DOREL

# A COMPANY IN MOTION

THIRD QUARTERLY REPORT FOR
THE NINE MONTHS
ENDED SEPTEMBER 30, 2015

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

For the third quarter and nine months ended September 30, 2015
All figures in US dollars

*This Interim Management's Discussion and Analysis of Financial Conditions and Results of Operations ("MD & A") should be read in conjunction with the unaudited condensed consolidated interim financial statements as at and for the third quarter and nine months ended September 30, 2015 and the audited consolidated financial statements and MD & A as at and for the year ended December 30, 2014. This MD & A is based on reported earnings prepared in accordance with International Financial Reporting Standards ("IFRS"), using the US dollar as the reporting currency.*

*The Company's condensed consolidated interim financial statements have been prepared using the same accounting policies as described in Note 4 of the Company's audited consolidated financial statements for the year ended December 30, 2014. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with IFRS were omitted or condensed where such information is not considered material to the understanding of the Company's condensed consolidated interim financial statements.*

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

*Note that there have been no significant changes with regards to the "Corporate Overview", "Operating Segments", "Contractual Obligations", "Off-Balance Sheet Arrangements", "Derivative Financial Instruments", "Critical Accounting Estimates" or "Market Risks and Uncertainties" to those outlined in the Company's 2014 annual MD & A as filed with Canadian securities regulatory authorities on March 30, 2015. As such, they are not repeated herein. The information in this MD & A is current as of November 5, 2015.*

## SIGNIFICANT EVENTS IN 2015

On May 13, 2015 the Company announced that it had decided to implement a normal course issuer bid ("2015 NCIB"). Under the 2015 NCIB, the Company is entitled to repurchase for cancellation up to 200,000 Class B Subordinate Voting Shares over a twelve-month period commencing May 19, 2015 and ending May 18, 2016, representing approximately 0.71% of the Company's issued and outstanding Class B Subordinate Voting Shares. The purchases by the Company will be realized through the facilities of the Toronto Stock Exchange ("TSX") and will be made at the market price of the Class B Subordinate Voting Shares at the time of the purchase. As at May 5, 2015, there were 28,126,876 Class B Subordinate Voting Shares issued and outstanding. The Board of Directors considers that the underlying value of the Company 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 the company and its shareholders.

During the six month period prior to the implementation of the 2015 NCIB, the average daily trading volume for the Class B Subordinate Voting Shares of the Company on the TSX was 40,595 shares. Consequently, under the policies of the TSX, the Company has the right to repurchase during any one trading day a maximum of 10,148 Class B Subordinate Voting Shares, representing 25% of the average daily trading volume. In addition, the Company 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 the Company, in accordance with the policies of the TSX.

Any purchases made pursuant to the 2015 NCIB will be made in accordance with the requirements of the TSX. The Company will make no purchases of Class B Subordinate Voting Shares other than open market purchases during the period of the 2015 NCIB. To the knowledge of the Company, no director or officer of the Company intends to sell shares of the Company while the 2015 NCIB is in effect.

In addition, the Company has entered into an automatic share purchase agreement with CIBC World Markets Inc. in connection with the 2015 NCIB. Under the agreement, CIBC may acquire, at its discretion, Class B Subordinate Voting Shares on the Company's behalf during certain "black-out" periods, subject to certain parameters as to price and number of shares. The agreement with CIBC is cancellable at any time by the Company.

In the third quarter ended September 30, 2015, both Dorel Juvenile segment and Dorel Sports segment initiated restructuring activities. Dorel Juvenile strategic review is part of its on-going transformation into a more fully integrated operation in its various markets. The segment expects to realize annualized cost savings of at least $9.0 million once the restructuring is completed in late 2016. For Dorel Sports, the initiatives include a new Go-to-Market strategy and structure for its North American independent bike dealer (IBD) operation which are expected to be completed by the end of 2015 and will deliver annual cost savings of $4.0 million. Further information on those activities can be found in the operating results commentary of this MD&A and in Note 4 of the condensed consolidated interim financial statements for the third quarter and the nine months ended September 30, 2015.

During the third quarter ended September 30, 2015, the economic and political instability in Brazil gave rise to revised assumptions on projected earnings and cash flow growth which resulted in impairment losses on goodwill and customer relationships at Dorel Sports – Caloi as set out in the operating results commentary.

## OPERATING RESULTS

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

### *a) Non-GAAP measures*

As a result of impairment losses and the restructuring and other costs incurred in both 2015 and 2014, the Company is including in this MD&A the following non-GAAP financial measures: ''total adjusted revenue'', "adjusted cost of sales", "adjusted gross profit", "adjusted operating profit", "adjusted finance expenses", "adjusted income before income taxes", "adjusted income taxes", "adjusted net income" and "adjusted earnings per basic and diluted share". The Company believes that this results in a more meaningful comparison of its core business performance between the periods presented. These non-GAAP financial measures do not have a standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers. Contained within this MD&A are reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP.

