

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

For the quarter and six months ended June 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 six months ended June 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, except for new accounting standards noted within this MD & A. 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 six months ended June 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 our 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 August 5, 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 second quarter ended June 30, 2010 increased by \$56.6 million, or 10.3%, to \$607.7 million. This compares to \$551.1 million posted a year ago. After-tax earnings increased by \$10.4 million to \$35.1 million from \$24.8 million in 2009. Diluted earnings per share (EPS) were \$1.05 in 2010 compared to \$0.74 in 2009. For the six months ended June 30, 2010 revenues increased by \$127.7 million, or 11.9%, to \$1.204 billion from \$1.076 billion the year before. Year-to-date, after-tax earnings increased by 37.3% to \$72.5 million from \$52.8 million in 2009. Diluted earnings per share (EPS) were \$2.18 in 2010 compared to \$1.58 in 2009. The organic revenue increase for both the quarter and year to date is approximately 9.5%.

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 \$12.6 million in the quarter and \$12.1 million year-to-date. After tax these losses represented approximately \$8.9 million and \$8.5 million respectively, or the equivalent of \$0.27 per diluted share for the quarter and \$0.25 per diluted share year-to-date. In 2010 these mark-to-market amounts were not material.

In the second quarter of 2010, gross margins improved to 23.2%, as compared to the 22.0% recorded in the prior year. Year-to-date gross margins have improved by 130 basis points to 24.0%. However if the previously discussed mark-to-market impacts are excluded from the results of the prior year, the margins in 2009 were 24.3% in the quarter and 23.8% year-to-date, compared to 23.2% and 24.0% in 2010 respectively. In 2010, the Company is being adversely affected by higher costs for raw materials and freight costs, as well as a 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. This negative impact reduced pre-tax earnings by approximately \$11 million for the quarter and \$12 million year-to-date.

Gross margin declines in 2010 were lessened by improved pricing and product mix of sales at several of the Company's divisions. Versus the prior year, the Company's selling, general and administrative costs (S,G & A) increased by \$4.7 million in the second quarter of 2010 and \$14.0 million year-to-date. The principal causes of the increase were greater spending in the Recreational / Leisure segment due to greater advertising costs and higher infrastructure costs. It should be noted that as a percentage of revenues S,G & A costs were lower than the prior year in both the quarter and year-to-date.

The Company's costs of borrowing were \$7.8 million in 2010 compared to \$8.7 million in the prior year. The year-to-date interest rate on its long-term borrowings was approximately 3.1% consistent with the average of 3.1% in 2009. The benefit of lower borrowings in 2010 were partially offset by a year-to-date amount of \$0.5 million (2009 - \$0.2 million) in connection with the Company's use of interest rate swaps used to reduce its exposure to the variability of interest rates, as well as \$0.9 million related to interest recorded on the Company's contingent considerations.

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 tax rate in the quarter was 19.9% and year-to-date is 21.5%, in line with expectations. This compares to 16.9% for the quarter and 16.7% year-to-date in 2009. The increase from 2009 is attributable to variations in the jurisdictions in which the Company generated its income year over year. Based on current expectations, it is expected that for the year the tax rate will be in the range of 18% to 22%. However, variations in earnings across quarters mean that this rate may vary significantly from quarter to quarter.

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

<u>Earnings from operations by Segment:</u>	<u>Quarter</u>	<u>Year-to- Date</u>
Juvenile increase	\$ 8,898	\$ 12,955
Recreational/Leisure increase	1,082	6,199
Home Furnishings increase	<u>3,579</u>	<u>9,921</u>
Total increase in earnings from operations	13,559	29,075
Decrease (increase) in interest costs	(162)	812
Increase in income taxes	(3,706)	(9,281)
Other	<u>676</u>	<u>(901)</u>
Total increase in after-tax earnings	<u>\$ 10,367</u>	<u>\$ 19,705</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.

