthermore, we offer almost 2,000 different house brand products that cater to the most common needs of consumers. The house brand is sold under the name “RONA.” In order to meet our customers’ needs and improve our profit margins, we regularly review our product assortment to eliminate unprofitable and slow-moving product lines. No product represents more than 10% of our purchases or sales.

## ***Distribution Activities***

### ***Our Distribution System***

We rely on a national distribution system which supports all stores of our network. This distribution system is used to minimize order sizes and increase the frequency of delivery, thereby reducing retail inventory levels and providing access to a broad product assortment.

Our stores are supplied by two sources: direct delivery from suppliers and delivery via our distribution centres. The use of each of these sources varies depending on the nature and size of the orders, the stores' geographic location and the agreements with the suppliers.

Our integrated distribution network consists of six distribution centres in Eastern, Central and Western Canada, as follows:

<b>Distribution Centre</b>	<b>Approximate Square Footage</b>	<b>Activity</b>
Boucherville, Quebec.....	900,000	Distribution centre for hardware products
Dorval, Quebec .....	40,000	Hub for forest products and building materials
Etobicoke, Ontario .....	130,000	Delivery to both individuals and contractors
Halton Hills, Ontario.....	90,000	Hub for forest products and building materials
Calgary, Alberta.....	320,000	Distribution centre for hardware products
Surrey, British Columbia .....	85,000	Hub for forest products, building materials and hardware products

The distribution centres in Boucherville and Calgary have quality control systems that provide step-by-step monitoring of each order, matching orders and stores as necessary. This procedure has helped improve the efficiencies of the distribution operations by lowering the probabilities of errors, thereby minimizing losses.

### ***Our Management Information Systems***

We have information systems which process orders, monitor inventories and handle the distribution and transportation of goods across the supply chain. We continually improve our information systems to better serve our needs and to ensure efficient cost management.

Our information technology department provides systems development and support to the major functional areas of the Company including the stores and the distribution centres. For several years, our stores have utilized point-of-sale scanners and terminals linked to our computers. These systems provide online access to store inventories, prices and stock-keeping units. In addition, these systems provide detailed information about our customers' purchases, and allow us to analyse the effect of merchandising programs.

The in-store systems provide functionality to maximize sales and margins and to monitor inventory levels and costs. Orders are transmitted to us over a communication network which also forwards new product and price data to our affiliated, franchised and corporate stores.

## **D – Marketing**

Our marketing activities encompass the planning and coordination of the product offering to consumers. In order to promote the sale of our products and to build customer awareness and store traffic, we publish and distribute weekly promotional flyers, conduct promotions and engage in print media and electronic advertising.

In 2003, our advertising-marketing program took on a truly national dimension. Thanks to a variety of activities, we succeeded in increasing brand awareness across Canada. Thus, in 2005, unaided awareness was up to 87% in Quebec, 60% in Ontario, and 69% in the Western provinces. These results demonstrate the effectiveness of our actions and show that we quickly win over consumers in markets where we were not present five years ago.

On May 4, 2005, we, together with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games,™ announced an eight-year partnership agreement securing the sponsorship rights for the 2010 Olympic and Paralympic Winter Games, as well as the Canadian Olympic Team sponsorship rights for the Olympic Games in Turin in 2006, Beijing in 2008, Vancouver in 2010 and London in 2012.

## **E – Trade-marks**

Our principal trade-marks are RONA, RÉNO-DÉPÔT, RONA Cashway, RONA Hardware, RONA Home Centre, RONA L'entrepôt, RONA L'express, RONA L'express Matériaux, RONA Le Quincaillier, RONA Le Régional, RONA Le Rénovateur, RONA Lansing, RONA Building Centre, RONA Home & Garden, Boutique Ambiance, RONA Corporation, BOTANIX and Totem Building Supplies.

## **F – Human Resources**

As at December 25, 2005, our entire network had about 18,200 employees considering RONA only and over 24,000 employees including affiliated stores across Canada.

## **G – Environmental Protection**

Our environmental policy is intended to integrate environmental considerations into all our activities throughout Canada. This policy commits the Company and its employees to compliance with all applicable environmental laws, regulations and standards, as well as to implementing pollution prevention.

## **ITEM 4 - DIVIDEND POLICY**

We are not currently paying dividends on our Common Shares as we are retaining earnings for use in our business and we do not expect to pay dividends on the Common Shares for the time being.