## b) *Impairment losses, restructuring and other costs*

Reconciliation of non-GAAP financial measures:

**Results for the third quarter ended September 30, 2015**

| | Reported $ | Impairment losses, restructuring and other costs $ | Adjusted $ |
|---|---|---|---|
| Total revenue | 679,287 | | 679,287 |
| Cost of sales | 542,732 | (3,379) | 539,353 |
| GROSS PROFIT | 136,555 | 3,379 | 139,934 |
| Selling expenses | 57,943 | | 57,943 |
| General and administrative expenses | 46,245 | | 46,245 |
| Research and development expenses | 9,210 | | 9,210 |
| Restructuring and other costs | 6,155 | (6,155) | - |
| Impairment losses on goodwill and customer relationships | 26,510 | (26,510) | - |
| OPERATING PROFIT (LOSS) | (9,508) | 36,044 | 26,536 |
| Finance expenses | 1,522 | 9,711 | 11,233 |
| INCOME (LOSS) BEFORE INCOME TAXES | (11,030) | 26,333 | 15,303 |
| Income taxes (recovery) expense | (2,273) | 2,107 | (166) |
| *Tax rate* | *20.6%* | | *-1.1%* |
| NET INCOME (LOSS) | (8,757) | 24,226 | 15,469 |
| EARNINGS (LOSS) PER SHARE | | | |
| Basic | (0.27) | 0.75 | 0.48 |
| Diluted | (0.27) | 0.75 | 0.48 |
| SHARES OUTSTANDING | | | |
| Basic - weighted average | 32,322,011 | | 32,322,011 |
| Diluted - weighted average | 32,322,011 | | 32,530,160 |

**Results for the third quarter ended September 30, 2014**

| | Reported $ | Restructuring and other costs $ | Adjusted $ |
|---|---|---|---|
| Total revenue | 673,020 | | 673,020 |
| Cost of sales | 521,526 | (504) | 521,022 |
| GROSS PROFIT | 151,494 | 504 | 151,998 |
| Selling expenses | 57,118 | | 57,118 |
| General and administrative expenses | 49,347 | | 49,347 |
| Research and development expenses | 8,557 | | 8,557 |
| Restructuring and other costs | 5,934 | (5,934) | - |
| OPERATING PROFIT | 30,538 | 6,438 | 36,976 |
| Finance expenses | 6,375 | 1,364 | 7,739 |
| INCOME BEFORE INCOME TAXES | 24,163 | 5,074 | 29,237 |
| Income taxes expense | 4,683 | 783 | 5,466 |
| *Tax rate* | *19.4%* | | *18.7%* |
| NET INCOME | 19,480 | 4,291 | 23,771 |
| EARNINGS PER SHARE | | | |
| Basic | 0.60 | 0.14 | 0.74 |
| Diluted | 0.60 | 0.13 | 0.73 |
| SHARES OUTSTANDING | | | |
| Basic - weighted average | 32,305,379 | | 32,305,379 |
| Diluted - weighted average | 32,493,300 | | 32,493,300 |

Reconciliation of non-GAAP financial measures:

**Results for the nine months ended September 30, 2015**

| | Reported | Impairment losses, restructuring and other costs | Adjusted |
|---|---|---|---|
| | $ | $ | $ |
| Total revenue | 2,014,419 | | 2,014,419 |
| Cost of sales | 1,582,052 | (3,379) | 1,578,673 |
| GROSS PROFIT | 432,367 | 3,379 | 435,746 |
| Selling expenses | 174,452 | | 174,452 |
| General and administrative expenses | 154,680 | | 154,680 |
| Research and development expenses | 27,041 | | 27,041 |
| Restructuring and other costs | 7,246 | (7,246) | - |
| Impairment losses on goodwill and customer relationships | 26,510 | (26,510) | - |
| OPERATING PROFIT | 42,438 | 37,135 | 79,573 |
| Finance expenses | 20,463 | 9,879 | 30,342 |
| INCOME BEFORE INCOME TAXES | 21,975 | 27,256 | 49,231 |
| Income taxes expense | 2,885 | 2,457 | 5,342 |
| *Tax rate* | *13.1%* | | *10.9%* |
| NET INCOME | 19,090 | 24,799 | 43,889 |
| EARNINGS PER SHARE | | | |
| Basic | 0.59 | 0.77 | 1.36 |
| Diluted | 0.59 | 0.76 | 1.35 |
| SHARES OUTSTANDING | | | |
| Basic - weighted average | 32,321,887 | | 32,321,887 |
| Diluted - weighted average | 32,522,810 | | 32,522,810 |

**Results for the nine months ended September 30, 2014**

| | Reported | Restructuring and other costs | Adjusted |
|---|---|---|---|
| | $ | $ | $ |
| Total revenue | 1,976,552 | | 1,976,552 |
| Cost of sales | 1,514,173 | (1,175) | 1,512,998 |
| GROSS PROFIT | 462,379 | 1,175 | 463,554 |
| Selling expenses | 174,332 | | 174,332 |
| General and administrative expenses | 152,955 | | 152,955 |
| Research and development expenses | 24,253 | | 24,253 |
| Restructuring and other costs | 9,278 | (9,278) | - |
| OPERATING PROFIT | 101,561 | 10,453 | 112,014 |
| Finance expenses | 28,539 | (5,087) | 23,452 |
| INCOME BEFORE INCOME TAXES | 73,022 | 15,540 | 88,562 |
| Income taxes expense | 13,542 | 2,045 | 15,587 |
| *Tax rate* | *18.5%* | | *17.6%* |
| NET INCOME | 59,480 | 13,495 | 72,975 |
| EARNINGS PER SHARE | | | |
| Basic | 1.85 | 0.42 | 2.27 |
| Diluted | 1.83 | 0.42 | 2.25 |
| SHARES OUTSTANDING | | | |
| Basic - weighted average | 32,180,681 | | 32,180,681 |
| Diluted - weighted average | 32,417,922 | | 32,417,922 |