<b>Operating Results for the Quarters Ended</b>				
	<b>Sept. 30, 2009</b>	<b>Dec. 30, 2009</b>	<b>Mar. 31, 2010</b>	<b>June 30, 2010</b>
Revenues	\$518,458	\$545,303	\$596,313	\$ 607,695
Net income	\$30,230	\$24,211	\$37,367	\$ 35,131
Earnings per share				
Basic	\$0.91	\$0.73	\$1.13	\$ 1.07
Diluted	\$0.91	\$0.73	\$1.12	\$ 1.05
	<b>Sept. 30, 2008</b>	<b>Dec. 30, 2008</b>	<b>Mar. 31, 2009</b>	<b>June 30, 2009</b>
Revenues	\$552,242	\$479,880	\$525,230	\$551,123
Net income	\$27,208	\$19,167	\$28,029	\$24,764
Earnings per share				
Basic	\$0.82	\$0.57	\$0.84	\$0.74
Diluted	\$0.82	\$0.57	\$0.84	\$0.74

## Segmented Results

Segmented figures are presented in Note 11 to the 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	
	2010	2009	2010	2009
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	73.4%	75.6%	72.2%	73.5%
Gross Margin	26.6%	24.4%	27.8%	26.5%
Selling, general and administrative expenses	14.1%	14.8%	14.4%	14.9%
Depreciation and amortization	2.1%	2.0%	2.1%	1.7%
Research and development costs	0.5%	0.8%	0.7%	0.8%
Earnings from operations	9.9%	6.8%	10.6%	9.1%

Second quarter Juvenile revenue increased 6.2%, or \$15.1 million, to \$259.8 million compared to \$244.7 million during the same period a year ago. Earnings from operations were \$25.6 million, an increase of 53.2% from \$16.7 million in 2009. Year-to-date revenues were \$545.6 million, an increase of \$47.0 million, or 9.4%. Earnings from operations for the first half were \$58.4 million in 2010 versus \$45.4 million in 2009.

Included in the 2009 figures are mark-to-market losses on foreign exchange contracts of \$12.7 million in the quarter and \$13.4 million year-to-date. If these losses are excluded from the prior years' results, earnings from operations in the 2009 quarter were \$29.4 million. Year-to-date earnings figures excluding mark-to-market impacts for 2009 were \$58.8 million. While 2010 results do not include material mark-to-market amounts, earnings in 2010 are being adversely affected by the decline in value of the Euro versus last year. While partially offset by a stronger Canadian dollar, as a whole the negative impact on the segment in the second quarter of 2010 was approximately \$6 million versus the prior year. Year-to-date this negative impact was also approximately \$6 million.

The majority of the revenue increase for the quarter was in North America, accounting for nearly two-thirds of the increase. Dorel Brazil was a significant contributor to the segment's revenue increase, accounting for one third of the increase in the quarter. Revenues in Europe increased by almost 8% over the prior year, but the lower rate of exchange to the U.S. dollar had the impact of reducing this increase to less than 1%. For the segment as a whole, if the impact of foreign exchange is excluded, the organic revenue increase was approximately 8% for the quarter. The year-to-date revenue increase of \$47.0 million was impacted less by variations in the value of the Euro as its year-to-date average rate of exchange was more similar year-over-year. As a result the organic revenue growth year-to-date when adjusted principally for the increased strength of the Canadian and Australian dollars against their U.S. counterpart was approximately 7.5%.

Gross margins have increased from 2009 levels both year-to-date and for the quarter. However included in the 2009 cost of sales figures are the mark-to-market impacts on foreign exchange contracts. If these impacts are excluded from the prior year's results, margins were 29.5% for the quarter and 29.2% year-to-date. This compares to the 2010 gross margin figures of 26.6% for the quarter and 27.8% year-to-date. This decline was due principally to higher raw material and freight costs and a less favourable rate of exchange on US dollar purchases made by Dorel Europe in 2010. For the segment as a whole, SG & A costs have increased in dollar terms, but as a percentage of revenues, have decreased due to greater sales volumes. Note that total product liability costs in the quarter were \$2.0 million in 2010 as compared to \$2.7 million in the prior year. Year-to-date these costs are \$6.4 million in 2010 as compared to \$7.8 million in 2009.