We have declared and paid the following dividends on our Preferred Shares in respect of the past three years:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Class A Preferred Shares .....	–	\$27,000	\$73,000
Class C Preferred Shares .....	\$32,000	\$48,000	\$79,000
Class D Preferred Shares .....	\$320,000	\$360,000	\$384,000

Any determination to pay any future dividends will remain at the discretion of our Board of Directors and will be made taking into account the Company's financial condition and other factors deemed relevant by the Board of Directors.

## **ITEM 5 - DESCRIPTION OF THE SHARE CAPITAL**

Our authorized share capital consists of: (i) an unlimited number of Common Shares, (ii) an unlimited number of Class A preferred shares, issuable in series (the “Class A Preferred Shares”) of which one series, designated as an unlimited number of Class A preferred shares, series 5 (the “Class A Preferred Shares, Series 5”) is currently authorized, (iii) an unlimited number of Class B preferred shares (the “Class B Preferred Shares”), (iv) an unlimited number of Class C preferred shares, issuable in series (the “Class C Preferred Shares”) of which one series, designated as an unlimited number of Class C preferred shares, series 1 (the “Class C Preferred Shares, Series 1”) is currently authorized, and (v) an unlimited number of Class D Preferred Shares (collectively with the Class A Preferred Shares, the Class B Preferred Shares, and the Class C Preferred Shares, the “Preferred Shares”), all of which are without par value (except for the Class B Preferred Shares which have a par value of \$1.00). As at March 13, 2006, 114,610,262 Common Shares were issued and outstanding.

On March 22, 2005, our Board of Directors approved a two-for-one stock split of our Common Shares.

The following is a summary of the principal terms of our authorized share capital. This summary is qualified by reference to, and is subject to, the detailed provisions of the Company’s articles (the “Articles”).

### **A – Common Shares**

#### *Voting Rights*

Each holder of Common Shares is entitled to receive notice of, to attend and to vote at meetings of shareholders of the Company on the basis of one vote per share, save with respect to such meetings where only the holders of another given class or series are entitled to vote.

#### *Liquidation Rights*

In the event of the Company’s liquidation or dissolution or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, the Common Shares entitle their respective holders to receive, in proportion to the number of Common Shares they hold in relation to the total number of outstanding Common Shares, the balance of the property of the Company, the whole subject to the rights, privileges, conditions and restrictions attached to the Preferred Shares.

#### *Dividends*

Subject to the rights, privileges, conditions and restrictions attached to the Preferred Shares, the Common Shares entitle their respective holders to receive, in proportion to the number of Common Shares they hold in relation to the total number of outstanding Common Shares, any dividend declared by the Company.

### **B – Preferred Shares**

#### *Issuable in Series*

The Class A Preferred Shares and Class C Preferred Shares are issuable in series, each series consisting of such number of shares and having such provisions as may be determined by the Board of Directors prior to the issue thereof.

### *Voting Rights*

Holders of Preferred Shares are not entitled to receive notice of, or to attend, any meeting of shareholders of the Company and are not entitled to vote at any such meeting, except to the extent otherwise provided in the Articles in respect of any Preferred Shares. In connection with any matter requiring the approval of any class (or series) of Preferred Shares as a class (or as a series) pursuant to the *Companies Act* (Quebec) (the “Act”), each holder of the class (or series) of Preferred Shares in question has one vote for each share of the class (or series) in question held. Notwithstanding the foregoing, holders of Class A Preferred Shares and Class B Preferred Shares are entitled to one vote for each dollar of issue price of such shares at any meeting of holders of such shares held for the approval of amendments to the Articles as described below.

### *Rank*

The Class A Preferred Shares of each series rank equally with the Class A Preferred Shares of all other series and rank ahead of the Class B Preferred Shares, which rank ahead of the Class C Preferred Shares, which rank ahead of the Class D Preferred Shares, which in turn rank ahead of the Common Shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company. In addition, holders of Class A Preferred Shares rank prior to holders of shares of any other class of the Company ranking after the Class A Preferred Shares with respect to the payment of any return to merchant members (as such term is defined in the Articles). In the event of the liquidation, dissolution or winding-up of the Company, each holder of Preferred Shares will be entitled to receive, according to the holders’ priority of rank, an amount equal to the price at which such shares were issued and (i) in the case of Class B Preferred Shares, any declared and unpaid dividends, (ii) in the case of any series of Class A Preferred Shares and Class C Preferred Shares, any accrued and unpaid dividends (if such series entitles the holders thereof to cumulative dividends) or any declared and unpaid dividends (if such series entitles the holders thereof to non-cumulative dividends), as well as the premium, if any, applicable to such series, and (iii) in the case of Class D Preferred Shares, any accrued and unpaid dividends.