The detail of the impairment losses, restructuring and other costs recorded are summarized below:

| | Third Quarters Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $ | $ | $ | $ |
| Recorded as restructuring costs | 5,035 | 404 | 4,411 | 1,887 |
| Restructuring costs recorded in cost of sales | 3,379 | 504 | 3,379 | 1,175 |
| Total Restructuring Costs | 8,414 | 908 | 7,790 | 3,062 |
| Acquisition-related costs | 1,120 | 1,039 | 2,835 | 1,452 |
| Brixia investment write down and other costs related to team sponsorship | - | 4,491 | - | 5,939 |
| Total Restructuring and Other costs | 9,534 | 6,438 | 10,625 | 10,453 |
| Impairment losses on goodwill and customer relationships | 26,510 | - | 26,510 | - |
| Finance Expenses | | | | |
| Loss (gain) on remeasurement of forward purchase agreement liabilities | (9,711) | (1,364) | (9,879) | 5,087 |
| **Total impairment losses, restructuring and other costs and remeasurement of the forward purchase agreement liabilities before income taxes** [1] | 26,333 | 5,074 | 27,256 | 15,540 |
| **Total impairment losses, restructuring and other costs and remeasurement of the forward purchase agreement liabilities after income taxes** | 24,226 | 4,291 | 24,799 | 13,495 |
| **Total impact on diluted earnings per share** | (0.75) | (0.13) | (0.76) | (0.42) |
| [1] Includes non-cash amounts of: | 21,178 | 2,536 | 21,010 | 10,574 |

The detail of restructuring and other costs recognized is presented in Note 4 of the condensed consolidated interim financial statements.

**Impairment losses on goodwill and customer relationships**

During the third quarter, due to challenging economy and local market conditions, rising inflation and devaluation of the Real in Brazil, the Company revised its assumptions on projected earnings and cash-flow growth for Dorel Sports – Caloi resulting in a goodwill impairment loss of $19.9 million and a $6.6 million impairment charge on the customer relationships recorded in the third quarter of 2015. This situation also resulted in a remeasurement of the Caloi acquisition forward purchase agreement liability amounting to an unrealized gain of $9.7 million recorded in finance expenses.

**Restructuring costs**

*Dorel Juvenile*

In the third quarter of 2015, Dorel Juvenile segment initiated restructuring activities as part of its on-going transformation into a more fully integrated operation in its various markets. The segment has identified cost savings opportunities principally through the consolidation of certain facilities in China where two smaller facilities will be closed and through the reduction of indirect labour levels at the Company's two main facilities in China. Within North America, the operations based in the United States ("US") will take over back office support for the Canadian operations and allow the Canadian business to focus on sales and marketing activities. In addition, a former US based Lerado Group office will be closed. In Europe, the way product is brought to market, the on-going process harmonization and the re-alignment of the sales organization are actions that have been identified to enhance efficiencies. Finally, the business based in Panama that services Central America and the Caribbean will be downsized with a greater focus on direct import model, realignment of management and a streamlined product offering.

This restructuring plan will continue in the fourth quarter of 2015 and into 2016 as the strategic direction identified is put into action. The expected cumulative restructuring charges amounts to $10.6 million. During the third quarter, the Company recorded an expense of $3.9 million under the plan, including $0.9 million of non-cash charges related to the write-down of long-lived assets and inventory markdowns, $2.3 million of employee severance and termination benefits and $0.7 million of other associated costs.

*Dorel Sports*

Dorel Sports announced a new Go-to-Market strategy and structure for its North American independent bike dealer operation during the third quarter ("2015 Plan"). The plan includes realigning the organization to allow for more focus and support on the Parts and Accessories and Apparel products. In accordance with these initiatives, the Company has identified significant cost reductions across the segment which include a headcount reduction in North America and the consolidation of Cannondale and SUGOI apparel product lines into a single global apparel portfolio.

For the third quarter ended September 30, 2015, the Company has recorded an expense of $4.7 million under the 2015 Plan, including $3.5 million of non-cash charges related to the write-down of long-lived assets and inventory markdowns, $1.1 million of employee severance and termination benefits and $0.1 million of other associated costs. The restructuring initiatives related to the 2015 Plan are expected to be completed in the fourth quarter of 2015. Additional estimated cash charges of $1.0 million in connection with this plan are expected to be incurred before the end of 2015.

The restructuring initiatives announced by Dorel Sports towards the end of 2013 ("2013 Plan") are mainly completed and resulted in cumulative restructuring charges of $19.5 million, including $10.9 million of non-cash charges related to the write-down on long-lived assets, accelerated depreciation due to the revision of the estimated useful lives of long-lived assets and inventory markdowns, $7.8 million of employee severance and termination benefits and $0.8 million of other associated costs. There are no significant expected remaining costs associated with the 2013 Plan.

**Remeasurement of forward purchase agreement liabilities**

In the fourth quarter of 2014, the Company changed its accounting policy to reclassify the forward purchase agreements unrealized (gains) losses due to foreign exchange exposure and the remeasurement due to change in assumptions from general and administrative expenses to finance expenses as it was determined that these items were more representative of finance expenses and that it will result in a more reliable and relevant presentation.

