Management's Discussion and Analysis of Financial Conditions and Results of Operations (« MD & A ») should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended June 30, 2006 and the audited consolidated financial statements and MD&A for the year ended December 30, 2005. This MD & A is based on reported earnings in accordance with Canadian generally accepted accounting principles (GAAP).

The Company's interim consolidated financial statements have been prepared using the same accounting policies as described in Note 2 of the Company's audited consolidated financial statements for the year ended December 30, 2005. The Company regularly monitors new accounting policies and reports on those adopted subsequent to the end of the most recently completed financial year. Please refer to Note 1 of the interim consolidated financial statements for the six months ended June 30, 2006 for further information.

Quarterly reports, the annual report and supplementary information filed with the Canadian securities regulatory authorities and with the U.S. Securities and Exchange Commission, including the annual report on form 40F, can be found on-line at ***www.sedar.com*** *and* ***www.sec.gov*** *respectively, as well as on our corporate Web site at www.dorel.com.*

Note that there have been no significant changes with regards to the "Corporate Overview", "Operating Segments", "Derivative Financial Instruments", "Critical Accounting Policies and Estimates" or, "Market Risks and Uncertainties" to those outlined in the annual MD & A contained in the Company's 2005 Annual Report. As such, they are not repeated herein. The information in this MD & A is current as of August 2, 2006.

RESULTS OF OPERATIONS

(All tabular figures are in thousands except per share amounts)

Overview

Net earnings for the second quarter ended June 30, 2006 were $17.9 million or $0.55 per diluted share compared to $21.7 million or $0.66 per diluted share for the corresponding quarter a year ago. Revenue for the period was $435.9 million compared to $435.4 million during the second quarter last year. Six month earnings decreased to $42.1 million or $1.28 per diluted share from $49.0 million or $1.49 per diluted share a year ago. Year-to-date revenue was $886.9 million, down from last year's first half revenue of $907.3 million.

Revenue declines occurred in the Home Furnishings and Recreational / Leisure segments, in both the second quarter and year-to-date. Second quarter sales gains in the Juvenile segment offset these declines, resulting in flat revenues. However in the first half, sales increases in Juvenile only partially offset the other segments' revenue decreases. As such, total year-to-date revenues have declined by 2.2%. The first quarter initiative by a major customer to reduce its on-hand inventory levels continued into the second quarter. As a result, revenues were affected, specifically in Recreational / Leisure and Home Furnishings.

For the quarter organic revenue growth, defined as revenues adjusted for year-over-year foreign exchange rate variations between the Euro and Canadian dollar against the U.S. dollar, was similar to reported revenues as there was not a significant variation in the values of the Euro and Canadian dollar against the U.S. dollar. Year-to-date organic revenues have declined 1.5% as opposed to the 2.2% as reported. Gross margins declined by 70 basis points from last year's levels for both the quarter and year-to-date. For the quarter, the decline is due to a $3.5 million reserve taken against inventory in the Recreational / Leisure segment. If this reserve is excluded from earnings the gross margin for the Company as a whole would have been 22.4% compared to 22.3% in 2005. The year-to-date margin

percentage excluding this reserve is 22.4% compared to 22.7% in 2005. This slight decline is due to lower margins in the Home Furnishings and Recreational / Leisure segments.

As anticipated, costs associated with product liability have increased over 2005 levels. In the Juvenile segment, these costs in 2006 increased by US$6.4 million in the quarter and US$6.2 million year-to-date. As a result, the Company's selling, general and administrative costs have increased in 2006 versus 2005 by $5.7 million for the quarter and $2.3 million year-to-date. Excluding higher product liability costs in the Juvenile segment in 2006, these costs would have declined in 2006 versus 2005 by $0.7 million for the quarter and $3.9 million year-to-date. Of the year to date $3.9 million dollar decrease, $1.4 million is due to conversion of expenses in Europe at a lower rate of exchange in 2006.

An analysis of the decrease in after tax earnings from 2005 to 2006 is as follows:

Analysis of impact on after-tax earnings	Second Quarter	Year-to-Date
Earnings from operations by segment:		
Juvenile increase	$ 315	$ 2,990
Home Furnishings decrease	(1,563)	(7,731)
Recreational/Leisure decrease	(7,727)	(9,401)
Total earnings from operations decrease	(8,975)	(14,142)
Lower interest costs	520	680
Decrease in income taxes	3,905	5,229
Other	741	1,400
Total decrease in after-tax earnings	$ (3,809)	$ (6,833)

The causes of these variations versus last year are discussed in more detail below.