## Recreational / Leisure

Expenses as a percentage of revenues	Second quarter ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	76.0%	77.8%	75.4%	77.5%
Gross Margin	24.0%	22.2%	24.6%	22.5%
Selling, general and administrative expenses	15.0%	13.3%	15.4%	14.2%
Depreciation and amortization	0.7%	0.6%	0.7%	0.7%
Research and development costs	0.3%	0.3%	0.4%	0.4%
Earnings from operations	8.0%	8.0%	8.1%	7.2%

Second quarter Recreational / Leisure revenue increased by \$15.8 million, or 7.9%, to \$214.9 million compared to last year's \$199.1 million. Year-to-date revenues are up \$36.1 million, or 10.0% to \$396.6 million from \$360.5 million in the prior year. Excluding the impact of new business acquisitions during 2009 and foreign exchange variations on the segment's non-US based businesses, the segment's organic revenue increase was approximately 5% for both the quarter and year-to-date. For the quarter the sales increase was driven by strong sales of elite racing bicycles such as the Cannondale SuperSix. Sales to the segment's mass merchant customers in the U.S. and Canada were flat with the prior year despite a strong increase in Schwinn brand sales at retail year-over-year, due to the multi-million dollar advertising campaign launched in mid-April, excellent retailer support and good early spring weather. However sales to the segment's mass merchant customers were hindered by a lack of supply due to the global shortage of ocean containers.

Earnings from operations for the quarter improved by \$1.1 million, or 6.8%, to \$17.1 million, compared to \$16.0 million in 2009. For the first six months of the year, earnings from operations were \$32.2 million, up \$6.2 million or 23.9% from \$26.0 million in the prior year. Gross margin improvements for the quarter and year-to-date were 180 basis points and 210 basis points respectively, due principally to a more profitable product mix, mainly at Pacific Cycle which services the segment's mass merchant customers. For the quarter, as in Juvenile, earnings in 2010 were negatively impacted by \$2.0 million due to the decline in the value of the Euro.

For the quarter, S,G & A expenses increased by \$5.6 million or 21.3% to \$32.2 million compared to last year's \$26.5 million. As a percentage of revenues, 2010 S,G & A for the quarter was 15.0%, an increase of 170 basis points and includes costs associated with new business 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. For the same reason as the quarterly increase, for the first half, S,G & A costs have increased by 18.9% from \$51.3 million to \$61.1 million.

## Home Furnishings

Expenses as a percentage of revenues	Second quarter ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	84.9%	83.9%	84.7%	85.8%
Gross Margin	15.1%	16.1%	15.3%	14.2%
Selling, general and administrative expenses	5.9%	8.0%	6.2%	7.7%
Depreciation and amortization	0.2%	0.3%	0.2%	0.3%
Research and development costs	0.5%	0.6%	0.5%	0.6%
Earnings from operations	8.5%	7.2%	8.4%	5.6%

For the quarter, Home Furnishings revenues increased by 23.9%, to \$133.0 million up from \$107.4 million in the prior year. For the first half, revenues increased by 20.6% to \$261.9 million from \$217.2 million the year before. The revenue increase was at several of the segment's divisions which secured new placements at certain of its key customers. Sales of both domestic and imported items improved, mainly in the metal folding furniture, futon, bedroom collection and bookcase categories.

Gross margins for the quarter in 2010 were 15.1%, a decline of 100 basis points from the 16.1% recorded in the prior year. Earnings from operations for the quarter were \$11.3 million in 2010, an increase of 46.4% from the prior year. This improvement was despite a less favourable rate of exchange in 2010 versus 2009 as two of the segments plants are based in Canada and ship the majority of its product to the United States. More than offsetting this negative impact were continued improvements at Cosco in sales, margins and cost containment.