### *Dividends*

The holders of Class A Preferred Shares and Class C Preferred Shares are entitled to receive either cumulative or non-cumulative preferential dividends in such amounts and at such intervals as may be determined by the Board of Directors in respect of each series prior to the issue thereof.

The holders of Class B Preferred Shares are entitled to receive during each fiscal year of the Company, as and when declared by the Board of Directors, fixed and non-cumulative preferential dividends at the rate of 6% per share per annum.

The holders of Class D Preferred Shares are entitled to receive during each fiscal year of the Company fixed and cumulative preferred dividends at the rate of four percent (4%) per annum of the subscription price per share, before any income tax deduction, as the case may be, such dividends to be payable as determined by the directors.

### *Redemption by the Company*

Subject to the Act and to any other provision of the Articles, the Company has the right, at its option, to redeem, at any time or from time to time, part of the Class B Preferred Shares then outstanding. The redemption price consists of an amount equal to the price at which such shares were issued plus all declared and unpaid dividends with respect to such shares on the redemption date. In the event of a partial redemption, the Class B

Preferred Shares to be redeemed will be chosen, to the extent possible, pro rata to the holders of all Class B Preferred Shares then outstanding.

Subject to the Act and to any other provision of the Articles, the Company is required, over a period of ten years commencing on December 2, 2003, to redeem all, and not less than all, Class D Preferred Shares then outstanding in ten equal portions, upon payment of the redemption price for each outstanding Class D Preferred Share, which redemption price consists for each share to be redeemed of an amount equal to the price at which such share was issued plus all accrued and unpaid dividends with respect to such share on the date of its redemption.

#### *Purchase*

Subject to the Act and any other provisions of the Articles, the Company has the right, at its option, at any time or from time to time, to purchase for cancellation all or part of the Class B Preferred Shares or Class D Preferred Shares, as the case may be, without the consent of holders of other shares of the class being purchased, by mutual agreement, at the lowest price at which, in the opinion of the directors of the Company, these shares may be obtained, without, however, exceeding their redemption price.

#### *Amendments*

The class provisions of any of the Preferred Shares may be amended at any time with such approval as may be required by the Act. In addition, the Articles provide that the Company shall not create other classes of shares whose rights, privileges, restrictions and conditions entitle their holders to equal or preferential treatment in relation to any class or series of Preferred Shares already issued, or repeal, amend or broaden the attributes attached to any class or series of Preferred Shares, including by amending the attributes of lower rank Preferred Shares in terms of dividends or repayment of capital, without the approval of the holders of the class (or series) of Preferred Shares in question. Such approval must be obtained by a resolution duly adopted by not less than three quarters (or two-thirds in the case of Class A Preferred Shares) of the votes cast at a meeting of holders of such class of Preferred Shares. The Articles also provide, in respect of meetings of holders of a class (or series) of Preferred Shares, that a quorum is constituted by the holders of such number of Preferred Shares of that class or series carrying at least 25% of the voting rights attached to all the outstanding Preferred Shares of that class; however, at any adjourned meeting, in the event of failure to meet the quorum requirement, the quorum will be constituted by persons present at such adjourned meeting, irrespective of the percentage of outstanding Preferred Shares of that class or series held by such persons.

### **C – Class A Preferred Shares, Series 5 and Class C Preferred Shares, Series 1**

#### *Dividends*

The holders of the Class A Preferred Shares, Series 5 and Class C Preferred Shares, Series 1 are entitled to receive fixed, non-cumulative, preferential cash dividends, when declared by the Board of Directors, at a rate equal to 70% of the published interest rate of a designated Canadian chartered bank for its preferred commercial clients calculated on the last business day of each of the twelve months preceding the calculation date.

#### *Purchase*

Subject to the Act, the Company has the right, at its option, at any time or from time to time, to purchase for cancellation all or part of the Class A Preferred Shares, Series 5 or the Class C Preferred Shares, Series 1, as the case may be, without the consent of holders of other shares of the series being purchased, by mutual

agreement, at the lowest price at which, in the opinion of the directors of the Company, the shares may be obtained, without, however, exceeding their redemption price.