Selected Financial Information

The tables below show selected financial information for the eight most recently completed quarters.

	Operating Results for the Quarters Ended			
	Sept. 30, 2005	Dec. 30, 2005	Mar. 31, 2006	Jun. 30, 2006
Revenues	$ 423,329	$ 430,258	$ 451,024	$ 435,914
Net income	$ 19,826	$ 22,546	$ 24,181	$ 17,936
Earnings per share				
Basic	$ 0.60	$ 0.69	$ 0.74	$ 0.55
Diluted	$ 0.60	$ 0.69	$ 0.74	$ 0.55

	Operating Results for the Quarters Ended			
	Sept. 30, 2004	**Dec. 30, 2004**	**Mar. 31, 2005**	**Jun. 30, 2005**
Revenues	$ 433,838	$ 469,072	$ 471,903	$ 435,375
Net income	$ 28,046	$ 34,722	$ 27,205	$ 21,745
Earnings per share				
Basic	$ 0.86	$ 1.06	$ 0.83	$ 0.66
Diluted	$ 0.85	$ 1.05	$ 0.83	$ 0.66

Segmented Results

Segmented figures are presented in Note 11 to these interim financial statements. Further industry segment detail is presented below:

Juvenile

Expenses as a percentage of revenues	Second quarter ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	71.0%	71.0%	71.3%	71.5%
Gross Profit	29.0%	29.0%	28.7%	28.5%
Selling, general and administrative expenses	15.7%	14.0%	13.9%	13.5%
Depreciation and amortization	3.3%	3.8%	3.1%	3.3%
Research and development costs	0.7%	0.9%	0.7%	0.8%
Earnings from operations	9.3%	10.3%	11.0%	10.9%

Juvenile revenues increased by 12.1% to $216.2 million during the second quarter compared to $192.8 million during the corresponding period a year ago. Earnings from operations were $20.1 million in 2006 versus $19.8 million in 2005, an increase of 1.5%. Revenues in North America increased by 21.8% in the quarter whereas revenues in Europe increased by 1.4%. In Euro this increase was 1.7% as the rate of exchange for the quarter from Euro to U.S. dollar was not significantly different in 2006 versus 2005.

Year-to-date revenues have increased by 4.6% over 2005 to $456.3 million in 2006 versus $436.3 million in 2005. In North America revenues increased by 8.0% whereas revenues in Europe remained flat at $190.7 million in 2006 versus $190.4 million in 2005. In Euros sales actually increased by 5.0% over 2005 reaching 155.3 million Euros compared to 148.0 million Euros in 2005. Organic sales growth for segment as a whole was 6.3% as opposed to the 4.6% as reported, due principally to the variation in the Euro along with the impact of the stronger Canadian dollar in 2006. In North America sales growth came across several product categories, particularly car seats and infant healthcare, and at the majority of the Company's customers. The revenue increase in Europe over last year continues to be driven by sales gains in Northern Europe and the United Kingdom. Sales of strollers and car seats sold under the Quinny and Maxi-Cosi brand names have increased over last year.

As compared to the corresponding periods in 2005, gross margins in Canada and the United States were higher by a combined 230 basis points in the second quarter of 2006 and by 160 basis points year-to-date. In the U.S. these improvements were principally due to a more profitable profit mix as well as higher sales volumes, thus reducing overhead as a percentage of sales. In Canada the gains were due to a more profitable product mix as well as a stronger Canadian dollar. North American earnings from operations for the quarter were flat as compared to the prior year as

higher product liability costs offset the sales increases and higher gross margins. Increases in year-to-date sales and gross margins more than offset these higher product liability costs and as a result earnings in North America improved by 16.4% over the same six month period a year ago. Costs associated with product liability in 2006 for the Juvenile segment totaled $7.3 million in the second quarter and $11.6 million year-to-date. In 2005 these figures were $0.9 million and $5.4 million respectively. This variation is the principal reason for the increased selling, general and administrative costs incurred by the segment as a whole in 2006.

