

A collage of three images. The top left shows a male cyclist in a black and white jersey and helmet riding a road bike. The top right shows a bedroom with a bed, nightstand, and rug. The bottom right shows a woman in a blue top pushing a stroller with a child walking nearby.

**DOREL**

**WINNING THROUGH INNOVATION**

# Management's Discussion and Analysis of Financial Conditions and Results of Operations

For the quarter and nine months ended September 30, 2010  
All figures in US dollars

*This 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 nine months ended September 30, 2010 and the audited consolidated financial statements and MD & A for the year ended December 30, 2009. This MD & A is based on reported earnings in accordance with Canadian generally accepted accounting principles (GAAP), using the US dollar as the reporting currency.*

*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, 2009. The Company regularly monitors new accounting standards 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 nine months ended September 30, 2010 for further information.*

*Quarterly reports, the annual report and supplementary information filed with the Canadian securities regulatory authorities can be found on-line at [www.sedar.com](http://www.sedar.com), as well as on the Company's corporate Web site at [www.dorel.com](http://www.dorel.com).*

*Note that there have been no significant changes with regards to the "Corporate Overview", "Operating Segments", "Off-Balance Sheet Arrangements", "Derivative Financial Instruments", "Critical Accounting Estimates" or, "Market Risks and Uncertainties" to those outlined in the Company's 2009 annual MD & A as filed with Canadian securities regulatory authorities on April 30, 2010. As such, they are not repeated herein. The information in this MD & A is current as of November 4, 2010.*

## SIGNIFICANT EVENTS IN 2010

On March 30, 2010, the Company announced that it intended to make a normal course issuer bid (NCIB). The Board of Directors of Dorel considers that the underlying value of Dorel may not be reflected in the market price of its Class B Subordinate Voting Shares at certain times during the term of the normal course issuer bid. The Board has therefore concluded that the repurchase of shares at certain market prices may constitute an appropriate use of financial resources and be beneficial to Dorel and its shareholders.

Under the NCIB, Dorel is entitled to repurchase for cancellation up to 700,000 Class B Subordinate Voting Shares over a twelve-month period commencing April 1, 2010 and ending March 31, 2011, representing 2.4% of Dorel's issued and outstanding Class B Subordinate Voting Shares. The purchases by Dorel are being effected through the facilities of the Toronto Stock Exchange and are at the market price of the Class B Subordinate Voting Shares at the time of the purchase.

Under the policies of the Toronto Stock Exchange Dorel has the right to repurchase during any one trading day a maximum of 13,583 Class B Subordinate Voting Shares, representing 25% of the average daily trading volume. In addition, Dorel may make, once per calendar week, a block purchase (as such term is defined in the TSX Company Manual) of Class B Subordinate Voting Shares not directly or indirectly owned by insiders of Dorel, in accordance with the policies of the Toronto Stock Exchange.

On April 6, 2010, the Company announced that it secured new long-term financing by issuing \$50 million of Series "A" Senior Guaranteed Notes and \$150 million of Series "B" Senior Guaranteed Notes, bearing interest at 4.24% and 5.14%, respectively. The Notes were purchased by a group of institutional investors including Prudential Capital Group, an institutional investment business of Prudential Financial, Inc. The principal repayment of the Series "A" Senior Guaranteed Notes is due in April 2015, whereas the principal repayments of the Series "B" Senior Guaranteed Notes begin in April 2013 with the final payment due in April 2020. In addition, on June 16, 2010 it was announced that the Company had completed the extension of its revolving credit facility. This three-year agreement which is effective July 1, 2010 and expires July 1, 2013 was co-led by the Royal Bank of Canada (TSX, NYSE: RY) and the Bank of Montreal (TSX, NYSE:BMO). The facility allows for borrowing up to \$300 million and contains provisions to borrow up to an additional \$200 million.

## RESULTS OF OPERATIONS

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

### Overview

Revenues for the third quarter ended September 30, 2010 increased by \$51.0 million, or 9.8%, to \$569.5 million. This compares to \$518.5 million posted a year ago. After-tax earnings were \$30.1 million, flat with the \$30.2 million recorded in the prior year. Diluted earnings per share (EPS) were \$0.91 in both 2010 and 2009. For the nine months ended September 30, 2010 revenues increased by \$178.7 million, or 11.2%, to \$1.773 billion from \$1.595 billion the year before. Year-to-date, after-tax earnings increased by 23.6% to \$102.6 million from \$83.0 million in 2009. Diluted earnings per share (EPS) were \$3.09 in 2010 compared to \$2.49 in 2009. All of the revenue increase for the quarter was organic and for the nine months ended September 30, 2010 was slightly less than 10%.

To protect itself from variations in foreign exchange rates and their impact on its earnings and cash flow, the Company may enter into foreign exchange forward contracts and other types of derivative financial instruments, the great majority of which are at Dorel Europe within the Juvenile segment. As certain of these instruments do not qualify to follow the accounting practice of "hedge accounting", non-cash "mark-to-market" gains and losses may be recognized, representing the difference between the contracted exchange rate and the market rate on these instruments at the end of a given reporting period. Therefore, the gains and losses on these instruments are recognized relative to fluctuations in current exchange rates as opposed to the date of maturity of the contracts, when the cash flow impact is recorded.

In 2009, these "mark-to-market" losses were a significant factor in the Company's results. Prior year cost of sales included a non-cash loss in the pre-tax amount of \$3.0 million in the quarter and \$15.1 million year-to-date. After tax these losses represented approximately \$2.2 million and \$10.6 million respectively, or the equivalent of \$0.06 per diluted share for the quarter and \$0.32 per diluted share year-to-date. In 2010 these mark-to-market amounts were not material.

In the third quarter of 2010, gross margins declined to 21.4%, as compared to the 24.8% recorded in the prior year. Year-to-date gross margins have declined by 20 basis points to 23.2% from 23.4% in the prior year. However if the previously discussed mark-to-market impacts are excluded from the results of the prior year, the margins in 2009 were 25.4% in the quarter and 24.3% year-to-date. This means excluding the 2009 mark-to-market impacts, 2010 gross margins declined by 400 basis points in the quarter and 110 basis points year-to-date. In 2010, the Company is being adversely affected by higher container freight costs and raw materials cost increases, as well as the negative impact of variations in foreign exchange rates. While earnings in 2010 do not include material mark-to-market amounts, currency rate variations versus last year have reduced earnings in all three segments.

Versus the prior year, the Company's selling, general and administrative (S,G & A) costs decreased by \$2.2 million in the third quarter of 2010 and have increased by \$11.8 million year-to-date. For the quarter, the principal causes of the decline were lower costs within the Juvenile segment associated with product liability costs, salaries and certain product related expenses. Despite the year-to-date increase due principally to greater sales volumes, as a percentage of revenues, S,G & A costs have declined by 80 basis points.

For the quarter, the Company's interest expense was \$5.2 million in 2010 compared to \$3.9 million in the prior year. Year-to-date these figures are \$13.0 million for the current year versus \$12.5 million in 2009. The year-to-date interest rate on its long-term borrowings was approximately 3.5% an increase from the average of 3.1% in 2009. The benefit of lower borrowings in 2010 were more than offset by the higher borrowing rate as well as \$1.7 million related to interest recorded on the Company's contingent consideration related to certain of its business acquisitions.

The Company's tax rate is governed by current domestic tax laws in the countries in which the Company operates and by the application of income tax treaties between various countries. In the quarter, an income tax recovery of \$1.5 million was recorded. This compares to a tax rate of 11.0% in the prior year. The main cause of the tax recovery was the recognition of a tax benefit of \$2.9 million pertaining to a prior year's estimated tax position. Excluding this out-of-period benefit, the Company's tax rate for the quarter would have been 4.7%. This low tax rate was caused by a significant change in the earnings being generated in certain lower tax rate jurisdictions. This change occurred in the third quarter and reflects the annual tax position expected in those jurisdictions. As such, the rate in the quarter was lower relative to the prior quarters in 2010.

The Company's year-to-date tax rate is 15.2%, similar to the 14.7% recorded in 2009. If the \$2.9 million recovery referred to above is excluded from the 2010 tax figure, the Company's year-to-date tax rate is 17.6%. This is just below previously issued guidance of 18% to 22% and reflects the impact of lower earnings in higher tax rate jurisdictions. Based on the lower than anticipated third quarter tax figure and current expectations for the balance of the year, it is now expected that for the year the tax rate will be in the range of 14% to 18%.