*Redemption by the Company*

Subject to the Act, the Company has the right, at its option, to redeem, at any time, all or, from time to time, part of the Class A Preferred Shares, Series 5 or Class C Preferred Shares, Series 1, as the case may be, then outstanding. The redemption price will consist of an amount equal to the price at which such shares were issued plus all declared and unpaid dividends with respect to such shares on the redemption date. In the event of partial redemption, the Class A Preferred Shares, Series 5 or the Class C Preferred Shares, Series 1 to be redeemed will be chosen, to the extent possible, pro rata to the holders of all Class A Preferred Shares, Series 5 or Class C Preferred Shares, Series 1, as the case may be, then outstanding.

**ITEM 6 - MARKET FOR SECURITIES**

Our Common Shares are traded on the Toronto Stock Exchange under the symbol “RON”. The following table indicates, for the relevant periods, the high and low trading prices and the trading volume of our Common Shares on the Toronto Stock Exchange:

2005	Common Shares <sup>(1)(2)</sup>		
	High (\$)	Low (\$)	Volume Shares
January.....	22.87	19.55	6,056,270
February.....	25.62	22.70	12,153,604
March.....	26.03	23.00	6,135,410
April.....	25.98	23.40	3,780,483
May.....	26.15	22.50	11,469,834
June.....	27.10	23.49	10,149,619
July.....	25.75	23.91	5,143,656
August.....	25.26	22.68	7,896,217
September.....	24.37	22.62	6,465,883
October.....	23.10	19.86	5,303,153
November.....	23.98	20.30	7,654,153
December (until December 25).....	23.30	20.62	13,721,314

(1) Source: *The Toronto Stock Exchange Historical Data Access*.

(2) Between January 1 and March 17, 2005, the “high” and “low” prices were divided by two to take into consideration the split of March 22, 2005. For the same period, the volumes were multiplied by two.

## ITEM 7 - ESCROWED SHARES

As at December 25, 2005, RONA, National Bank Trust Inc., as transfer agent, and a certain number of shareholders entered into escrow agreements with respect to the following shares of RONA:

<u>Escrowed Shares</u>	<u>Number of Escrowed Shares</u>	<u>Percentage in Relation to the Total Number of Outstanding Common Shares at December 25, 2005</u>
Common Shares	13,929,625	12.2%

A portion of the Common Shares held by the dealer-owners of our network is also pledged to us as security for the payment in full of indebtedness and for the performance of their obligations toward the Company and its subsidiaries. The release from time to time of the pledged shares essentially depends on requirements regarding security to be given, determined in accordance with the terms of the commercial licences.

## ITEM 8 - DIRECTORS AND EXECUTIVE OFFICERS

### A – Name, Address and Occupation

#### *Directors*

The following table sets forth the name, province or state and country of residence and principal occupation of each of our directors. It also sets forth the period during which each of them has served as director.

<u>Name, Province/State and Country of Residence</u>	<u>Principal occupation</u>	<u>Director since</u>
<b>Pierre Brodeur</b> <sup>(3)(4)</sup> ..... Quebec, Canada age 58	Corporate Director	May 2004 <sup>(5)</sup>
<b>Louise Caya</b> <sup>(4)</sup> ..... Quebec, Canada age 40	Vice-President and Secretary Thomas Caya (1982) inc. (hardware store) and Vice-President Industrie Fabco Inc.	May 2002
<b>Simon Cloutier</b> <sup>(4)</sup> ..... Quebec, Canada age 49	President Matériaux Decoren Inc. (hardware store), and General Manager RONA L'entrepôt Brossard (9065-9129 Québec inc.)	May 1998
<b>Pierre Ducros</b> <sup>(1)(3)</sup> ..... Quebec, Canada age 66	Corporate Director	May 2005
<b>Robert Dutton</b> ..... Quebec, Canada age 50	President and Chief Executive Officer RONA	March 1990 <sup>(6)</sup>

<u>Name, Province/State and Country of Residence</u>	<u>Principal occupation</u>	<u>Director since</u>
<b>André H. Gagnon</b> ..... Quebec, Canada age 67	President H. Gagnon & Fils (1975) Ltée, President RONA Le Régional Saint-Hyacinthe (9066-7403 Québec inc.) and Chairman of the Board of RONA	March 1972
<b>Jean Gaulin</b> <sup>(1)(2)</sup> ..... Texas, United States age 63	Corporate Director and Lead Director of RONA	May 2004
<b>Jean-Guy Hébert</b> <sup>(4)</sup> ..... Quebec, Canada age 59	President Maximat Inc. (holding company), Gestion J.G. Hébert inc. and RONA L'entrepôt Granby (9060-4976 Québec inc.)	May 2002 <sup>(7)</sup>
<b>Alain Michel</b> <sup>(1)</sup> ..... Quebec, Canada age 56	Chairman of the Board of Cari-All Group Inc. (manufacturer of shopping carts) and Corporate Director	May 2005 <sup>(8)</sup>
<b>Jim Pantelidis</b> <sup>(1)(2)</sup> ..... Ontario, Canada age 60	Chairman of the Board and Chief Executive Officer of Fishercast Global Corporation	May 2004 <sup>(9)</sup>
<b>Louis A. Tanguay</b> <sup>(2)(3)</sup> ..... Quebec, Canada age 68	Corporate Director	May 1999
<b>Jocelyn Tremblay</b> <sup>(2)(3)</sup> ..... Quebec, Canada age 64	Vice-President Corporate Affairs Vins Philippe Dandurand Inc. (wine merchants)	May 1998