For both the quarter and year-to-date, European earnings in Euros increased by approximately 7% on moderately higher sales. These sales increases as well as lower selling, general and administrative costs offset declines in margins of 140 basis points in the quarter and 130 basis points year-to-date. Margins declined in Europe due to higher raw material costs, principally resin, and by the stronger U.S. dollar which increased the cost of imported items. In Euros, higher sales volumes offset these cost increases resulting in a 1.4% increase in gross margin over last year. Note that the stronger U.S. dollar versus the Euro in the first quarter of 2006 meant year-to-date earnings in translated U.S. dollars increased by only 2.3% as opposed to over 7% in Euro terms.

Home Furnishings

Expenses as a percentage of revenues	**Second quarter ended June 30**		**Six months ended June 30**	
	2006	**2005**	**2006**	**2005**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	86.7%	86.8%	87.1%	85.7%
Gross Profit	13.3%	13.2%	12.9%	14.3%
Selling, general and administrative expenses	7.4%	6.6%	7.4%	6.5%
Depreciation and amortization	1.4%	1.4%	1.3%	1.3%
Research and development costs	0.6%	0.5%	0.6%	0.4%
Earnings from operations	3.9%	4.7%	3.6%	6.1%

Home Furnishings revenues declined in the quarter by 8.9% from $131.9 million in 2005, to $120.1 million in 2006. Earnings from operations for the second quarter of 2006 were $4.7 million, a decline of 24.2% from the $6.2 million recorded in 2005. Sales of ready-to-assemble (RTA) furniture declined by US$10.7 million from the second quarter of 2005, or 19%, due principally to lower sales to the mass merchant channel. Ameriwood's futon sales in the quarter declined by 18% compared to the prior year. This was due to some delays in orders from certain customers. Revenues at Dorel Asia and Cosco increased moderately, by 3% and 2% respectively over last year. Both these businesses continue to make inroads into new customers and in new product categories. Year-to-date revenues have declined by 8.5% to $253.8 million from $277.3 million in 2005. Of the segment's divisions only Dorel Asia showed sales growth at 19.1% versus 2005. RTA furniture, futon and Cosco Home & Office sales decreased by 23.8%, 9.7% and 3.1% respectively.

For the segment as a whole, second quarter gross margins were essentially flat with 2005 levels as higher margins at Dorel Asia and Cosco Home & Office offset declines at Ameriwood. Importantly RTA furniture margins for the quarter improved by 210 basis points over the first quarter. Year-to-date gross margins have declined by 140 basis points as the gains at Dorel Asia and Cosco Home & Office only partially offset declines at Ameriwood. Selling, general and administrative expenses rose by $0.3 million in the second quarter of 2006 versus 2005. However, as a percentage of revenues this represents an increase of 80 basis points due to lower revenue levels. Year-to-date costs have increased by $0.9 million, due mainly to higher selling costs at Dorel Asia. For this reason and as a result of lower sales for the segment as a whole, these costs as a percentage of revenues rose to 7.4% compared to 6.5% in 2005.

For the quarter, Ameriwood's earnings declined by $3.4 million versus last year due to sales declines in both RTA furniture and futons. Cosco Home & Office earnings in the quarter increased by $1.1 million, due to an improved product mix, selling in product categories with higher margins. Dorel Asia's second quarter earnings improved by $0.7 million compared to last year. Year-to-date, Ameriwood's earnings have declined by $9.9 million versus last year due mainly to RTA furniture declines in sales and gross margins. Cosco Home & Office earnings in the six months have increased by $1.4 million and Dorel Asia's year-to-date earnings have improved by $1.4 million compared to last year.

Recreational / Leisure

Expenses as a percentage of revenues	Second quarter ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	84.4%	78.5%	82.0%	78.2%
Gross Profit	15.6%	21.5%	18.0%	21.8%
Selling, general and administrative expenses	9.6%	9.3%	10.5%	10.2%
Depreciation and amortization	0.3%	0.1%	0.3%	0.2%
Earnings from operations	5.7%	12.1%	7.2%	11.4%

For the quarter Recreational / Leisure revenues decreased by 9.9% to $99.6 million from $110.6 million during the corresponding period a year ago. Year-to-date revenues have declined by 8.7% to $176.8 million from $193.7 million in 2005. Earnings from operations for the second quarter decreased to $5.7 million from $13.4 million last year, a decrease of 57.5%, whereas year-to-date earnings declined by 42.5% to $12.7 million compared to $22.1 million in 2005. The sales decrease continues to be in the mass merchant channel. These decreases are partially offset by sales in the new product categories, swing sets and scooters. However the combined sales in these categories were not sufficient to offset these declines.