The principal changes in earnings from 2009 to 2010 are summarized as follows:

Earnings from operations by Segment:	Quarter	Year-to-Date
Juvenile increase (decrease)	(\$4,033)	\$8,922
Recreational/Leisure increase	4,670	10,869
Home Furnishings increase (decrease)	<u>(5,432)</u>	<u>4,489</u>
Total increase (decrease) in earnings from operations	(4,795)	24,280
Increase in interest costs	(1,343)	(531)
Decrease (increase) in income taxes	5,273	(4,008)
Other	<u>754</u>	<u>(147)</u>
Total increase (decrease) in after-tax earnings	<u>(\$111)</u>	<u>\$19,594</u>

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				
	Dec. 30, 2009	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010
Revenues	\$545,303	\$596,313	\$ 607,695	\$ 569,455
Net income	\$24,211	\$37,367	\$ 35,131	\$ 30,119
Earnings per share				
Basic	\$0.73	\$1.13	\$ 1.07	\$ 0.92
Diluted	\$0.73	\$1.12	\$ 1.05	\$ 0.91
Operating Results for the Quarters Ended				
	Dec. 30, 2008	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009
Revenues	\$479,880	\$525,230	\$551,123	\$518,458
Net income	\$19,167	\$28,029	\$24,764	\$30,230
Earnings per share				
Basic	\$0.57	\$0.84	\$0.74	\$0.91
Diluted	\$0.57	\$0.84	\$0.74	\$0.91

## Segmented Results

Segmented figures are presented in Note 12 of the interim financial statements. Further industry segment detail is presented below:

## Juvenile

Expenses as a percentage of revenues	Third Quarter Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	<u>73.7%</u>	<u>70.8%</u>	<u>72.6%</u>	<u>72.6%</u>
Gross Margin	26.3%	29.2%	27.4%	27.4%
Selling, general and administrative expenses	14.3%	15.2%	14.4%	15.0%
Depreciation and amortization	2.3%	2.2%	2.1%	1.9%
Research and development costs	<u>0.8%</u>	<u>1.3%</u>	<u>0.8%</u>	<u>0.9%</u>
Earnings from operations	<u>8.9%</u>	<u>10.5%</u>	<u>10.1%</u>	<u>9.6%</u>

Third quarter revenue was similar to the prior year at \$248.4 million as compared to \$247.9 million. Earnings from operations in 2010 were \$22.1 million, a decrease of 15.4% from \$26.1 million in 2009. Year-to-date revenues have increased by \$47.5 million, or 6.4%, to \$794.0 million. Earnings from operations for the first nine months of the year were \$80.5 million in 2010 versus \$71.6 million in 2009. However, included in the 2009 figures are mark-to-market losses on foreign exchange contracts of \$2.5 million in the quarter and \$15.9 million year-to-date. While 2010 results do not include material mark-to-market amounts, earnings in 2010 are being adversely affected by the value of the Euro versus last year. While partially offset by a stronger Canadian dollar, as a whole, there is a negative impact on the earnings of the segment.

For the segment as a whole, the mix of revenues in the quarter was different from 2009 in that increases in Europe and Brazil offset declines in North America. In Europe, the organic sales growth was almost 11% in the quarter and 9% year-to-date. Sales gains were principally on car seats, but increases were also seen across most product lines. Strength in most European markets offset declines in countries such as Spain where the economy remains poor. In Brazil, new car seat legislation continues to drive car seat sales and as a result Dorel Brazil posted significant sales gains. In the United States, sales at the retail level for juvenile products slowed and certain retailers reduced orders as a result. Also, the third quarter of 2009 included the introduction of the Air Protect car seat, which boosted sales in the prior year as retailers ordered large initial quantities of this new product. The organic sales growth for the segment as a whole was approximately 3% in the quarter and 6% year-to-date.

Gross margins have declined from 2009 levels. In addition, included in the cost of sales figures for the prior year are the mark-to-market impacts of foreign exchange contracts. If these impacts are excluded from the prior year's results, margins were 30.2% for the quarter and 29.5% year-to-date. Therefore, excluding these amounts, margins declined by 390 basis points for the quarter and by 210 basis points year-to-date. Gross margins are lower than the prior year as costs for certain raw materials and container freight have increased over last year. Also, Dorel Europe is experiencing less favourable rates of exchange versus the Euro in the current year, though a recent increase in the value of the Euro has helped ease the impact of this issue. For the quarter, margins were lower in North America. This decline was due principally to higher raw material costs, lower sales volumes absorbing less fixed overhead costs and a less favourable sales mix. In Europe, higher input costs and a less favourable rate of exchange were partially offset by a better product sales mix.

For the segment as a whole, selling, general and administrative (SG & A) costs in the quarter decreased in dollar terms, as well as a percentage of revenues. The decline in spending is due mainly to reductions in administrative costs. Year-to-date SG & A costs are slightly higher versus the prior year at \$113.9 million versus \$111.8 million. However as a percentage of revenues, this presents a decline of 60 basis points. The lower administrative costs are being offset by increases in promotional activity in both Europe and North America. Note that total product liability costs in the U.S. in the quarter were \$0.8 million in 2010 as compared to \$2.7 million in the prior year. Year-to-date these costs are \$7.0 million in 2010 as compared to \$10.5 million in 2009.

## Recreational / Leisure

Expenses as a percentage of revenues	Third Quarter Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	77.2%	76.7%	75.9%	77.2%
Gross Margin	22.8%	23.3%	24.1%	22.8%
Selling, general and administrative expenses	15.7%	18.7%	15.5%	15.5%
Depreciation and amortization	1.2%	0.9%	0.9%	0.8%
Research and development costs	0.4%	0.4%	0.4%	0.4%
Earnings from operations	5.5%	3.3%	7.3%	6.1%

Third quarter Recreational / Leisure revenue increased by \$27.4 million, or 18.8%, to \$172.5 million compared to last year's \$145.2 million. Year-to-date revenues are up \$63.4 million, or 12.5% to \$569.1 million from \$505.7 million in the prior year. Excluding the impact of new business acquisitions and foreign exchange variations on the segment's non-US based businesses, the segment's organic revenue increase was over 13% for the quarter approximately 8% year-to-date. Sales increased to both the mass merchant and Independent Bike Dealers (IBD) customers as increased promotional activity and successful new model introductions are driving sales. Importantly, these increases are occurring in both Europe and North America.

Earnings from operations for the quarter improved by \$4.6 million, or 96.1%, to \$9.5 million, compared to \$4.9 million in 2009. For the first nine months of the year, earnings from operations were \$41.7 million, an increase of 35.2% from \$30.8 million in the prior year. Gross margins decreased slightly in the quarter due a lower proportion of revenues coming from licensing and commission income. This is due to the Company's ongoing efforts to shift business from this model to a traditional distribution model with full sales and cost of sales. While more profitable, this has the impact of lowering margins. Gross margins excluding licensing and commission income for the quarter were 22.3% in 2010 versus 22.2% in 2009. Similarly, excluding licensing and commission income from year to date figures, margins in 2010 and 2009 are 23.4% and 21.6% respectively, a 180 basis point improvement. This is due principally to a more profitable product mix on sales to the Segment's mass merchant customers.

S,G & A expenses for the quarter were essentially flat versus the prior year, but due to higher sales volumes, decreased as a percentage of revenues to 15.7% from 18.7% in the prior year. For the nine months ending September 30, the increase of \$9.8 million from \$78.4 million to \$88.2 million is due mainly to costs associated with new businesses acquired during 2009 which increased costs year over year. Additionally, a significant advertising campaign is being undertaken in 2010, supporting the Schwinn brand, which has increased selling costs versus 2009.

## Home Furnishings

Expenses as a percentage of revenues	Third Quarter Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	88.3%	82.0%	86.0%	84.4%
Gross Margin	11.7%	18.0%	14.0%	15.6%
Selling, general and administrative expenses	6.3%	7.2%	6.2%	7.5%
Depreciation and amortization	0.2%	0.3%	0.2%	0.3%
Research and development costs	0.4%	0.5%	0.5%	0.6%
Earnings from operations	4.8%	10.0%	7.1%	7.2%

For the quarter, Home Furnishings revenues increased to \$148.5 million from \$125.4 million in 2009, an increase of \$23.1 million or 18.4%. For the first nine months of the year, revenues have increased by 19.8% to \$410.4 million from \$342.6 million the year before. Earnings for the quarter decreased by \$5.4 million to \$7.1 million, down from \$12.5 million the year before. Despite the lower quarter, year-to-date earnings have improved to \$29.1 million as compared to \$24.6 million in the prior year, an increase of 18.2%. The revenue growth in 2010 is being driven by sales of both domestic and imported items, mainly in the metal folding furniture, futon, bedroom collection and bookcase categories.

In the quarter gross margins and earnings were negatively impacted by higher container freight costs as well as other input cost increases. While these higher costs were partially offset by greater sales volumes, the result was a decline in gross margin dollars of \$5.3 million, of which \$3.5 million can be attributed to increased freight costs alone. For the year-to-date results, more than offsetting the negative impact of higher input costs and a less favourable rate of exchange, were continued improvements in sales, margins and cost containment at Cosco, the Segment's distributor of metal folding furniture. Despite the higher sales levels, for the segment as a whole, S,G & A costs remained consistent with the prior year in both the quarter and year-to-date. As a result, as a percentage of revenue S, G & A decreased by 90 basis points for the quarter and 130 basis points year-to-date.