(1) Member of the Audit Committee.

(2) Member of the Human Resources and Compensation Committee.

(3) Member of the Nominating and Corporate Governance Committee.

(4) Member of the Development Committee.

(5) Mr. Brodeur was also a director of the Company from 1994 to 1996. Mr. Brodeur has notified the Board of Directors of RONA that he does not wish to stand for re-election to the Board at RONA's Annual General Meeting of Shareholders to be held on May 9, 2006.

(6) Mr. Dutton has been the President and Chief Executive Officer since 1992. Prior to that, Mr. Dutton held many positions within the Company, including Executive Vice-President and Chief Operating Officer from 1990 to 1992.

(7) Mr. Hébert was also a director of the Company from 1986 to 2001.

(8) Mr. Michel was a director of Cable Satisfaction International Inc. which, in July 2003, applied for protection under the *Companies' Creditors Arrangement Act*. The plan of arrangement and reorganization proposed by Cable Satisfaction International Inc. was unanimously approved at the meeting of the company's creditors held on March 16, 2004 and approved by the Quebec Superior Court on March 19, 2004.

(9) Mr. Pantelidis made a private equity investment in Tattoo Footwear Inc. and joined the board of that company in 2003. In the 12-month period after he sold his shares and stepped down from the board, the company was placed in receivership.

During the last five years, all of the Company's directors have held the principal occupations noted above except for (i) Louis A. Tanguay who, before December 2001, held several executive positions with affiliates of BCE Inc., (ii) Jean Gaulin, who was the Chairman of the Board of Ultramar Diamond Shamrock Corporation from January 1, 2000 to January 1, 2002 and President and Chief Executive Officer of Ultramar Diamond Shamrock Corporation from January 1, 1999 to January 1, 2002, (iii) Alain Michel, who was a Management Consultant at the Caisse de dépôt et placement du Québec from 2001 to 2005, and (iv) Jim Pantelidis, who was President and Chief Executive Officer of J.P. Associates from 2002 to 2003 and Chairman and Chief Executive Officer of Bata Ltd. from 1999 to 2001.

### *Executive Officers*

The following table sets forth the name, province and country of residence, and position held with the Company of each of the Company's executive officers.

<u>Name, Province and Country of Residence</u>	<u>Position within the Company</u>
<b>Claude Bernier</b> ..... Quebec, Canada age 52	Executive Vice-President, Proximity and Specialized Stores
<b>Michael Brossard</b> ..... Quebec, Canada age 51	Senior Vice-President, Marketing
<b>France Charlebois</b> ..... Quebec, Canada age 47	Corporate Secretary and Chief Legal Officer
<b>Pierre Dandoy</b> ..... Quebec, Canada age 46	Executive Vice-President, Big-Box Stores
<b>Normand Dumont</b> ..... Quebec, Canada age 51	Executive Vice-President, Merchandising
<b>Robert Dutton</b> ..... Quebec, Canada age 50	President and Chief Executive Officer
<b>Jean Émond</b> ..... Quebec, Canada age 57	Senior Vice-President, People and Culture
<b>Claude Guévin</b> ..... Quebec, Canada age 46	Executive Vice-President and Chief Financial Officer
<b>Linda Michaud</b> ..... Quebec, Canada age 51	Senior Vice-President, Information and Technology

The following is a brief biography of each of the Company's executive officers:

*Claude Bernier* joined RONA as Director of Marketing in 1988 and was appointed National Vice-President of Marketing in 1990. He was appointed Executive Vice-President, Traditional Stores in 2001, and his title is now Executive Vice-President, Proximity and Specialized Stores.

*Michael Brossard* joined the Company as Director of Marketing in 2000 and was appointed Senior Vice-President, Marketing in 2005.