The Company was already recognizing the accretion expense on the forward purchase agreement within finance expenses, therefore no reclassification was required pertaining to the accretion expense. As a result, the forward purchase agreement liabilities are remeasured to fair value and any subsequent changes, whether they relate to accretion expense, change in assumptions or unrealized (gains) losses due to foreign exchange exposure, are recognized as finance expenses in the consolidated income statements. This new accounting policy did not have an impact on income taxes expense, net income, earnings per share and the condensed consolidated interim statements of financial position, comprehensive income or cash flows.

The amounts related to the remeasurement of the forward purchase agreement liabilities with regards to certain past business acquisitions are discussed below as part of finance expenses.

## Overview

For the third quarter of 2015, revenue increased by $6.3 million, or 0.9%, to $679.3 million. This compares to $673.0 million posted a year ago. The organic revenue increase for the third quarter, removing the impact of foreign exchange rate variations and new business acquisitions was approximately 5% compared to 2014. Adjusted pre-tax earnings declined by 47.7% to $15.3 million from $29.2 million in 2014. Adjusted net income for the quarter was $15.5 million, a decrease of 34.9% from the $23.8 million recorded in the third quarter of 2014. On an adjusted diluted earnings per share ("EPS") basis, this equates to $0.48 for the third quarter of 2015 compared to $0.73 in 2014. As discussed in previous quarters, the surge in the value of the US dollar versus the majority of the Company's other operating currencies was expected to have a significant negative effect on earnings through 2015. The net negative impact of foreign exchange on the third quarter 2015 operating profit was approximately $12 million for which about $14 million is actually imputable to the operations in the Juvenile and Sports segments while a net positive impact of $2 million was noted at the corporate level. This net negative impact on the diluted EPS for the third quarter represented $0.28.

For the nine months ended September 30, 2015, revenue increased by $37.9 million, or 1.9%, to $2,014.4 million. This compares to $1,976.5 million posted a year ago. The organic revenue increase, removing the impact of foreign exchange rate variations and new business acquisitions was approximately 6% compared to 2014. Adjusted pre-tax earnings declined by 44.4% to $49.2 million from $88.6 million in 2014. Adjusted net income for the nine months was $43.9 million, a decrease of 39.9% from the $73.0 million recorded in 2014. On an adjusted diluted EPS basis, this equates to $1.35 for the nine months of 2015 compared to $2.25 in 2014. The appreciation of the US dollar, as discussed above, had a net negative impact on the diluted EPS of $0.81 for the nine months of 2015 which represented approximately $39 million on the operating profit of the Juvenile and Sports segments and a $6 million positive net effect at the corporate level for a consolidated net negative impact of $33 million.

In the third quarter and for the nine months, adjusted gross profit declined to 20.6% and 21.6% from 22.6% and 23.5%in the prior year periods. The adjusted gross profit percentage decreased in Dorel Juvenile and Dorel Sports while increased in Dorel Home Furnishings during the quarter and for the year-to-date period. The gross margin variances will be explained below in the segmented results section.

Versus the prior year, the Company's selling expenses increased by $0.8 million or 1.4% in the quarter and by $0.1 million or 0.1% for the year-to-date period. Excluding the selling expenses of Dorel Juvenile China (formerly the juvenile business of the Lerado Group) which was acquired in the fourth quarter of 2014, selling expenses would have decreased by 1.4% in the quarter and 2.9% year-to-date. General and administrative expenses decreased by $3.1 million or 6.3% for the quarter and increased by $1.7 million or 1.1% year-to-date respectively. Excluding the impact of the acquired company, general and administrative expenses would have decreased by 13.0% in the quarter and 5.4% for the nine months compared with the previous year. The decrease in both periods is explained by year-over-year foreign exchange variations which resulted in a favorable impact on the general and administrative expenses.

Adjusted operating profit for the quarter declined by 28.2% when excluding the impairment losses, restructuring and other costs and by 29.0% for the nine months period. As mentioned earlier, the current operating profit for the quarter and the year-to-date was significantly impacted by the net negative impact of the appreciation of the US dollar year-over-year.

Reported finance expenses decreased by $4.9 million to $1.5 million in the quarter and decreased by $8.1 million to $20.5 million year-to-date from 2014 periods. Both years' expenses include the non-cash and non-taxable amounts related to the remeasurement of forward purchase agreement liabilities with respect to certain past business acquisitions which represented for the quarter an income of $9.7 million compared to $1.4 million in 2014. Year-to-date, those amounts represented an income of $9.9 million compared with an expense of $5.1 million in 2014. Adjusted finance expenses which exclude the remeasurement of forward purchase agreement liabilities were $11.2 million for the third quarter of 2015 compared with $7.7 million in 2014 and were $30.3 million for the nine months of 2015 compared with $23.5 million in 2014.