## LIQUIDITY AND CAPITAL RESOURCES

### Balance Sheet

Versus the December 30, 2009 year-end balance sheet, there were significant increases in inventory and accounts payable balances. There are several reasons for the increase. Firstly, the year end values were too low to ensure adequate servicing of customer needs and a conscious decision was made to increase these levels. Secondly, most divisions have experienced cost increases in container freight and other input costs that have increased inventory values as opposed to quantities. However, over and above these two reasons, inventories did rise due to purchases made in anticipation of a stronger third quarter at several divisions. These sales did not occur as anticipated orders were delayed into the fourth quarter. The increase was compounded by inventory brought in to service a strong fourth quarter expected in Recreational / Leisure. This is also the reason for the increase in accounts payable balances. As a result, the inventory levels as at September 30, 2010 are expected to decline in the fourth quarter, though they will not return to year end levels. This explains the increase in the number of days in inventory as presented below along with certain other of the Company's working capital ratios:

	As at:			
	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 30, 2009
Debt to equity	0.31	0.30	0.32	0.32
# of days in receivables	59	66	64	59
# of days in inventory	100	87	84	91

As of September 30, 2010, Dorel was compliant with all of its borrowing covenant requirements. The Company continuously reviews its cash management and financing strategy to optimize the use of funds and minimize its cost of borrowing.

### Cash Flow

During the first nine months of 2010, cash flow from operating activities before changes in non-cash balances related to operations was \$140.1 million compared to \$117.3 million in 2009. However, the year over year change in variations of working capital balances was an additional use of funds of \$99.1 million. After these changes in non-cash balances related to operations, cash flow provided by operations was \$71.9 million compared to \$148.2 million that was provided by operations in 2009. The principal reason for the decline in cash provided by operating activities was the increase in inventory levels, for the reasons described above, partially offset by a corresponding increase in accounts payable.

In 2010, dividends of \$14.0 million were paid, an increase from \$12.5 million in the prior year. This is due to the dividend per share rate increasing to \$0.60 per share in 2010 versus \$0.50 per share in 2009. In relation to its NCIB, the Company disbursed \$13.2 million to repurchase 397,300 shares in the first nine months of 2010. The Company has also issued \$4.7 million of capital stock during the same period. Excluding disbursements related to business acquisitions, in 2010 the Company spent \$37.2 million on capital additions, comprising property, plant and equipment and intangible assets, an increase from the 2009 amount of \$28.6 million. Increased spending in the Juvenile segment

was principally due to increased new product development spending in Europe as well as the cost of developing a new car seat development facility in Columbus, Indiana. In Recreational / Leisure, the investment in its new production facility in Vancouver, British Columbia was completed in the first half of 2010. As a result, the Company's net debt position, defined as long-term debt and bank indebtedness, less cash on hand decreased from December 2009 by \$7.6 million from year-end levels.

**Contractual Obligations**

In the Company's 2009 annual MD & A as filed with Canadian securities regulatory authorities on April 30, 2010, the Company outlined its contractual obligations as at December 30, 2009. Effective July 1, 2010, the Company completed the extension of its revolving bank loans and this facility was extended to July 1, 2013. The borrowing availability under this facility decreased to \$300 million, from the availability previously disclosed as at April 6, 2010 of \$375 million. The credit agreement also includes an accordion feature allowing the Company to have access to an additional \$200 million on a revolving basis. As a result, the revolving bank loans have been classified as long-term debt in the consolidated financial statements as at September 30, 2010. Therefore, the Company's contractual obligation pertaining to this facility that was included as current as at December 30, 2009 is now considered to be long-term and is due in fiscal year ending December 30, 2013.

**Future Accounting Changes**

***International Financial Reporting Standards***

On February 13, 2008, the Accounting Standards Board of Canada confirmed the date of the changeover from Canadian GAAP to International Financial Reporting Standards. Canadian publicly accountable enterprises must adapt IFRS to their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption allowed. The Company has chosen for an early adoption of IFRS and it will issue its last financial statements prepared in accordance with Canadian GAAP for fiscal 2010. Effective the first day of fiscal year 2011, the Company's financial statements will be prepared in accordance with IFRS, with comparative figures and an opening balance sheet restated to conform to IFRS, along with a reconciliation from Canadian GAAP to IFRS, as per guidance provided in IFRS 1, *First-Time Adoption of International Reporting Standards*.

There have been no significant changes to the Company's IFRS changeover plan and the project is progressing according to plan. There have been no significant modifications in key differences in accounting treatments and potential key impacts as assessed in the Company's 2009 annual report.

Below is an update of the Company's progress on the IFRS changeover plan. The following table outlines the key phases and the updated milestones and an assessment of progress towards achieving them.

**Phase 3: Solution Design and Development**

Actions	<p><u>Solution Development</u>                  Select accounting policies and prepare accounting policies and procedures manuals / identify business process and system impacts / identify solutions to IFRS impacts / finalize conversion plans, including internal controls over financial reporting and disclosure controls and procedures.</p>
Timetable	Solution Development: November 30, 2010
Progress	<p>Solution Development: In Progress</p> <ul style="list-style-type: none"> <li>• <u>Design tools to prepare IFRS opening balance sheet and comparative information:</u> the Company is creating a dual IFRS environment in its information systems to track all adjusting IFRS entries for the opening Balance Sheet and throughout the dual reporting period</li> <li>• <u>Design and develop any required changes to information systems:</u> the Company does not expect a significant impact on its information systems.</li> <li>• <u>Design and develop internal controls over financial reporting:</u> the Company continues to assess the internal controls applicable to its reporting processes under IFRS including any changes to the current Canadian GAAP reporting environment.</li> </ul>

	<ul style="list-style-type: none"> <li>• <u>Design and develop disclosure controls and procedures:</u> disclosure controls and procedures are being updated; the Company continues to update its reporting package tools to include all data required for financial statements disclosures under IFRS.</li> <li>• <u>Identify business impact of conversion, including the effect on financial covenants, contracts, hedging activities, budgeting processes and compensation arrangements:</u> (i) Company's bank arrangements have been negotiated to allow for the transition from Canadian GAAP to IFRS; (ii) other contracts have been reviewed and based on the Company's analysis, there is no material impact on the Company's financial statements as a result of conversion to IFRS; (iii) Canadian GAAP requirement to test hedge effectiveness is substantially consistent with IFRS; (iv) processes are being put in place to prepare budgets and strategic plans under IFRS for fiscal year 2011; and (v) variable incentive compensation will be amended in reference to IFRS financial targets for relevant periods.</li> <li>• <u>Prepare a model of the IFRS financial statements:</u> a complete IFRS financial statements model was prepared, and has been reviewed by Finance senior management.</li> </ul>
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#### Phase 4: Implementation

Actions	<p>Approve selected accounting policies and finalize accounting policy manuals  Roll out accounting policies  Test and remediate, including dry run in a "test environment"  Roll out process and system changes and perform education  Perform reporting under IFRS</p>
Timetable	December 30, 2010
Progress	<p>In progress</p> <p>The data collection for the IFRS opening balance sheet is substantially complete and the data collection for each quarter in fiscal year 2010 is currently in progress.</p> <p>Certain IFRS training has already been provided. Further training to the global financial reporting group over applicable IFRS standards and new disclosures procedures is underway.</p>

#### Phase 5: Post -Implementation

Actions	<p>Transition to a sustainable operational model  Conversion plan assessment</p>
Timetable	June 30, 2011
Progress	Not yet commenced

The Company has analyzed the IFRS standards and has made choices, as warranted, with regard to these standards and noted the differences between certain of these standards and current accounting policies. The most significant ones are set out in the following table:

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 1: <i>Presentation of Financial Statements</i>	<p>IFRS allows that expenses recognized in profit or loss should be analyzed either by nature or by function. If an entity categorizes by function, then additional information on the nature of expenses – at a minimum depreciation, amortization and employee benefits expense – must be disclosed.</p> <p>Under IFRS, in the Statement of Cash Flows, the Company has a choice on the presentation of operating cash flows. The direct method of presentation is encouraged but the indirect method is acceptable.</p>	<p>The Company has chosen to present the expenses in the financial statements by function.</p> <p>The Company has chosen to present the operating cash flows in the Statement of Cash Flows using the indirect method.</p>
IAS 12: <i>Income Taxes</i>	<p>Unlike IFRS, under Canadian GAAP a future income tax asset or liability is not recognized for a temporary difference arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets and liabilities of integrated foreign operations.</p> <p>Under IFRS, potential tax exposures are analyzed individually and separately from the calculation of income tax, and the amount of tax provided for is the best estimate of the tax amount expected to be paid. Under Canadian GAAP, the general recognition standard is “probable” or “more likely than not”. Tax liabilities are measured using amounts “expected to be paid to” tax authorities, using a single best estimate.</p> <p>Under IFRS, the difference between the tax base of the employee services received for stock-based compensation and its carrying amount (of \$ nil) is a deductible temporary differences that results in a future income tax assets. Under Canadian GAAP, future income tax assets recognized in relation to stock-based compensation are not explicitly addressed.</p>	<p>The Company has preliminary estimated an opening balance sheet adjustment as at December 31, 2009 to decrease future income tax liabilities and increase retained earnings by approximately \$2.5 million.</p> <p>Based on the information collected to date, this GAAP difference related to IFRS will not have an impact on the Company’s financial statements.</p> <p>The Company has preliminary estimated an opening balance sheet adjustment as at December 31, 2009 to decrease future income tax assets and decrease retained earnings by approximately \$1.1 million.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 16: <i>Property, Plant and Equipment</i>	<p>The main relevant differences between IFRS and Canadian GAAP are:</p> <p>a) The possibility to evaluate assets at fair value at each balance sheet date.</p> <p>b) Componentization: parts of an asset with different useful lives have to be amortized separately. This requirement exists under Canadian GAAP but it is further emphasized by IFRS.</p>	<p>Based on the information collected to date, none of the GAAP differences related to IFRS will have a material impact on the Company's financial statements.</p> <p>The Company has not elected to evaluate assets at fair value at each balance sheet date. Fixed assets do not have to be materially componentized further.</p>
IAS 17: <i>Leases</i>	<p>The main relevant difference between IFRS and Canadian GAAP is the following: The distinction between an operating lease (where only the rent is recognized in the P&amp;L) and a capital lease (where the item leased is recorded as an asset in the Balance Sheet) is based on different criteria. IFRS makes the capital versus operating lease distinction much more based on the substance of the lease contract rather than its form. Canadian GAAP makes the distinction much more based on its form.</p>	<p>A thorough analysis of all material Company leases was performed using the classification criteria under IFRS and Canadian GAAP. None of the GAAP differences related to leases will have a material impact on the Company's financial statements based on the information collected to date.</p>
IAS 19: <i>Employee Benefits</i>	<p><u>Accounting options of defined benefit plans</u> The options are the following under IFRS:</p> <ul style="list-style-type: none"> <li>- Present actuarial gains and losses directly in the P&amp;L</li> <li>- The "corridor" approach</li> <li>- Present actuarial gains and losses directly in the Balance Sheet with changes recorded in Other Comprehensive Income</li> </ul> <p>The options are the following under Canadian GAAP:</p> <ul style="list-style-type: none"> <li>- Present actuarial gains and losses directly in the P&amp;L</li> <li>- The "corridor" approach</li> </ul> <p><u>Vested past service costs</u> Under IFRS, liabilities and expenses for vested past service costs under a defined benefit plan are recognized immediately. Under Canadian GAAP, they are recognized over the expected average remaining service period.</p> <p><u>Unvested past service costs</u> Past service costs are amortized faster under IFRS.</p>	<p>The Company accounts for defined benefit plans using the "corridor approach" under Canadian GAAP. Upon transition to IFRS, the Company will present actuarial gains and losses directly in the Balance Sheet with changes recorded in Other Comprehensive Income.</p> <p>The Company has preliminary estimated an opening balance sheet adjustment as at December 31, 2009 to increase pension &amp; post-retirement benefit obligations and decrease retained earnings by approximately \$2.2 million before tax.</p> <p>All of the Company's unrecognized past service costs are vested, thus they will be fully recognized in the IFRS opening balance sheet as at December 31, 2009 as described in the preceding paragraph. This difference applies to the Company on a prospective basis.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
<p>IAS 21: <i>The Effect of Changes in Foreign Exchange Rates</i></p>	<p>The main relevant differences are:</p> <p>The main difference relates to the exchange rate use to translate non monetary assets carried at fair value.</p> <p>Under IFRS, the functional currency is the currency of the primary economic environment in which the entity operates. Under Canadian GAAP, an entity is not explicitly required to assess the unit of measure (functional currency) in which it measures its own assets, liabilities, revenues and expenses, but rather only assesses the functional currency of its foreign operations.</p> <p>Under IFRS, the reimbursement of an intercompany loan considered as a permanent investment (between companies with different functional currencies) does not necessarily trigger the recycling of a portion of the CTA in the P&amp;L..</p> <p>Under Canadian GAAP, reductions in net permanent investment trigger the recycling of CTA in income. The Company currently uses the net change method to determine whether there has been a reduction in net permanent investment through either paid up capital reduction, dividends and/or permanent intercompany loan repayment.</p>	<p>The Company has retroactively analyzed all instances where it has recognized CTA in the P&amp;L due to an intercompany loan reimbursement without loss of control of its subsidiaries. The Company has preliminary estimated an opening balance sheet adjustment as at December 31, 2009 to increase accumulated other comprehensive income and decrease retained earnings by approximately \$2.4 million.</p>
<p>IAS 33: <i>Earnings Per Share</i> ("EPS")</p>	<p>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <p>Unlike Canadian GAAP, IFRS does not allow rebuttal of the presumption of share settlement treatment on contracts that may be settled in shares or cash based on past experience of contracts settlements.</p> <p>Under IFRS, for diluted EPS, dilutive potential ordinary shares are determined independently for each period presented. Under Canadian GAAP, the computation of diluted EPS for year-to-date periods is based on the weighted average of the number of incremental shares included in each interim period making up the year-to-date period.</p>	<p>Findings by difference:</p> <p>There is no material impact on the Company's financial statements for this difference based on the information collected to date.</p> <p>The diluted earnings per share is expected to be different for the Company however the impact is not expected to be material based on the information collected to date and there is no impact on the opening balance sheet.</p>

Standards	<u>Comparison between IFRS and Company current accounting policies</u>	<u>Findings</u>
IAS 36: <i>Impairment of Assets</i>	<p><u>Process of the impairment test</u> Under Canadian GAAP, the impairment test for long lived assets is a two step process:</p> <ul style="list-style-type: none"> <li>- The carrying amount of the asset is compared to the sum of its undiscounted cash flow expected to result from its use and eventual disposition;</li> <li>- If the carrying amount of the asset is greater, then it is compared to the fair value of the asset. An impairment may have to be recognized.</li> </ul> <p>Under IFRS, it is a one step process; the carrying amount of the asset is directly compared to the recoverable amount of the asset</p> <p><u>Assigning assets to cash generating units</u> Under IFRS, impairment testing of assets is done at the independent cash generating unit (“CGU”) level.</p> <p>Under Canadian GAAP, the unit is defined as it generates both independent cash inflows and outflows.</p> <p><u>Reversal of impairment of assets</u> Under IFRS, at each balance sheet date, the Company must assess whether there is an indicator that past impairment loss may have decreased and if so, calculate the reversible amount. Under Canadian GAAP, no such evaluation and reversal is allowed.</p>	<p>This difference has been analyzed for the Company’s impairment tests and is found to have no material impact at the transition date on the financial statements based on the information collected to date.</p> <p>The impact of this difference will not have a material impact on the Company’s financial statements based on the information collected to date.</p> <p>The Company has preliminary estimated an opening balance sheet as at December 31, 2009 to increase property, plant and equipment and increase retained earnings by approximately \$1.0 million before tax.</p>
IAS 37: <i>Provisions, Contingent Liabilities and Contingent Assets</i>	<p>Under IFRS, provisions involving a large population of items must be evaluated using the expected value method.</p> <p>Under IFRS, in a range of estimates where each point in the range is as likely as any other, the mid-point of the range is used. Under Canadian GAAP, the lower point is used.</p> <p>The threshold of provision recognition is lower under IFRS than under Canadian GAAP.</p> <p>Under IFRS, the time value of money must be taken into consideration, when material.</p> <p>Under IFRS, contingent assets are recorded when they are virtually certain. Under Canadian GAAP, contingent gains are not recorded.</p> <p>Under IFRS, counter claims/reimbursement must be reported separately in assets, when virtually certain.</p>	<p>These differences were considered by the Company and none were found to have a material impact on the Company’s financial statements based on the information collected to date.</p>