*France Charlebois* joined the Company as Director, Legal Affairs and Secretary in 1992 and was appointed Corporate Secretary and General Counsel in 2001.

*Pierre Dandoy* joined RONA as Executive Vice-President, Big-Box Stores in 2002. Prior to joining the Company, he had been Regional Vice-President, Eastern Canada for Wal-Mart since the end of 2000. From 1993 to 2000, Mr. Dandoy was employed by Provigo, where he held various positions, including Vice-President of Operations for the Maxi and Maxi & Cie banners in Quebec.

*Normand Dumont* joined RONA in 1989 and was appointed Vice-President, Purchasing in 2000, then Vice-President, Marketing in 2001. Mr. Dumont was promoted to the position of Senior Vice-President, Marketing in 2003 and to the position of Executive Vice-President, Merchandising in 2004.

*Robert Dutton* joined RONA in 1977 and was appointed Executive Vice-President and Chief Operating Officer in 1990. He was appointed President and Chief Executive Officer in 1992.

*Jean Émond* joined RONA as Vice-President, Human Resources & Public Affairs in 1997 and was appointed Senior Vice-President, People and Culture in 2001.

*Claude Guévin* joined RONA as a financial analyst responsible for special projects in 1986 and became corporate comptroller in 1991. He was appointed Vice-President, Finance and Administration in 1999 and was appointed Executive Vice-President and Chief Financial Officer in 2001.

*Linda Michaud* joined RONA as Vice-President, Information Systems in 1992. In 2004, Linda Michaud became Senior Vice-President, Information and Technology of RONA.

#### **B – Security Holdings**

As at December 25, 2005, the number and percentage of RONA's Common Shares beneficially owned, directly or indirectly, or over which control was exercised by the directors and all the executive officers of RONA as a group were 2,041,794 and 1.78%, respectively.

#### **C – Conflicts of Interest**

We are not aware of any existing material conflicts of interest between RONA or any of its subsidiaries and any of their directors or officers.

### **ITEM 9 - RISK FACTORS**

In considering an investment in our Common Shares, a prospective purchaser should carefully consider the risk factors described on page 31 of our 2005 Annual Report under the heading "Risks and Uncertainties."

### **ITEM 10 - AUDIT COMMITTEE**

#### **A – Mandate of the Audit Committee**

The mandate of our Audit Committee is attached hereto as Schedule A. We also refer you to Schedule B of the Circular concerning the responsibilities of the Audit Committee.

## **B – Members of the Audit Committee**

Our Audit Committee currently consists of four independent directors, as more fully described in Schedule B of our Circular. The members of the Audit Committee are Jean Gaulin, Chair, Pierre Ducros, Alain Michel and Jim Pantelidis.

## **C – Description of the Financial Literacy of Members**

All the members of the Audit Committee are financially literate and can understand the accounting principles used by the Company in its financial statements and assess the general application of those principles. They also have relevant experience in preparing, auditing, analysing and evaluating financial statements that present a level of complexity generally comparable with that of the Company's financial statements, or in supervising persons engaged in such activities. The members also understand the procedures and internal controls regarding the disclosure of financial information.

All the members of the Audit Committee have acquired relevant experience through their university studies and as members of other boards of directors and are also executive officers of various companies. Moreover, a number of them are or have been members of the audit committees of other public companies. More specifically, (i) Alain Michel has a Master's degree in Commerce and was Senior Vice-President and Chief Financial Officer of Group Videotron Ltd; (ii) Jean Gaulin was President and Chief Executive Officer of Ultramar Diamond Shamrock and is a member of the Audit and Risk Management Committee of National Bank of Canada; (iii) Pierre Ducros was President and Chief Executive Officer of DMR Inc. for a period of twenty-three (23) years and serves on the audit committee of Cognos Incorporated and TELUS Corporation; and (iv) Jim Pantelidis obtained an MBA from McGill University and was Executive Vice-President at Petro-Canada.

## **D – Auditors' Fees**

The Audit Committee must approve any engagement of the Company's external auditors and to this end, the Committee has adopted a policy on the pre-approval of audit services and non-audit services. Such pre-approval is not required in the case of de minimis services, as provided in the applicable regulations.

We paid \$821,000 as audit fees<sup>(1)</sup> to Raymond Chabot Grant Thornton ("**Raymond Chabot**"), Chartered Accountants, during the financial year ended December 25, 2005. During the same year, we also paid Raymond Chabot \$131,000 as audit-related fees<sup>(2)</sup>, \$51,000 for tax services<sup>(3)</sup> and \$380,000 as other fees<sup>(4)</sup>.