Details of finance expenses are summarized below:

| | Third quarters ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $ | $ | $ | $ |
| Interest on long-term debt - including effect of cash flow hedge related to the interest rate swaps and the accreted interest related to long-term debt bearing interest at fixed rates | 8,644 | 6,400 | 24,292 | 17,394 |
| Remeasurement of forward purchase agreement liabilities | (9,711) | (1,364) | (9,879) | 5,087 |
| Amortization of deferred financing costs | 324 | 80 | 665 | 463 |
| Other interest | 2,265 | 1,259 | 5,385 | 5,595 |
| Total reported | 1,522 | 6,375 | 20,463 | 28,539 |
| Adjustment due to remeasurement of forward purchase agreement liabilities | 9,711 | 1,364 | 9,879 | (5,087) |
| Total adjusted | 11,233 | 7,739 | 30,342 | 23,452 |

For the third quarter, interest on long-term debt increased to $8.6 million from the prior year's $6.4 million principally due to increased borrowing costs mainly in relation with the issuance of the convertible debentures as part of the acquisition of Dorel Juvenile China. Similarly, for the nine months of 2015, interest on long-term debt increased to $24.3 million from the prior year's $17.4 million for the same reasons. The year-to-date average interest rate on the Company's long-term borrowings was 4.8% in 2014 and in 2015.

As a multi-national company, Dorel is resident in numerous countries and therefore subject to different tax rates in those various tax jurisdictions and by the interpretation and application of tax laws, as well as the application of income tax treaties between various countries. As such, significant tax rate variations can occur from year to year and between quarters within a given year. The third quarter and nine months ended September 30, 2015 tax rates were a recovery of 20.6% and an expense of 13.1%, respectively (2014 – expenses of 19.4% and 18.5%, respectively). The main causes of the variations year-over-year are changes in the jurisdictions in which the Company generated its income, the non-deductible impairment of goodwill, the recognition of tax benefits related to tax losses following a Canadian reorganization and the decrease in the fair value adjustments related to the forward purchase agreement liabilities which are non-deductible for tax purposes. The Company has stated that for the full year it expects its annual tax rate to be between 12% and 17%. However, variations in earnings across quarters mean that this rate may vary significantly from quarter to quarter.

Principal changes in the net income for the third quarter from 2014 to 2015:

| | Reported | Impairment losses, restructuring and other costs | Adjusted |
|---|---|---|---|
| | $ | $ | $ |
| Dorel Juvenile decrease | (13,310) | 4,017 | (9,293) |
| Dorel Sports decrease | (34,938) | 25,589 | (9,349) |
| Dorel Home Furnishings increase | 4,649 | - | 4,649 |
| Total decrease in operating profit | (43,599) | 29,606 | (13,993) |
| Increase in finance expenses other than the remeasurement of forward purchase agreement liabilities | (3,494) | - | (3,494) |
| (Increase) decrease in remeasurement of forward purchase agreement liabilities | 8,347 | (8,347) | - |
| Decrease in income taxes expense | 6,956 | (1,324) | 5,632 |
| Decrease in corporate expenses | 3,553 | - | 3,553 |
| Total decrease in net income | (28,237) | 19,935 | (8,302) |

Principal changes in the net income for the year-to-date from 2014 to 2015:

| | Reported | Impairment losses, restructuring and other costs | Adjusted |
|---|---|---|---|
| | $ | $ | $ |
| Dorel Juvenile decrease | (25,123) | 5,497 | (19,626) |
| Dorel Sports decrease | (43,820) | 21,185 | (22,635) |
| Dorel Home Furnishings increase | 9,560 | - | 9,560 |
| Total decrease in operating profit | (59,383) | 26,682 | (32,701) |
| Increase in finance expenses other than the remeasurement of forward purchase agreement liabilities | (6,890) | - | (6,890) |
| (Increase) decrease in remeasurement of forward purchase agreement liabilities | 14,966 | (14,966) | - |
| Decrease in income taxes expense | 10,657 | (412) | 10,245 |
| Decrease in corporate expenses | 260 | - | 260 |
| Total decrease in net income | (40,390) | 11,304 | (29,086) |

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 ended:

| | Sep. 30, 2015 | June 30, 2015 | Mar. 31, 2015 | Dec. 30, 2014 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Total revenue | 679,287 | 669,643 | 665,489 | 701,002 |
| Net income (loss) | (8,757) | 16,215 | 11,632 | (80,749) |
| Total adjusted revenue | 679,287 | 669,643 | 665,489 | 701,602 |
| Adjusted net income | 15,469 | 16,622 | 11,799 | 10,993 |
| Earnings (loss) per share: | | | | |
| Basic | (0.27) | 0.50 | 0.36 | (2.50) |
| Diluted | (0.27) | 0.50 | 0.36 | (2.50) |
| Adjusted earnings per share: | | | | |
| Basic | 0.48 | 0.51 | 0.37 | 0.34 |
| Diluted | 0.48 | 0.51 | 0.36 | 0.34 |
| After-tax impact of impairment losses, restructuring and other costs and remeasurement of the forward purchase agreement liabilities on the diluted earnings per share for the quarter | (0.75) | (0.01) | - | (2.84) |

| | Sep. 30, 2014 | June 30, 2014 | Mar. 31, 2014 | Dec. 30, 2013 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Total revenue | 673,020 | 655,831 | 647,701 | 633,534 |
| Net income | 19,480 | 15,200 | 24,800 | 11,024 |
| Adjusted net income | 23,771 | 19,769 | 29,435 | 12,147 |
| Earnings per share: | | | | |
| Basic | 0.60 | 0.47 | 0.78 | 0.35 |
| Diluted | 0.60 | 0.47 | 0.77 | 0.34 |
| Adjusted earnings per share: | | | | |
| Basic | 0.74 | 0.61 | 0.92 | 0.38 |
| Diluted | 0.73 | 0.61 | 0.91 | 0.38 |
| After-tax impact of restructuring and other costs and remeasurement of the forward purchase agreement liabilities on the diluted earnings per share for the quarter | (0.13) | (0.14) | (0.14) | (0.04) |

In the fourth quarter of 2014, the Company reported a net loss of $80.7 million mainly explained by impairment losses, restructuring and other costs for net amounts of $91.7 million. Adjusted net income for the fourth quarter of 2014 was $11.0 million or $0.34 adjusted diluted EPS.