Standards	<u>Comparison between IFRS and Company current accounting policies</u>	<u>Findings</u>
IAS 39: <i>Financial Instruments</i>	<p>Under Canadian GAAP, when the critical terms of a hedging relation match, the short cut method is allowed. Under IFRS, the short cut method is not allowed.</p> <p>Under Canadian GAAP, counterparty credit risk does not have to be considered when assessing hedge effectiveness. Under IFRS, counterparty credit risk must be considered.</p> <p>For embedded derivatives, the transitional provisions of Canadian GAAP contain grandfathering provisions which allow an adoption timing choice for some embedded derivatives. Such grandfathering rules do not exist in IFRS thus, potentially resulting in some recognition of embedded derivatives that were not required to be recognized under Canadian GAAP.</p> <p>Under IFRS, multiple derivatives in a single instrument are accounted for as a single compound derivative, unless they relate to different risks and are readily separable and independent of each other, in which case they are treated as separate derivatives. Under Canadian GAAP, multiple embedded derivatives in a single instrument must be accounted for in aggregate as a single compound derivative.</p>	<p>Based on the Company's choice in accounting policies under Canadian GAAP, this difference does not apply at the transition date.</p> <p>Based on the Company's choice in accounting policies under Canadian GAAP, this difference does not apply at the transition date.</p> <p>These differences were considered by the Company and none were found to have a material impact on the Company's financial statements based on the information collected to date.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IFRS 2: <i>Share-Base payments</i>	<p><u>Share based payments vesting in installments:</u> Under IFRS, when an entity makes a share based payment that vests in installments (often referred to as graded vesting), each tranche of the award should be treated as a separate award.</p> <p>Canadian GAAP offers the option to consider the equity instruments as a pool and determine fair value using the average life of the instruments, provided that compensation is then recognized on a straight-line basis.</p> <p>Under the Company's stock option plan, options vest according to a graded schedule of 25% per year commencing a day after the end of the first year. From an accounting perspective, the option offered by Canadian GAAP was selected i.e. each tranche of the plan is not treated separately. This creates an IFRS difference with Canadian GAAP.</p> <p><u>Stock options: forfeiture estimates:</u> Under IFRS, an estimate of forfeitures must be factored into the calculation of periodic compensation expense. Compensation costs are to be accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. The objective is that, at the end of the vesting period, the cumulative charge to the income statement should represent the number of equity instruments that have actually vested multiplied by their fair value.</p> <p>Canadian GAAP offers a choice in accounting for forfeitures. Like IFRS, compensation expense can be accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Unlike IFRS, compensation expense can be accrued assuming that all instruments granted that are subject only to a service requirement are expected to vest, with the effect of actual forfeitures recognized only as they occur.</p> <p>The Company's accounting policy under Canadian GAAP is to recognize the effect of actual forfeitures only as they occur which creates a difference with IFRS.</p>	<p><u>Share based payments vesting in installments:</u> The compensation expense will be considered over the expected term of each vested tranche. It is expected that the amount recorded by the Company will not be materially different based on the information collected to date.</p> <p><u>Stock options: forfeiture estimates:</u> The Company will need to modify the calculation to take into account an estimation of future forfeitures. The impact is not expected to be material for past options based on the information collected to date.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IFRS 3: <i>Business Combinations</i>	<p><u>Contingent Considerations</u></p> <p><i>Initial Recognition:</i> Under Canadian GAAP, contingent consideration is recognized at the date of acquisition when the amount can be reasonably estimated and the outcome is determinable beyond reasonable doubt. Otherwise, contingent consideration is recognized when resolved.</p> <p>Under IFRS, all contingent consideration has to be recognized at acquisition, regardless if it can be reasonably estimated or if the outcome is determinable beyond reasonable doubt.</p> <p><i>Subsequent Recognition:</i> Under Canadian GAAP, when there are revisions to the amount of contingent consideration, the requirement is to recognize the current fair value of the consideration issued or issuable as an additional cost of the purchase when the contingency is resolved and the additional consideration is issued or becomes issuable.</p> <p>Under IFRS, when the contingent consideration is (a) classified as a liability and (b) not within the scope of IAS 39, changes in fair value are recognized in profit or loss.</p> <p><u>Acquisition-related costs</u></p> <p>An acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received.</p>	<p><u>Contingent Considerations</u></p> <p><i>Initial Recognition:</i> This difference does not apply to the Company at the transition date as all the contingent considerations are recognized, as the associated criteria for recognition under Canadian GAAP have been met.</p> <p><i>Subsequent Recognition:</i> This difference applies to the Company on a prospective basis. Going forward, contingent considerations will be revaluated every year. Any change in fair value will be recorded in the profit and loss.</p> <p><u>Acquisition-related costs</u></p> <p>On future acquisitions, the Company will expense such costs as incurred, unless they constitute the costs associated with issuing debt or equity securities.</p>

The Company has also made choices concerning certain exemptions from retrospective application at the time of changeover provided by IFRS 1. As a first step, each exemption permitted under IFRS 1 was reviewed to determine which ones were relevant to the Company. Second, the exemptions that were considered to be relevant were analyzed in order to determine whether they would be elected or not by the Company. The significant accounting issues are set out in the following table:

<b>Exemptions</b>	<b>Findings and Conclusions</b>
Business Combinations	<p>IFRS 1 allows the Company to elect not to apply IFRS 3 <i>Business Combinations</i> to past business combinations (business combinations that occurred before the date of transition to IFRS).</p> <p>Given the Company's history of acquisitions, its current position is not to apply IFRS 3 to any historical business combinations prior to its transition date. The complexity of applying IFRS 3 to historical acquisitions and the resultant effort outweighs any potential benefit.</p>
Fair Value or Revaluation as Deemed Cost	<p>Under IFRS 1, an entity may elect to measure an item of property, plant and equipment in its opening balance sheet at its fair value and use that fair value as its carrying value as at that date. This election is also available for intangible assets but only for assets that have an active market.</p> <p>The exemption offered at transition by IFRS 1 will not be used. The Company will adopt the carrying values under Canadian GAAP of all items of property, plant and equipment as at the date of transition.</p>
Employee Benefits	<p>Under IFRS 1, the Company elected to recognize to retained earnings all cumulative actuarial gains and losses at the date of transitions to IFRS</p> <p>As at December 30, 2009 the net amount unamortized of actuarial losses carried forward was \$13.9 million before tax. This will reduce opening retained earnings and increase pension liabilities by \$13.9 million before tax.</p>
Cumulative Translation Differences	<p>Under IFRS 1, the Company may elect to recognize all currency translation adjustments arising on the translation of the financial statements of foreign entities in accumulated profits or losses at the opening IFRS balance sheet date (that is, reset the translation reserve included in equity under Canadian GAAP to zero). If the Company elects this exemption, the gain or loss on subsequent disposal of the foreign entity will be adjusted only by those accumulated translation adjustments arising after the opening IFRS balance sheet date.</p> <p>In light of the nature of the election, the Company proposes not to use this exemption and to retain the cumulative translation difference in its Balance Sheet. The Company is currently assessing the impact of the opening balance sheet IFRS adjustment and its impact on CTA.</p>

## OTHER INFORMATION

The designation, number and amount of each class and series of its shares outstanding as of November 1, 2010 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:

<b>Class A</b>		<b>Class B</b>		<b>Total</b>
<b>Number</b>	<b>\$( '000)</b>	<b>Number</b>	<b>\$( '000)</b>	<b>\$( '000)</b>
4,229,510	\$1,792	28,497,302	\$176,321	\$178,113

In accordance with its NCIB, the Company repurchased during the nine month period ended September 30, 2010, a total of 397,300 Class "B" Subordinate Voting Shares for a cash consideration of \$13.2 million. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums. 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.

## Forward Looking Information

Certain statements included in this MD&A may constitute “forward-looking statements” within the meaning of applicable Canadian securities legislation. Except as may be required by Canadian securities laws, the Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the Company’s expectations expressed in or implied by such forward-looking statements and that the objectives, plans, strategic priorities and business outlook may not be achieved. As a result, the Company cannot guarantee that any forward-looking statement will materialize. Forward-looking statements are provided in this MD&A for the purpose of giving information about Management’s current expectations and plans and allowing investors and others to get a better understanding of the Company’s operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this MD&A are based on a number of assumptions that the Company believed were reasonable on the day it made the forward-looking statements. Factors that could cause actual results to differ materially from the Company’s expectations expressed in or implied by the forward-looking statements include: general economic conditions; changes in product costs and supply channel; foreign currency fluctuations; customer and credit risk including the concentration of revenues with few customers; costs associated with product liability; changes in income tax legislation or the interpretation or application of those rules; the continued ability to develop products and support brand names; changes in the regulatory environment; continued access to capital resources and the related costs of borrowing; changes in assumptions in the valuation of goodwill and other intangible assets and subject to dividends being declared by the Board of Directors, there can be no certainty that Dorel Industries Inc.’s Dividend Policy will be maintained. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking statements are discussed in the Company’s annual MD&A and Annual Information Form filed with the applicable Canadian securities regulatory authorities. The risk factors outlined in the previously mentioned documents are specifically incorporated herein by reference.

The Company cautions readers that the risks described above are not the only ones that could impact it. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial may also have a material adverse effect on its business, financial condition or results of operations. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. The Company therefore cannot describe the expected impact in a meaningful way or in the same way the Company presents known risks affecting the business.

# CONSOLIDATED BALANCE SHEETS

ALL FIGURES IN THOUSANDS OF US \$

	As at September 30, 2010 (unaudited)	As at December 30, 2009 (audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 11)	\$ 34,790	\$ 19,847
Accounts receivable	354,956	349,990
Income taxes receivable	12,918	16,264
Inventories	527,915	399,866
Prepaid expenses	19,557	17,358
Future income taxes	40,245	38,042
	<u>990,381</u>	<u>841,367</u>
PROPERTY, PLANT AND EQUIPMENT	150,143	153,279
INTANGIBLE ASSETS	399,781	401,831
GOODWILL (Note 12)	556,950	569,824
OTHER ASSETS	41,641	35,879
	<u>\$ 2,138,896</u>	<u>\$ 2,002,180</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness	\$ 10,350	\$ 1,987
Accounts payable and accrued liabilities	414,600	339,294
Income taxes payable	24,025	26,970
Future income taxes	182	85
Current portion of long-term debt	12,955	122,508
	<u>462,112</u>	<u>490,844</u>
LONG-TERM DEBT	<u>335,603</u>	<u>227,075</u>
PENSION & POST-RETIREMENT BENEFIT OBLIGATIONS	<u>21,258</u>	<u>20,939</u>
FUTURE INCOME TAXES	<u>122,711</u>	<u>128,984</u>
OTHER LONG-TERM LIABILITIES	<u>33,385</u>	<u>25,139</u>
<b>SHAREHOLDERS' EQUITY</b>		
CAPITAL STOCK (Note 4)	<u>178,264</u>	<u>174,816</u>
CONTRIBUTED SURPLUS (Note 5)	<u>22,912</u>	<u>20,311</u>
RETAINED EARNINGS	896,479	818,707
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 7)	66,172	95,365
	<u>962,651</u>	<u>914,072</u>
	<u>1,163,827</u>	<u>1,109,199</u>
	<u>\$ 2,138,896</u>	<u>\$ 2,002,180</u>

(See accompanying notes)