In comparison, during the financial year ended December 26, 2004, we paid Raymond Chabot Inc. \$635,000 as audit fees<sup>(1)</sup>, \$255,000 as audit-related fees<sup>(2)</sup>, \$296,000 as tax fees<sup>(3)</sup> and \$176,000 as other fees<sup>(4)</sup>.

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(1) **Audit fees:**

These fees include fees and disbursements for auditing the Company's annual financial statements and for reviewing the quarterly financial statements.

(2) **Audit-related fees:**

These fees include fees and disbursements for services reasonably related to the audit or review of the Company's financial statements that are not reported under "Audit fees".

(3) **Tax fees:**

These fees include fees and disbursements for services related to tax compliance, tax advice, and tax planning.

(4) **Other fees:**

These fees include fees and disbursements for services other than those described under "Audit fees", "Audit-related fees" and "Tax fees", and relate mainly to due diligence engagements.

## **ITEM 11 - TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for our Common Shares is National Bank Trust Inc. at its principal offices in Montreal and Toronto.

## **ITEM 12 - ADDITIONAL INFORMATION**

Additional information, including remuneration of our directors and executive officers, loans to directors and officers, principal holders of our securities, as well as options and interests of insiders in material transactions, where applicable, is contained in our Circular (dated March 15, 2006) for the annual general shareholders' meeting involving the election of directors to be held on May 9, 2006.

In addition, the following documents may be obtained, upon request, from the Corporate Secretary and General Counsel of the Company:

- One copy of this Annual Information Form, together with one copy of any document or the pertinent pages of any document incorporated by reference in the Annual Information Form.
- One copy of our comparative financial statements for our most recently completed financial year for which financial statements have been filed together with the accompanying report of the auditor and one copy of our most recent interim financial statements that have been filed, if any, for any period after the end of our most recently completed financial year.
- One copy of our Proxy Circular in respect of our most recent annual meeting of shareholders that involved the election of directors.

We reserve the right to request a fee for the transmission of the information set forth above, unless the request is made by a security holder of the Company or during the course of a distribution of the Company's securities by means of a prospectus. In such cases, the transmission of information will be made free of charge.

Other financial information is included in our annual financial statements for the years ended December 25, 2005 and December 26, 2004 and in our corresponding Management's Discussion and Analysis.

The documents mentioned above are available from our Corporate Secretary and Chief Legal Officer at the following address:

220 chemin du Tremblay  
Boucherville, Quebec, Canada  
J4B 8H7

Telephone: (514) 599-5100

or on the Company's website address: [www.rona.ca](http://www.rona.ca) or on SEDAR: [www.sedar.com](http://www.sedar.com).

## SCHEDULE A

### AUDIT COMMITTEE CHARTER

The Audit Committee (the “**Committee**”) is responsible for assisting the Board of Directors of the Company (the “**Board**”) in its oversight of the following items: (i) the production of reliable financial information, (ii) the identification of the principal risks associated with the Company’s activities and the implementation of appropriate systems to manage these risks, (iii) the internal control and management information systems of the Company, (iv) the Company’s financial compliance with the various authorities and legislation, (v) the competencies, independence and work of the external and internal auditors, and (vi) the performance of the other responsibilities set out in the Committee’s mandate as well as those delegated to the Committee by the Board.

The Audit Committee may communicate directly with the internal and external auditors at any time.

#### **Mandate**

The responsibilities of the Committee include:

##### *With respect to the review of financial information*

- Reviewing the following documents with management and the external auditors:
  - annual and interim financial statements;
  - external auditors’ reports: the audit report in the case of the annual financial statements and the interim review report in the case of the interim financial statements of the first three quarters;
  - annual and interim management’s discussion and analysis;
  - annual and interim earnings press releases;
  - financial information contained in prospectuses and the annual information form.
- Recommending the approval of the above-mentioned documents by the Board before their public disclosure.
- Reviewing the procedures in place for the review of financial information extracted or derived from the financial statements other than the public disclosure provided for above and periodically assessing the adequacy of those procedures.
- Reviewing with management and the external auditors:
  - the Company’s financial reporting prepared in accordance with generally accepted accounting principles;
  - proposals for changes and choice of new accounting principles and policies of the Company;

- the reasonableness of provisions, reserves and estimates that may have a material effect on financial reporting;
- material decisions made in connection with the presentation of the financial statements;
- communication with the Autorité des marchés financiers.
- Reviewing the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
- Monitoring the application and update, as necessary, of the Company's disclosure policy.