For the first half, gross margins were 15.3%, an increase of 110 basis points from the 14.2% recorded in 2009. Earnings from operations for the first half were \$22.0 million versus \$12.1 million in 2009, an increase of 82.0%. As for the quarter, 2010 year-to-date earnings include the negative impact of foreign exchange. The earnings improvement for the first half were driven principally by Cosco. Despite the higher sales levels, for the segment as a whole, S,G & A costs were lower than the prior year for both the quarter and year-to-date. As a result, as a percentage of revenue S, G & A decreased by 210 basis points for the quarter and 150 basis points year-to-date.

## LIQUIDITY AND CAPITAL RESOURCES

### Balance Sheet

At the end of the first quarter the Company stated that strong first quarter results caused accounts receivable balances to rise by a significant amount from year end and that this was not an indication of the quality of the receivables. Also, inventories had continued their downward trend from 2009 and at March 31, 2010 were \$373.0 million, the lowest level since the February 2008 acquisition of the Cannondale bicycle group. It was also stated that part of this decrease was due to the strong first quarter demand and it was expected that inventories would rise to ensure adequate in-stock levels for the Company's customers. As of June 30, 2010, this has occurred, with both accounts receivable and inventories returning to levels similar to year end. Certain of the Company's working capital ratios:

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

Accounts payable increased by \$68.5 million in the second quarter of 2010. In 2009 this second quarter increase was \$26.6 million. As is traditionally the case for Dorel, due to the timing of purchases during the year at certain divisions, accounts payable balances are higher at the end of the second quarter versus the preceding quarter. The increase in 2010 was more pronounced than in the prior quarter as the Company replenished its low first quarter inventory levels as described above. The significant decline in the value of the Euro as at June 30, 2010 had the impact of decreasing most balance sheet values, with a corresponding decline in the value of Accumulated Other Comprehensive Income (AOCI) grouped in Shareholders' Equity, which declined from \$95.4 million at year end, to \$27.1 million as at June 30, 2010. As such, readers are reminded to review the Consolidated Statement of Cash Flows for a more accurate representation of changes from December 30, 2009 year end values. Dorel was compliant with all of its borrowing 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.

### Cash Flow

During the first half of 2010, cash flow from operating activities before changes in non-cash balances related to operations was \$95.7 million compared to \$71.5 million in 2009. However, the year over year change in variations of working capital balances was an additional use of funds of \$14.6 million. After these changes in non-cash balances related to operations, cash flow provided by operations was \$81.1 million compared to \$75.0 million that was provided by operations in 2009.

In 2010, dividends of \$9.1 million were paid, an increase from \$8.4 million in the prior year. In relation to its NCIB, the Company disbursed \$6.7 million to repurchase 198,600 shares in the first half of 2010. Excluding disbursements related to business acquisition, in 2010 the Company spent \$25.4 million on capital additions, comprising property, plant and equipment and intangible assets, an increase from the 2009 amount of \$17.2 million. Increased spending in the Juvenile segment was principally due to increased new product development spending in Europe as well as the on-going 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 improved from December 2009 with a reduction of \$33.9 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 June 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 due three years from the quarter ended June 30, 2010.

## 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. Subject to securities regulatory approval, the Company has chosen for an early adoption of IFRS and it will issue its last financial statements prepared in accordance with Canadian GAAP in 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:

### **Phase 3: Solution Design and Development**

Actions	<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.
Timetable	Solution Development: November 30, 2010
Progress	Solution Development: In Progress <ul style="list-style-type: none"> <li>• <u>Design tools to prepare IFRS opening balance sheet and comparative information:</u> the Company is currently working on a plan to create a duplicate 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</li> </ul>