CONSOLIDATED STATEMENTS OF INCOME  
ALL FIGURES IN THOUSANDS OF US \$, EXCEPT PER SHARE AMOUNTS

	Third Quarters Ended		Nine Months Ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	\$ 567,329	\$ 514,654	\$ 1,765,199	\$ 1,583,322
Licensing and commission income	2,126	3,804	8,264	11,489
<b>TOTAL REVENUE</b>	<b>569,455</b>	<b>518,458</b>	<b>1,773,463</b>	<b>1,594,811</b>
<b>EXPENSES</b>				
Cost of sales (Note 9)	447,384	389,718	1,361,903	1,221,746
Selling, general and administrative expenses	77,041	79,254	244,815	233,064
Depreciation and amortization (Note 9)	8,066	7,332	22,789	19,322
Research and development costs	3,186	4,335	9,966	10,822
Interest (Note 10)	5,201	3,858	13,046	12,515
	<b>540,878</b>	<b>484,497</b>	<b>1,652,519</b>	<b>1,497,469</b>
Income before income taxes	28,577	33,961	120,944	97,342
Income taxes	(1,542)	3,731	18,327	14,319
<b>NET INCOME</b>	<b>\$ 30,119</b>	<b>\$ 30,230</b>	<b>\$ 102,617</b>	<b>\$ 83,023</b>
<b>EARNINGS PER SHARE</b>				
Basic	\$ 0.92	\$ 0.91	\$ 3.12	\$ 2.49
Diluted	\$ 0.91	\$ 0.91	\$ 3.09	\$ 2.49
<b>SHARES OUTSTANDING (Note 6)</b>				
Basic – weighted average	32,833,643	33,179,322	32,906,296	33,297,385
Diluted – weighted average	33,159,981	33,338,597	33,260,965	33,389,225

(See accompanying notes)

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

ALL FIGURES IN THOUSANDS OF US \$

	Third Quarters Ended		Nine Months Ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET INCOME	\$ 30,119	\$ 30,230	\$ 102,617	\$ 83,023
OTHER COMPREHENSIVE INCOME:				
<u>Cumulative translation adjustment:</u>				
Net change in unrealized foreign currency gains (losses) on translation of net investments in self- sustaining foreign operations, net of tax of nil	43,784	20,220	(23,783)	20,878
<u>Net changes in cash flow hedges:</u>				
Net change in unrealized gains (losses) on derivatives designated as cash flow hedges	(6,628)	(961)	(7,973)	(120)
Reclassification to income or to the related non financial asset	(185)	240	(866)	461
Future income taxes	2,102	464	3,429	(220)
	(4,711)	(257)	(5,410)	121
TOTAL OTHER COMPREHENSIVE INCOME	39,073	19,963	(29,193)	20,999
TOTAL COMPREHENSIVE INCOME	\$ 69,192	\$ 50,193	\$ 73,424	\$ 104,022

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CHANGES  
 IN SHAREHOLDERS' EQUITY  
 ALL FIGURES IN THOUSANDS OF US \$

	Nine Months Ended	
	Sept. 30, 2010	Sept. 30, 2009
	(unaudited)	(unaudited)
<b>CAPITAL STOCK (Note 4)</b>		
Balance, beginning of period	\$ 174,816	\$ 177,422
Issued under stock option plan	4,707	–
Reclassification from contributed surplus due to exercise of stock options	1,147	–
Repurchase and cancellation of shares	(2,406)	(1,680)
Balance, end of period	<u>178,264</u>	<u>175,742</u>
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	20,311	16,070
Exercise of stock options (Note 4)	(1,147)	–
Stock-based compensation (Note 5)	3,748	2,944
Balance, end of period	<u>22,912</u>	<u>19,014</u>
<b>RETAINED EARNINGS</b>		
Balance, beginning of period	818,707	738,113
Net income	102,617	83,023
Adjustment to opening retained earnings from adopting a new accounting standard for inventories, net of tax of \$1,415	–	(2,096)
Premium paid on share repurchase (Note 4)	(10,829)	(4,309)
Dividends on common shares	(13,977)	(12,485)
Dividends on deferred share units	(39)	(22)
Balance, end of period	<u>896,479</u>	<u>802,224</u>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 7)</b>		
Balance, beginning of period	95,365	83,139
Total other comprehensive income	(29,193)	20,999
Balance, end of period	<u>66,172</u>	<u>104,138</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>\$ 1,163,827</u>	<u>\$ 1,101,118</u>

(See accompanying notes)

# CONSOLIDATED STATEMENTS OF CASH FLOWS

ALL FIGURES IN THOUSANDS OF US \$

	Third Quarters Ended		Nine Months Ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING ACTIVITIES</b>				
Net income	\$ 30,119	\$ 30,230	\$ 102,617	\$ 83,023
Items not involving cash:				
Depreciation and amortization (Note 9)	13,027	12,996	38,162	34,835
Amortization of deferred financing costs	112	69	191	175
Accretion expense on contingent considerations (Note 10)	784	–	1,725	–
Future income taxes	(2,001)	2,364	(8,061)	(4,227)
Stock-based compensation (Note 5)	1,239	1,085	3,411	2,543
Pension and post-retirement defined benefit plans	205	(902)	1,115	694
Restructuring activities	–	(156)	–	(269)
Loss on disposal of property, plant and equipment	891	71	893	480
	<u>44,376</u>	<u>45,757</u>	<u>140,053</u>	<u>117,254</u>
Net changes in non-cash balances related to operations (Note 11)	<u>(53,531)</u>	<u>27,432</u>	<u>(68,155)</u>	<u>30,916</u>
<b>CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<u>(9,155)</u>	<u>73,189</u>	<u>71,898</u>	<u>148,170</u>
<b>FINANCING ACTIVITIES</b>				
Bank indebtedness	7,581	(3,018)	8,236	2,200
Increase of long-term debt	28,679	–	228,679	–
Repayments of long-term debt	(10,000)	(34,979)	(230,122)	(53,242)
Share repurchase (Note 4)	(6,541)	(2,514)	(13,235)	(5,989)
Issuance of capital stock (Note 4)	1,053	–	4,707	–
Dividends on common shares	(4,912)	(4,125)	(13,977)	(12,485)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>15,860</u>	<u>(44,636)</u>	<u>(15,712)</u>	<u>(69,516)</u>
<b>INVESTING ACTIVITIES</b>				
Acquisition of businesses (Notes 2 & 11)	(220)	(7,457)	(220)	(13,941)
Additions to property, plant and equipment – net	(6,811)	(5,915)	(22,906)	(12,775)
Intangible assets	(5,002)	(5,414)	(14,299)	(15,793)
<b>CASH USED IN INVESTING ACTIVITIES</b>	<u>(12,033)</u>	<u>(18,786)</u>	<u>(37,425)</u>	<u>(42,509)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>6,131</u>	<u>2,665</u>	<u>(3,818)</u>	<u>3,034</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>803</u>	<u>12,432</u>	<u>14,943</u>	<u>39,179</u>
Cash and cash equivalents, beginning of period	<u>33,987</u>	<u>43,713</u>	<u>19,847</u>	<u>16,966</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 34,790</u>	<u>\$ 56,145</u>	<u>\$ 34,790</u>	<u>\$ 56,145</u>

(See accompanying notes)

# Notes to the Consolidated Financial Statements

For the periods ended September 30, 2010 and 2009

All figures in thousands of US\$, except per share amounts (Unaudited)

## 1. Accounting policies

### Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) using the U.S. dollar as the reporting currency. The U.S. dollar is the functional currency of the Canadian parent company, Dorel Industries Inc. ("Dorel" or the "Company"). They have been prepared on a basis consistent with those followed in the most recent audited financial statements. These interim consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Company's audited financial statements for the year ended December 30, 2009. Certain comparative figures have been reclassified to conform to the 2010 financial statements presentation.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. Dorel does not expect seasonality to be a material factor in quarterly results, though the seasonal impact on operating segments within Dorel may vary more significantly.

### Future Accounting Changes

#### *International Financial Reporting Standards (IFRS)*

On February 13, 2008, the Accounting Standards Board of Canada confirmed the date of the changeover from Canadian GAAP to International Financial Reporting Standards. Canadian publicly accountable enterprises must adopt IFRS to their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption allowed. The Company has chosen to early adopt IFRS and it will issue its last financial statements prepared in accordance with Canadian GAAP for fiscal 2010. Effective the first day of fiscal year 2011, the Company's financial statements will be prepared in accordance with IFRS, with comparative figures and an opening balance sheet restated to conform to IFRS, along with a reconciliation from Canadian GAAP to IFRS, as per guidance provided in IFRS 1, *First-Time Adoption of International Reporting Standards*.

In preparation for the changeover to IFRS, the Company has developed an IFRS transition plan consisting of five phases: 1) Diagnostic Phase, 2) Design and Planning Phase, 3) Solution Development Phase, 4) Implementation Phase and, 5) Post Implementation Phase.

The Company has completed the diagnostic phase, which involved developing an IFRS transition plan based on the results of a high-level preliminary assessment of the differences between IFRS and the Company's current accounting policies. This assessment has provided insight into the most significant areas of potential impact to the Company including, but not limited to, property, plant and equipment, leases, goodwill and intangible assets, provisions, employee benefits, foreign exchange, income taxes and financial instruments.