*With respect to oversight of the external auditors*

- Ensuring that the external auditors report directly to the Committee.
- Recommending to the Board the appointment or discharge of the external auditors as well as their compensation.
- Having sole authority to pre-approve all non-audit services that management intends to entrust to the external auditors.
- Reviewing with the external auditors the external audit plan as well as the qualifications, independence and objectivity of the external auditors, including written statements of all relationships the external auditors have with the Company which could have an effect on independence and objectivity and recommending measures the Board of Directors should take to ensure the independence of the external auditors.
- Being directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services, including the resolution of disagreements between management and the external auditors regarding financial reporting.
- Discussing with the external auditors the quality and not just the acceptability of the accounting principles, including:
  - critical accounting policies and practices used;
  - any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the treatment preferred by the external auditors;
  - other material written communications between the management and the external auditors.
- Reviewing once a year, a report prepared by the external auditors describing:
  - their internal quality control procedures;
  - any material issues raised by the most recent internal quality control review (or peer review) of the external auditors' firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditors' firm, and any steps taken to deal with any such issues.

- Reviewing management's actions following the recommendations of the external auditors.
- Reviewing and approving the hiring policies regarding partners, employees and former partners and employees of the present and former external auditors.
- Ensuring the rotation of lead, concurring and other audit partners, to the extent required by the rules for independence applicable to external auditors.

*With respect to the oversight of internal controls*

- Requesting that management establish and maintain reliable internal control systems and reviewing the procedures in place to evaluate the effectiveness of such systems.
- Reviewing with the President and Chief Executive Officer as well as the Executive Vice-President and Chief Financial Officer the process for the certifications to be provided in the Company's public disclosure documents.
- Establishing procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission of concerns by employees of the Company regarding questionable accounting or auditing matters.
- Reviewing the Company's insurance coverage and ensuring its adequacy.

*With respect to risk management*

- Reviewing with management:
  - the risk management policy and changes which should be made;
  - its evaluation of the material risks to the Company;
  - the programs and processes used to manage and control risks;
  - the Company's degree of risk tolerance;
  - the governance structure, funding, and investment policies of the Company's pension plans, and overseeing the investment management of the pension funds of the Company.

*With respect to the oversight of the internal auditors*

- Annually reviewing and approving the charter of the internal auditors.
- Ensuring that the internal auditors are accountable to the Committee.
- Reviewing and approving the annual internal audit plan.
- Receiving and examining material internal audit reports, observations and recommendations.
- Reviewing management's actions following recommendations of the internal auditors.

- Reviewing the independence of the internal auditors.
- Reviewing, with the internal audit manager, difficulties encountered during his/her audits with respect to the scope of the mandate and access to information. Reviewing all changes with respect to the scope of his/her audit projects.

*With respect to the monitoring of financial compliance with legal and regulatory requirements*

- Reviewing and discussing with management, external and internal auditors and the General Counsel the effectiveness of policies and procedures to ensure financial compliance with laws and regulations and financial commitments.
- Reviewing the list of the Company's material litigation as well as the measures taken by management.
- Reviewing tax planning that has a material financial impact on the Company.

**Composition**

- The Committee shall consist of three to five Board members, all of whom shall be independent directors and be financially literate, as determined by the Board in accordance with the applicable rules of the Canadian Securities Administrators.
- The members of the Committee shall be appointed by the Board each year. The Board may fill a vacancy in the Committee or replace one of its members at any time.

**Committee Meetings and Quorum**

- The Committee shall meet as the need arises, but at least four times a year.
- Meetings shall be called by the Corporate Secretary of the Company, to whom a request is sent in writing, at the request of the Chair of the Committee, any of its members, the Chairman of the Board or the President and Chief Executive Officer.
- A majority of the current members of the Committee shall constitute a quorum at meetings of the Committee.
- From time to time, the Committee meets with management and the external and internal auditors, separately and in private.
- The Committee shall report to the Board periodically on its meetings and its recommendations.

**Independent Advisors**

As the need arises, the Committee may engage any outside advisors to assist it in carrying out its duties, set the fees and other conditions of their engagement and obtain the necessary funds from the Company to pay such fees.

**Review of the Charter**

The Committee shall review this Charter at least once a year and submit proposals for its amendment to the Board as required.

**Assessment of the Committee's Performance**

Each year, the members of the Committee shall assess and review the Committee's performance.

The Committee shall report to the Board on this Charter once a year.

\* \* \* \* \*