Gross margins decreased by 590 basis points in the quarter and by 380 basis points year-to-date. This decline in gross margins includes a $3.5 million reserve taken against the Sting Ray model bicycle inventory in the second quarter. This reserve had the impact of lowering gross margins by 350 basis points in the quarter and 200 basis points year-to-date. Without this reserve, gross margins for the quarter and year-to-date would have been 19.1% and 20.0% respectively. The decline over 2005 margins is due to a less favourable product mix. Selling, general and administrative costs as a percentage of revenue increased by 300 basis points for both the quarter and for the six month period to June 2006. This increase is a function of lower sales volumes as in dollar terms these costs actually declined by $0.6 million in the quarter and $1.1 million year-to-date.

Other Expenses

Interest on long term debt in the second quarter of 2006 was $7.5 million, slightly lower than the $7.6 million incurred in 2005. This is the result of lower average borrowings offset by higher average interest rates incurred. Overall the Company's year-to-date average interest rate was approximately 6.5% compared to 6% in 2005.

The Company's tax rate is governed by current domestic tax laws in which the Company operates and by the application of income tax treaties between various countries. The Company recorded a tax recovery of $0.4 million in the second quarter of 2006 on pre-tax earnings of $17.5 million. This compares to a tax expense of $3.5 million in the second quarter of 2005 on pre-tax earnings of $25.3 million. The recovery in 2006 was a result of lower earnings in higher tax rate jurisdictions and a change in the valuation allowance of a benefit for tax losses of $1.6 million. The Company's year-to-date tax rate is currently 10.5% compared to 17.2% in 2005. Despite the unusually low tax rate in the quarter the Company still expects its tax rate for the year to be in the range of 15% to 20%.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash provided by operating activities for the six months ended June 30, 2006 was $44.1 million compared to $37.6 million in 2005. This improvement was despite a decline in after-tax earnings of $6.8 million and was due mainly to the timing of accounts receivable collections. For the quarter, cash provided by operating activities in 2006 was $32.6 million compared to $10.7 million in 2005, an improvement of $21.9 million. This improvement was due mainly to the timing of accounts receivable collections and accounts payable disbursements that offset lower earnings and an increase in inventory levels. Included in year-to-date investing activities in 2006 was an amount of $4.9 million paid in reference to the balance of sale on the 2004 acquisition of Pacific Cycle. Excluding disbursements related to business acquisitions, the Company spent $13.9 million on capital additions, comprising property, plant and equipment, deferred

charges and intangible assets, a decline of $5.4 million from $19.3 million in the first six months of 2005. As a result, year-to-date free cash flow, a non-GAAP financial measure defined as cash provided by operating activities less capital expenditures and variations in funds held by ceding insurer, was $30.2 million compared to $18.2 million in 2005, an improvement of $12.0 million as follows:

	2006	2005	Change
	$ 44,083	$ 37,578	$ 6,505
Less:			
Additions to property, plant and equipment - net	(7,530)	(11,729)	4,199
Deferred charges	(3,928)	(4,703)	775
Intangible assets	(2,399)	(2,859)	460
Funds held by ceding insurer	(57)	(89)	32
	(13,914)	(19,380)	5,466
FREE CASHFLOW	$ 30,169	$ 18,198	$ 11,971

Balance Sheet

At the end of the period, there were some significant changes to the financial position of the Company as at December 30, 2005. Inventory levels have risen by $32.7 million from year-end levels. However, this increase was expected as it is to service second half shipping needs. Year-end inventory levels for 2006 are expected to be in the range of December 2005 levels. As the Company's revolving credit facilities are coming due within one year, an amount of $257 million has been classified as current as opposed to long-term. The Company has commenced discussions with its lenders and expects to enter a new agreement by year end. Once this has been finalized, this debt will be classified as long-term. Finally, as at June 30, 2006 the value of the Euro as compared to the U.S. dollar was significantly higher than as at December 30, 2005. As such certain asset and liability balances increased accordingly. This increase in net asset value is reflected in the increase in the value of the Cumulative Translation Adjustment account which was $28.1 million as of December 30, 2005 and is $52.6 million as of June 30, 2006.