The Company has further completed the design and planning phase. This included establishing a core project team with a mandate to oversee the transition process, including any impacts on financial reporting, business processes, internal controls and information systems. Regular reporting is provided by the project team to senior management and to the Audit Committee of the Board of Directors.

The Company is now in the solution design and development phase. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. As the Company continues to work through this phase, it has selected certain of its accounting policy choices and IFRS 1 exemptions. Impact on business processes and systems, including those relating to internal controls over financial reporting and disclosure controls and procedures, have been identified on related choices and exemptions.

## 2. Business acquisition

### *Hot Wheels and Circle Bikes*

On October 1<sup>st</sup>, 2009, the Company acquired certain assets of UK-based Hot Wheels and Circle Bikes for \$15,574 (GBP 9,765), a UK preeminent distributor of the Mongoose and GT brands. As part of the acquisition agreement, additional consideration is contingent upon a formulaic variable price based mainly on earnings results of the acquired business up to the year ended December 30, 2012. The allocation of the cost of this purchase includes an estimate of the contingent consideration of \$7,496 and this estimate is recorded as a financial liability within other long-term liabilities.

The acquisition has been recorded under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition. The goodwill is deductible for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 12.

The allocation of the purchase price of the assets acquired and the liabilities assumed is as follows:

<b>Assets</b>	
Cash and cash equivalents	\$ 290
Accounts receivable	2,666
Inventories	1,738
Prepaid expenses	86
Property, plant and equipment	155
Trademarks	766
Customer relationships	5,941
Non-Compete agreement	694
Goodwill	4,063
	<hr/>
	16,399
	<hr/>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	692
Other long-term liabilities	133
	<hr/>
	825
	<hr/>
Net assets acquired	\$ 15,574

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## 3. Long-term debt

Effective July 1, 2010, the Company completed the extension of its revolving bank loans. This facility was extended to July 1, 2013. The revolving bank loans bear interest at various rates per annum based on LIBOR, Euribor or U.S. bank rates. The borrowing availability under this facility decreased to \$300,000 from the availability previously disclosed as at April 6, 2010 of \$375,000. The credit agreement also includes an accordion feature allowing the Company to have access to an additional \$200,000 on a revolving basis. As a result, the revolving bank loans have been classified as long-term debt in the consolidated financial statements as at September 30, 2010.

#### 4. Capital stock

##### Issued and outstanding

Details of the issued and outstanding shares are as follows:

	Nine Months Ended September 30, 2010		Year Ended December 30, 2009	
	Number	Amount	Number	Amount
<b>Class "A" Multiple Voting Shares</b>				
Balance, beginning of period	4,229,510	\$ 1,792	4,429,710	\$ 1,793
Converted from Class "A" to Class "B" (1)	—	—	(200)	(1)
Balance, end of period	<u>4,229,510</u>	<u>\$ 1,792</u>	<u>4,229,510</u>	<u>\$ 1,792</u>
<b>Class "B" Subordinate Voting Shares</b>				
Balance, beginning of period	28,739,802	\$ 173,024	29,172,482	\$ 175,629
Converted from Class "A" to Class "B" (1)	—	—	200	1
Issued under stock option plan (2)	179,000	4,707	—	—
Reclassification from contributed surplus due to exercise of stock options	—	1,147	—	—
Repurchase and cancellation of shares (3)	<u>(397,300)</u>	<u>(2,406)</u>	<u>(432,880)</u>	<u>(2,606)</u>
Balance, end of period	<u>28,521,502</u>	<u>\$ 176,472</u>	<u>28,739,802</u>	<u>\$ 173,024</u>
<b>TOTAL CAPITAL STOCK</b>		<u><u>\$ 178,264</u></u>		<u><u>\$ 174,816</u></u>

- (1) In 2009, the Company converted 200 Class "A" Multiple Voting Shares into Class "B" Subordinate Voting Shares at an average rate of \$0.58 per share.
- (2) During the nine-months period ended September 30, 2010, the Company realized tax benefits amounting to \$227 as a result of stock option transactions. The benefit has been credited to capital stock and is not reflected in the current income tax provision.
- (3) On March 30, 2010, the Company filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to repurchase for cancellation outstanding Class "B" Subordinate Voting Shares on the open market. As approved by the TSX, the Company is authorized to purchase up to 700,000 Class "B" Subordinate Voting Shares (representing 2.4% of its issued and outstanding Class "B" Subordinate Voting Shares at the time of the bid) during the period of April 1, 2010 to March 31, 2011, or until such earlier time as the bid is completed or terminated at the option of the Company. Any shares the Company purchases under this bid will be purchased on the open market plus brokerage fees through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under this bid will be cancelled. In accordance with this normal course issuer bid, the Company repurchased during the nine-months period ended September 30, 2010 a total of 352,200 Class "B" Subordinate Voting Shares for a cash consideration of \$11,835. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

During 2009, in accordance with its previous normal course issuer bid which ended on March 19, 2010, the Company repurchased 432,880 Class "B" Subordinate Voting Shares for a cash consideration of \$10,504. During the three-months ended March 31, 2010, the Company repurchased with its previous normal course issuer bid a total of 45,100 Class "B" Subordinate Voting Shares for a cash consideration of \$1,400. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

## 5. Stock-based compensation

### Stock options plan

The Company may grant stock options on the Class "B" Subordinate Voting Shares at the discretion of the Board of Directors, to senior executives and certain key employees. The exercise price is the market price of the securities at the date the options are granted. Options granted vest according to a graded schedule of 25% per year commencing a day after the end of the first year, and expire no later than the year 2015.

The Company's stock option plan is as follows:

	Nine Months Ended September 30, 2010		Year Ended December 30, 2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of period	2,539,000	\$ 26.27	2,253,750	\$ 31.67
Granted	88,500	34.80	1,086,500	16.35
Exercised	(179,000)	25.06	–	–
Expired	(125,000)	34.49	(506,750)	33.46
Forfeited	(35,750)	25.10	(294,500)	29.07
Options outstanding, end of period	<u>2,287,750</u>	<u>\$ 26.39</u>	<u>2,539,000</u>	<u>\$ 26.27</u>
Total exercisable, end of period	<u>1,038,625</u>	<u>\$ 29.13</u>	<u>775,000</u>	<u>\$ 31.54</u>

A summary of options outstanding as of September 30, 2010 is as follows:

	Total Outstanding			Total Exercisable	
Range of Exercise Prices	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price
\$16.31 - \$22.09	907,375	\$ 18.94	3.50	163,000	\$ 18.97
\$30.70 - \$36.12	1,380,375	31.29	2.12	875,625	31.02
	<u>2,287,750</u>	<u>\$ 26.39</u>	<u>2.67</u>	<u>1,038,625</u>	<u>\$ 29.13</u>

Total compensation cost recognized in income for employee stock options for the quarter and nine months ended September 30, 2010 amounts to \$1,124 and \$3,078 respectively (2009 – \$987 and \$2,271 respectively), and was credited to contributed surplus.

## 5. Stock-based compensation (continued)

### Directors' Deferred Share Unit Plan

The Company has a Deferred Share Unit plan under which an external director of the Company may elect annually to have his or her director's fees and fees for attending meetings of the Board of Directors or committees thereof paid in the form of deferred share units ("DSU's"). A plan participant may also receive dividend equivalents paid in the form of DSU's. During the third quarters ended September 30, 2010 and 2009, 2,602 and 3,369 DSU's were issued respectively for fees forfeited and \$83 (2009 – \$89) was expensed and credited to contributed surplus. During the third quarters ended September 30, 2010 and 2009, 256 and 211 DSU's were issued respectively for dividend equivalents and \$9 (2009 – \$6) was charged to retained earnings and credited to contributed surplus. During the nine months periods ended September 30, 2010 and 2009, 8,211 and 12,351 DSU's were issued respectively for fees forfeited and \$264 (2009 – \$250) was expensed and credited to contributed surplus. During the nine months periods ended September 30, 2010 and 2009, 715 and 747 DSU's were issued respectively for dividend equivalents and \$24 (2009 – \$16) was charged to retained earnings and credited to contributed surplus. As at September 30, 2010, 64,987 DSU's are outstanding with related contributed surplus amounting to \$1,788.

### Executive Deferred Share Unit Plan

The Company has an Executive Deferred Share Unit Plan (the "EDSU Plan") under which executive officers of the Company may elect annually to have a portion of his or her annual salary and bonus paid in the form of deferred share units ("DSU's"). A plan participant may also receive dividend equivalents paid in the form of DSU's. During the third quarter ended September 30, 2010, 526 DSU's were issued for bonus and salary paid and \$17 (2009 – nil) was expensed and credited to contributed surplus. During the third quarters ended September 30, 2010 and 2009, 166 and 121 DSU's were issued respectively for dividend equivalents and \$6 (2009 – \$3) was charged to retained earnings and credited to contributed surplus. During the nine-months periods ended September 30, 2010 and 2009, 11,318 and 25,846 DSU's were issued respectively for bonus and salary paid and \$367 (2009 – \$401) was expensed and credited to contributed surplus. During the nine months periods ended September 30, 2010 and 2009, 440 and 282 DSU's were issued respectively for dividend equivalents and \$15 (2009 – \$6) was charged to retained earnings and credited to contributed surplus. At September 30, 2010, 37,990 DSU's are outstanding with related contributed surplus amounting to \$793.