In the third quarter of 2015, the Company reported a net loss of $8.8 million due to the impairment losses, restructuring and other costs for net amounts of $24.2 million. Adjusted net income was $15.5 million for the third quarter or $0.48 adjusted diluted EPS.

## Segmented Results

Segmented figures are presented in Note 14 of the Company's condensed consolidated interim financial statements. Further industry segment detail is presented below:

### *Dorel Juvenile*

| Reconciliation of non-GAAP financial measures | Third quarters ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Reported | Restructuring and other costs | Adjusted | Reported | Restructuring and other costs | Adjusted |
| Total revenue | $ 247,296 | $ - | $ 247,296 | $ 260,723 | $ - | $ 260,723 |
| Cost of sales | 183,096 | (867) | 182,229 | 187,558 | - | 187,558 |
| Gross profit | 64,200 | 867 | 65,067 | 73,165 | - | 73,165 |
| Gross profit as a percentage of total revenue | 26.0% | | 26.3% | 28.1% | | 28.1% |
| Selling expenses | 28,051 | - | 28,051 | 28,225 | - | 28,225 |
| General and administrative expenses | 22,503 | - | 22,503 | 22,163 | - | 22,163 |
| Research and development expenses | 6,661 | - | 6,661 | 5,632 | - | 5,632 |
| Restructuring and other costs | 4,183 | (4,183) | - | 1,033 | (1,033) | - |
| Operating profit | $ 2,802 | $ 5,050 | $ 7,852 | $ 16,112 | $ 1,033 | $ 17,145 |
| Operating profit as a percentage of total revenue | 1.1% | | 3.2% | 6.2% | | 6.6% |

| Reconciliation of non-GAAP financial measures | Nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Reported | Restructuring and other costs | Adjusted | Reported | Restructuring and other costs | Adjusted |
| Total revenue | $ 786,910 | $ - | $ 786,910 | $ 781,277 | $ - | $ 781,277 |
| Cost of sales | 578,280 | (867) | 577,413 | 558,921 | - | 558,921 |
| Gross profit | 208,630 | 867 | 209,497 | 222,356 | - | 222,356 |
| Gross profit as a percentage of total revenue | 26.5% | | 26.6% | 28.5% | | 28.5% |
| Selling expenses | 84,719 | - | 84,719 | 85,939 | - | 85,939 |
| General and administrative expenses | 71,698 | - | 71,698 | 67,142 | - | 67,142 |
| Research and development expenses | 19,583 | - | 19,583 | 16,152 | - | 16,152 |
| Restructuring and other costs | 5,898 | (5,898) | - | 1,268 | (1,268) | - |
| Operating profit | $ 26,732 | $ 6,765 | $ 33,497 | $ 51,855 | $ 1,268 | $ 53,123 |
| Operating profit as a percentage of total revenue | 3.4% | | 4.3% | 6.6% | | 6.8% |

| Results as a percentage of total revenue | Third quarters ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Adjusted cost of sales | 73.7% | 71.9% | 73.4% | 71.5% |
| Adjusted gross profit | 26.3% | 28.1% | 26.6% | 28.5% |
| Selling expenses | 11.3% | 10.8% | 10.7% | 11.0% |
| General and administrative expenses | 9.1% | 8.5% | 9.1% | 8.6% |
| Research and development expenses | 2.7% | 2.2% | 2.5% | 2.1% |
| Adjusted operating profit | 3.2% | 6.6% | 4.3% | 6.8% |

Dorel Juvenile revenue in the third quarter of 2015 was $247.3 million, compared to $260.7 million in 2014, a decrease of 5.1%. Organic revenue decreased by approximately 4% after removing the effect of the Dorel Juvenile China acquisition and the impact of varying exchange rates year-over-year. The decline in organic sales was mainly attributable to North America with reduced sales in Canada and in the US where certain retailers reduced orders in an attempt to lower their in-stock levels. This was partly offset by several Latin American divisions which posted double digit sales growth. The segment's revenue for the nine months of 2015 was $786.9 million, compared to $781.3 million in 2014, an increase of 0.7%. Year-to-date, organic revenue increased by approximately 2% led by Latin American sales growth, partly offset by slight declines in North America.

Adjusted gross profit for the quarter, excluding restructuring and other costs decreased by 175 basis points to 26.3% compared to 28.1% in 2014 and decreased by 184 basis points to 26.6% from 28.5% year-to-date. The decrease for both periods is largely explained by foreign currency exchange rate pressures in all affected regions and partly due to lower gross margins generated by Dorel Juvenile China.