Certain of the Company's working capital ratios are as follows:

	As at:		
	Jun. 30, 2006	**Dec. 30, 2005**	**Jun. 30, 2005**
Quick ratio	0.49	0.88	0.79
Current ratio	1.12	1.85	1.82
# of days in receivables	58.6	57.4	56.0
# of days in inventory	79.1	80.6	80.0

The Company's quick and current ratios decreased from prior period levels as a result of the classification of certain bank debt as current as opposed to long-term. The days in receivables and days in inventory ratios are relatively consistent over these same periods. It should be noted that these two calculations are done using average accounts receivable and inventory balances as well as a rolling twelve month period for sales and cost of sales so as to minimize the impact of seasonal fluctuations.

As of June 30, 2006, Dorel was compliant with all covenant requirements and expects to be so going forward. The Company continuously reviews its cash management and financing strategy to optimize the use of funds and minimize its cost of borrowing.

Commitments

During the second quarter, the Company entered into a contract to purchase raw materials under which the Company must make specified minimum payments if raw material quantities it purchases fall below the minimum levels specified in the contract. Under this agreement as at June 30, 2006, the Company is subject to minimum purchase

commitments of approximately $8.9 million in 2006, $18.8 million in 2007, $14.4 million in 2008 and $5.1 million in 2009. Other than this new commitment, there have been no significant changes with regards to commitments to those outlined in the annual MD & A contained in the Company's 2005 Annual Report and in Note 19 to the Company's year-end consolidated financial statements dated December 30, 2005.

There have been no significant changes with regards to derivative financial instruments to those outlined in the annual MD & A contained in the Company's 2005 Annual Report and in Note 14 to the Company's year-end consolidated financial statements.

OTHER INFORMATION

The designation, number and amount of each class and series of its shares outstanding as of July 31, 2006 are as follows:

- An unlimited number of Class "A" Multiple Voting Shares without nominal or par value, convertible at any time at the option of the holder into Class "B" Subordinate Voting Shares on a one-for-one basis, and;

- An unlimited number of Class "B" Subordinate Voting Shares without nominal or par value, convertible into Class "A" Multiple Voting Shares, under certain circumstances, if an offer is made to purchase the Class "A" shares.

Details of the issued and outstanding shares are as follows:

Class A		Class B		Total
Number	**$('000)**	**Number**	**$('000)**	**$('000)**
4,440,544	$1,921	28,420,398	$160,624	$162,545

Outstanding stock options and Deferred Share Units values are disclosed in Note 5 to the financial statements. There were no significant changes to these values in the period between the quarter end and the date of the preparation of this MD & A.

OUTLOOK

The trends experienced in the first quarter of 2006 extended into the second quarter as the Home Furnishings and Recreational / Leisure segments lowered the overall earnings for the Company. The challenges at Ameriwood's RTA furniture operations such as the strengthening Canadian dollar and the limited supply of particle board with associated high prices, offset improvements in manufacturing capabilities. In the second half, the Company anticipates earnings improvements from higher sales volumes and improved margins, some of which are to come from expected price increases to customers to be in place near the end of the third quarter. For the Home Furnishings segment as a whole, current expectations are for increased sales and earnings in the second half versus last year.

In the Recreational / Leisure segment the drop in orders from a major customer was less pronounced than in the first quarter, but did reduce sales volumes versus the prior year's second quarter. Swing set sales were lower than in the first quarter due to the seasonality of this product, but scooter sales grew substantially over the first. Expectations for the second half of the year are that sales and earnings should exceed first half levels. The Juvenile segment performed as expected and there are no significant negative issues currently anticipated. As explained, the Company still expects its tax rate for the year to be in the range of 15% to 20%.

Forward Looking Information
Certain statements included in this interim MD&A may constitute "forward looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward looking statements generally can be identified by the use of forward looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. We refer you to the Company's filings with the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission for a discussion of the various factors that may affect the Company's future results.

Readers are cautioned, however, not to place undue reliance on forward looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward looking statements will not occur. This may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements.

We believe that the expectations represented by such forward looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. Furthermore, the forward looking statements contained in this report are made as of the date of this report, and we do not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward looking statements contained in this report are expressly qualified by this cautionary statement.