	<p>under IFRS including any changes to the current Canadian GAAP reporting environment.</p> <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 will 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 are being reviewed and based on the Company's analysis, significant impacts as a result of conversion to IFRS are not expected; (iii) Canadian GAAP process to test hedge effectiveness is compliant with IFRS; (iv) processes will be 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 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 in progress and the data collection for each quarter in fiscal year 2010 will begin in Q3 2010.</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>IFRS specifies that classification of assets and liabilities can be based on liquidity, whereas Canadian GAAP does not specify a method other than by current and non-current.</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> <p>The Company has chosen to classify assets and liabilities as current and non-current.</p>
IAS 12: <i>Income Taxes</i>	<p>Unlike IFRS, under Canadian GAAP a deferred 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>The Company is currently assessing the impact of these differences on the financial statements.</p> <p>The Company’s current accounting policy under Canadian GAAP over potential tax exposures is to recognize them when “probable” with the tax liabilities measured using a single best estimate.</p>
IAS 16: <i>Property, Plant and Equipment</i>	<p>The main relevant differences between IFRS and Canadian GAAP are:</p> <ol style="list-style-type: none"> <li>The possibility to evaluate assets at fair value at each balance sheet date.</li> <li>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.</li> </ol>	<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>

Standards	Comparison between IFRS and Company current accounting policies	Findings
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 based on the substance of the lease contract. Canadian GAAP makes the distinction 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>Amortization of past service costs</u>  Past service costs are amortized faster under IFRS with the immediate recognition of the vested portion.</p>	<p>The Company continues to assess the impact of these differences with the assistance of third party actuaries.</p>
IAS 21: <i>The Effect of Changes in Foreign Exchange Rates</i>	<p>IFRS and Canadian GAAP are essentially converged.</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 (between companies with different functional currencies) does not trigger the recognition of CTA in the P&amp;L if the parent company does not lose control of its subsidiary.</p> <p>Under Canadian GAAP all reductions in permanent investment trigger the recognition of CTA in income. The Company currently uses the net change method to determine whether there has been a reduction in permanent investment through either PUC reduction, dividends and/or permanent intercompany loan repayment</p>	<p>Based on the Company's analysis, it is expected that none of the GAAP differences related to foreign exchange translation will 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
IAS 33: <i>Earnings Per Share</i> (“EPS”)	<p>The main 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>Unlike Canadian GAAP, IFRS does not require presentation of earnings per share for income or loss before discontinued operations and extraordinary items.</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>There is no material impact for the Company as it does not have discontinued operations or extraordinary items.</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.</p>
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>Process of the impairment test</u> 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><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>Assigning assets to cash generating units</u> The Company has identified its cash generating units. Impairment testing for goodwill will be conducted at the CGU level.</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>

Standards	Comparison between IFRS and Company current accounting policies	Findings
<p>IAS 37: <i>Provisions, Contingent Liabilities and Contingent Assets</i></p>	<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>
<p>IAS 39: <i>Financial Instruments</i></p>	<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>The Company continues to assess the impact of the differences related to embedded derivatives.</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 may elect to recognize all cumulative actuarial gains and losses at the date of transitions to IFRS even if it uses the corridor approach for future actuarial gains and losses.</p> <p>As at December 30, 2009 the net amount unamortized of actuarial losses carried forward was \$16.1 million and management is still analyzing the potential to utilize the election. This will reduce opening retained earnings and increase pension liabilities by \$16.1 million.</p>
Cumulative Translation Differences	<p>Under IFRS 1, the Company may elect to recognize all 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 and assuming the Company can reliably calculate its impact, the Company proposes not to use this exemption and to retain the cumulative translation difference in its Balance Sheet.</p>

## OTHER INFORMATION

The designation, number and amount of each class and series of its shares outstanding as of August 2, 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	28,632,127	\$176,168	\$177,960

In accordance with its NCIB, the Company repurchased during the six months period ended June 30, 2010, a total of 198,600 Class "B" Subordinate Voting Shares for a cash consideration of \$6.7 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 4 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 it’s 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.