Adjusted operating profit for the quarter, excluding restructuring and other costs, was $7.9 million and included a full quarter of results from Dorel Juvenile China acquired in November 2014. This decline of 54.2% from $17.1 million in 2014 was principally due to Dorel Juvenile China and to currency pressures as non-US based divisions saw their currencies weaken significantly against the US dollar. Foreign exchange had a net negative impact on operating profit of approximately $4 million during the third quarter. Year-to-date adjusted operating profit, excluding restructuring and other costs was $33.5 million, a decline of 36.9% from $53.1 million in 2014. As for the quarter, this was mainly due to the foreign currency exchange rate pressures which had a net negative impact of approximately $15 million. Year-to-date adjusted operating losses at Dorel Juvenile China were $4.1 million.

For the segment as a whole, third quarter selling expenses and general and administrative expenses slightly increased by $0.2 million or 0.3%. Excluding the selling and general and administrative expenses of acquired and new business, these expenses would have decreased by approximately 9.5% compared to last year's mainly explained by the year-over-year favorable foreign currency exchange variations. The research and development expenses increased by 18.3% and when excluding the R&D expenses of Dorel Juvenile China acquired in the last quarter of 2014, these expenses decreased by 6.8% or $0.4 million. For the nine months, selling expenses decreased by $1.2 million or 1.4% and general and administrative expenses increased by $4.6 million or 6.8%. Excluding the selling and general and administrative expenses of acquired and new businesses, these expenses would have decreased by 7.3% and 8.0% respectively. Year-to-date, the research and development expenses rose by 21.2% and decreased by 4.6% when excluding the newly acquired business.

## *Dorel Sports*

| Reconciliation of non-GAAP financial measures | Third quarters ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Reported | Impairment losses, restructuring and other costs | Adjusted | Reported | Restructuring and other costs | Adjusted |
| Total revenue | $ 266,499 | $ - | $ 266,499 | $ 266,503 | $ - | $ 266,503 |
| Cost of sales | 215,545 | (2,512) | 213,033 | 204,451 | (504) | 203,947 |
| Gross profit | 50,954 | 2,512 | 53,466 | 62,052 | 504 | 62,556 |
| Gross profit as a percentage of total revenue | 19.1% | | 20.1% | 23.3% | | 23.5% |
| Selling expenses | 25,391 | - | 25,391 | 24,281 | - | 24,281 |
| General and administrative expenses | 15,712 | - | 15,712 | 16,209 | - | 16,209 |
| Research and development expenses | 1,538 | - | 1,538 | 1,892 | - | 1,892 |
| Restructuring and other costs | 1,972 | (1,972) | - | 4,901 | (4,901) | - |
| Impairment losses on goodwill and customer relationships | 26,510 | (26,510) | - | - | - | - |
| Operating profit (loss) | $ (20,169) | $ 30,994 | $ 10,825 | $ 14,769 | $ 5,405 | $ 20,174 |
| Operating profit (loss) as a percentage of total revenue | -7.6% | | 4.1% | 5.5% | | 7.6% |

| Reconciliation of non-GAAP financial measures | Nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Reported | Impairment losses, restructuring and other costs | Adjusted | Reported | Restructuring and other costs | Adjusted |
| Total revenue | $ 746,515 | $ - | $ 746,515 | $ 793,100 | $ - | $ 793,100 |
| Cost of sales | 585,474 | (2,512) | 582,962 | 603,258 | (1,175) | 602,083 |
| Gross profit | 161,041 | 2,512 | 163,553 | 189,842 | 1,175 | 191,017 |
| Gross profit as a percentage of total revenue | 21.6% | | 21.9% | 23.9% | | 24.1% |
| Selling expenses | 74,593 | - | 74,593 | 74,141 | - | 74,141 |
| General and administrative expenses | 51,466 | - | 51,466 | 56,222 | - | 56,222 |
| Research and development expenses | 4,652 | - | 4,652 | 5,177 | - | 5,177 |
| Restructuring and other costs | 1,348 | (1,348) | - | 8,010 | (8,010) | - |
| Impairment losses on goodwill and customer relationships | 26,510 | (26,510) | - | - | - | - |
| Operating profit | $ 2,472 | $ 30,370 | $ 32,842 | $ 46,292 | $ 9,185 | $ 55,477 |
| Operating profit as a percentage of total revenue | 0.3% | | 4.4% | 5.8% | | 7.0% |

| Results as a percentage of total revenue | Third quarters ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Adjusted cost of sales | 79.9% | 76.5% | 78.1% | 75.9% |
| Adjusted gross profit | 20.1% | 23.5% | 21.9% | 24.1% |
| Selling expenses | 9.5% | 9.1% | 10.0% | 9.3% |
| General and administrative expenses | 5.9% | 6.1% | 6.9% | 7.1% |
| Research and development expenses | 0.6% | 0.7% | 0.6% | 0.7% |
| Adjusted operating profit | 4.1% | 7.6% | 4.4% | 7.0% |

For the third quarter of 2015, Dorel Sports revenue remained flat at $266.5 million compared to last year. Organic revenue increased by approximately 9%, after removing the impact of varying foreign exchange rates year over year. The main drivers of the revenue growth were increased demand of new model year bikes in the IBD channel and of battery powered ride-ons in the mass market channel. For the nine months of 2015, Dorel Sports revenue decreased by $46.6 million, or 5.9% to $746.5 million compared to last year's $793.1 million. Organic revenue increased by approximately 2%, after removing the impact of varying foreign exchange rates year over year.