## 6. Shares outstanding

The following table provides a reconciliation between the number of basic and fully diluted shares outstanding:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares	32,833,643	33,179,322	32,906,296	33,297,385
Dilutive effect of stock options and deferred share units	<u>326,338</u>	<u>159,275</u>	<u>354,669</u>	<u>91,840</u>
Weighted average number of diluted shares	<u>33,159,981</u>	<u>33,338,597</u>	<u>33,260,965</u>	<u>33,389,225</u>
Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings per share calculation	<u>1,179,147</u>	<u>1,515,659</u>	<u>1,181,764</u>	<u>1,515,659</u>

## 7. Accumulated other comprehensive income

Changes in the accumulated other comprehensive income were as follows for the quarter and nine months periods ended September 30, 2010:

	Cash Flow Hedges	Cumulative Translation Adjustment	Total
Balance as at December 31, 2009	\$ 895	\$ 94,470	\$ 95,365
Change during the period	793	(27,896)	(27,103)
Balance as at March 31, 2010	1,688	66,574	68,262
Change during the period	(1,492)	(39,671)	(41,163)
Balance as at June 30, 2010	196	26,903	27,099
Change during the period	(4,711)	43,784	39,073
Balance as at September 30, 2010	\$ (4,515)	\$ 70,687	\$ 66,172

## 8. Employee benefit plans

Expenses incurred under the Company's benefit plans were as follows:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Defined contribution pension plans	\$ 417	\$ 329	\$ 1,298	\$ 1,124
Defined benefit pension plans	817	1,001	2,650	3,269
Post-retirement benefit plans	251	195	752	585
Total	<u>\$ 1,485</u>	<u>\$ 1,525</u>	<u>\$ 4,700</u>	<u>\$ 4,978</u>

## 9. Depreciation and amortization

Depreciation and amortization consists of the following:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Depreciation – Property, plant and equipment	\$ 7,215	\$ 7,203	\$ 21,334	\$ 20,287
Amortization – Intangibles	5,812	5,793	16,828	14,548
Total Depreciation and Amortization included in the consolidated statement of income	13,027	12,996	38,162	34,835
Less: Depreciation related to manufacturing activities included in Cost of sales	(4,961)	(5,664)	(15,373)	(15,513)
	<u>\$ 8,066</u>	<u>\$ 7,332</u>	<u>\$ 22,789</u>	<u>\$ 19,322</u>

## 10. Interest

Interest expense consists of the following:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest on long-term debt – including effect of cash flow hedge related to the interest rate swaps	\$ 4,677	\$ 3,451	\$ 10,822	\$ 11,602
Accretion expense on contingent considerations	784	–	1,725	–
Other interest	(260)	407	499	913
	<u>\$ 5,201</u>	<u>\$ 3,858</u>	<u>\$ 13,046</u>	<u>\$ 12,515</u>

## 11. Statement of cash flows

Acquiring a long-lived asset by incurring a liability does not result in a cash outflow for the Company until the liability is paid. As such, the consolidated statement of cash flows excludes the following non-cash transactions:

	September 30,	
	2010	2009
Acquisition of property, plant and equipment financed by accounts payable and accrued liabilities	\$ 1,949	\$ 1,174
Acquisition of intangible assets financed by accounts payable and accrued liabilities	\$ 143	\$ 38

Net changes in non-cash balances related to operations are as follows:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Accounts receivable	\$ 49,088	\$ 33,127	\$ (10,313)	\$ (23,760)
Inventories	(71,500)	12,351	(129,256)	98,931
Prepaid expenses	(157)	3,030	(2,588)	(643)
Accounts payable, accruals and other long-term liabilities	(27,220)	(18,329)	72,842	(47,232)
Income taxes	(3,742)	(2,747)	1,160	3,620
Total	<u>\$ (53,531)</u>	<u>\$ 27,432</u>	<u>\$ (68,155)</u>	<u>\$ 30,916</u>

## 11. Statement of cash flows (continued)

Details of business acquisitions:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Acquisition of businesses	\$ –	\$ (7,677)	\$ –	\$ (13,061)
Balance of sale payable (paid)	<u>(220)</u>	<u>220</u>	<u>(220)</u>	<u>(880)</u>
	<u>\$ (220)</u>	<u>\$ (7,457)</u>	<u>\$ (220)</u>	<u>\$ (13,941)</u>

The components of cash and cash equivalents are:

	September 30, 2010	December 30, 2009
Cash	\$ 31,836	\$ 17,525
Short-term investments	<u>2,954</u>	<u>2,322</u>
Cash and cash equivalents	<u>\$ 34,790</u>	<u>\$ 19,847</u>

Supplementary disclosure:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest paid	\$ 2,411	\$ 7,001	\$ 7,924	\$ 20,316
Income taxes paid	\$ 6,277	\$ 5,765	\$ 27,343	\$ 17,903
Income taxes received	\$ 5,430	\$ 1,430	\$ 9,122	\$ 4,671

## 12. Segmented information

### Geographic Segments – Origin of Revenues

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Canada	\$ 64,413	\$ 59,487	\$ 211,977	\$ 185,607
United States	344,075	293,795	1,035,273	910,383
Europe	136,991	124,535	442,249	378,452
Other foreign countries	23,976	40,641	83,964	120,369
<b>Total</b>	<b>\$ 569,455</b>	<b>\$ 518,458</b>	<b>\$ 1,773,463</b>	<b>\$ 1,594,811</b>

	Third Quarters Ended September 30,							
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2010	2009	2010	2009	2010	2009	2010	2009
Total Revenue	\$ 569,455	\$ 518,458	\$ 248,421	\$ 247,860	\$ 172,530	\$ 145,175	\$148,504	\$125,423
Cost of sales (Note 9)	447,384	389,718	183,139	175,526	133,110	111,404	131,135	102,788
Selling, general and administrative expenses	72,163	73,651	35,564	37,500	27,196	27,049	9,403	9,102
Depreciation & amortization (Note 9)	8,021	7,258	5,762	5,570	2,004	1,324	255	364
Research and development costs	3,186	4,335	1,863	3,138	688	536	635	661
Earnings from operations	38,701	43,496	\$ 22,093	\$ 26,126	\$ 9,532	\$ 4,862	\$ 7,076	\$ 12,508
Interest	5,201	3,858						
Corporate expenses	4,923	5,677						
Income taxes	(1,542)	3,731						
Net income	\$ 30,119	\$ 30,230						
Depreciation related to manufacturing activities included in Cost of sales (Note 9)	4,961	5,664	3,142	3,874	745	725	1,074	1,065

## 12 Segmented information (continued)

Nine Months Ended September 30,								
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2010	2009	2010	2009	2010	2009	2010	2009
Total Revenue	\$ 1,773,463	\$ 1,594,811	\$ 794,005	\$ 746,493	\$ 569,095	\$ 505,696	\$ 410,363	\$ 342,622
Cost of sales (Note 9)	1,361,903	1,221,746	576,816	541,856	432,033	390,645	353,054	289,245
Selling, general and administrative expenses	227,617	215,998	113,862	111,847	88,254	78,393	25,501	25,758
Depreciation & amortization (Note 9)	22,672	19,220	16,947	14,303	4,966	3,835	759	1,082
Research and development costs	<u>9,966</u>	<u>10,822</u>	<u>5,887</u>	<u>6,916</u>	<u>2,125</u>	<u>1,975</u>	<u>1,954</u>	<u>1,931</u>
Earnings from operations	151,305	127,025	<u>\$ 80,493</u>	<u>\$ 71,571</u>	<u>\$ 41,717</u>	<u>\$ 30,848</u>	<u>\$ 29,095</u>	<u>\$ 24,606</u>
Interest	13,046	12,515						
Corporate expenses	17,315	17,168						
Income taxes	<u>18,327</u>	<u>14,319</u>						
Net income	<u>\$ 102,617</u>	<u>\$ 83,023</u>						
Depreciation related to manufacturing activities included in Cost of sales (Note 9)	<u>15,373</u>	<u>15,513</u>	<u>9,952</u>	<u>10,209</u>	<u>2,177</u>	<u>1,984</u>	<u>3,244</u>	<u>3,320</u>

The continuity of goodwill by industry segment is as follows as at:

	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	Sept. 30, 2010	Dec. 30, 2009	Sept. 30, 2010	Dec. 30, 2009	Sept. 30, 2010	Dec. 30, 2009	Sept. 30, 2010	Dec. 30, 2009
Balance, beginning of period	\$ 569,824	\$ 540,187	\$ 365,118	\$ 343,155	\$ 173,534	\$ 165,860	\$ 31,172	\$ 31,172
Additions (Note 2)	(2,452)	9,943	–	4,860	(2,452)	5,083	–	–
Contingent considerations	(470)	16,155	(470)	13,583	–	2,572	–	–
Foreign exchange	(9,952)	3,539	(9,912)	3,520	(40)	19	–	–
Balance, end of period	<u>\$ 556,950</u>	<u>\$ 569,824</u>	<u>\$ 354,736</u>	<u>\$ 365,118</u>	<u>\$ 171,042</u>	<u>\$ 173,534</u>	<u>\$ 31,172</u>	<u>\$ 31,172</u>