For the third quarter, adjusted gross profit, excluding impairment losses, restructuring and other costs, decreased by 341 basis points to 20.1% compared to 23.5% in 2014 and for the year-to-date, the adjusted gross profit decreased by 218 basis points to 21.9% compared to 24.1% in 2014. The decline is mainly due to unfavourable exchange rate variations and higher logistics costs.

Adjusted operating profit decreased by $9.3 million, or 46.3% for the quarter and by $22.6 million or 40.8% for the year-to-date when compared to 2014. All major divisions of the segment saw their currencies weaken significantly against the US dollar which had a net negative impact on the segment's operating profit of approximately $10 million during the third quarter. Excluding this foreign exchange impact, the third quarter adjusted operating profit would have remained comparable with the prior year. Year-to-date adjusted operating profit was $32.8 million, a decline of 40.8% from $55.5 million in 2014. As in the quarter results, the net negative impact during the nine months period on operating profit of the appreciation of the US dollar versus all other major currencies was approximately $24 million year-to-date.

Total operating expenses for the quarter, consisting of selling, general and administrative, and research and development costs increased by $0.3 million, or 0.6% to $42.7 million compared to $42.4 million in 2014. Year-to-date, these expenses decreased by $4.8 million, or 3.6% in part as a result of the positive effect of the restructuring 2013 Plan, as well as lower expenses due to timing and exchange rate variation.

### *Dorel Home Furnishings*

| Results as a percentage of total revenue | Third quarters ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 87.1% | 88.8% | 87.0% | 87.5% |
| Gross profit | 12.9% | 11.2% | 13.0% | 12.5% |
| Selling expenses | 2.5% | 2.7% | 2.7% | 3.0% |
| General and administrative expenses | 3.7% | 4.0% | 3.8% | 4.1% |
| Research and development expenses | 0.6% | 0.7% | 0.6% | 0.7% |
| Operating profit | 6.1% | 3.8% | 5.9% | 4.7% |

During the quarter, revenue for Dorel Home Furnishings increased by $19.7 million or 13.5%, from $145.8 million in 2014 to $165.5 million in 2015. The segment's sales to on-line retailers continue to drive revenue compared to the previous year to represent over 37% of total segment sales. Year-to-date, the revenue increased by $78.8 million or 19.6%, from $402.2 million in 2014 to $481.0 million in 2015 driven by both on-line and brick and mortar stores.

Gross profit in the third quarter and for the nine months increased at 12.9% and 13.0% respectively compared with 11.2% and 12.5% in the prior year. Higher material and overhead costs at the segments' ready-to-assemble domestic manufacturing plants were offset by higher margins through on-line sales.

Operating profit was $10.1 million and $28.4 million for the quarter and year-to-date compared to the prior year, an increase of 84.9% for the quarter and 50.9% for the nine months. Operating expenses, consisting of selling, general and administrative, and research and development costs, rose by 4.4% and 9.4% compared with the previous year's quarter and year-to-date levels due to higher commission expenses and product liability costs linked with the increased sales. However, on a percentage of total revenue these expenses represented a lower percentage in 2015 for both the quarter and the nine months than in 2014, contributing to the increase in operating profit.

## LIQUIDITY AND CAPITAL RESOURCES

### Statement of Financial Position

Certain of the Company's ratios are as follows:

| | As at: | | |
|---|---|---|---|
| | Sep. 30, 2015 | Dec. 30, 2014 | Sep. 30, 2014 |
| Debt* to equity | 0.54 | 0.48 | 0.35 |
| # of days in receivables | 60 | 65 | 64 |
| # of days in inventory | 116 | 111 | 106 |
| # of days in payables | 70 | 71 | 61 |

*Debt is defined as bank indebtedness plus long-term debt

The increase in the debt to equity ratio compared to the third quarter of 2014, is a function of higher borrowings due in part to the acquisition of Dorel Juvenile China which required increased borrowings in the form of convertible debentures issued in the fourth quarter of 2014.

Inventory as at September 30, 2015 was $681.8 million, an increase of $48.8 million or 7.7% from $633.0 million as of December 30, 2014. The increase is mainly in Dorel Sports and Dorel Home Furnishings. In the Sports segment the increase is due in part to a shift in the timing of new arrivals of model year inventory in anticipation of sales in the fourth quarter. In addition, the increase in inventory can be explained by higher than anticipated inventory in the mass market as retailers are trying to reduce inventory levels. The Home Furnishings segment increased inventory levels is due to on-line sales which require greater inventory on hand.

As of June 19, 2015, the Company amended and restated its Note Purchase Agreement. The Company repaid the $50.0 million Series "A" Senior Guaranteed Notes and issued $50.0 million Series "C" Senior Guaranteed Notes with similar terms and conditions. The existing Series "B" Senior Guaranteed Notes and the newly issued Series "C" Senior Guaranteed Notes bear interest as at September 30, 2015 at 6.39% and 4.60% respectively.

As of September 30, 2015 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.

### Statement of Cash Flows

During the nine months of 2015, cash flow provided by operating activities was $7.9 million compared to cash flow provided by operating activities of $76.0 million in 2014, a decrease of $68.1 million. The main reasons for the decrease were due principally to lower net income and the increase in inventories compared with December 30, 2014.

Net additions to property, plant and equipment and intangible assets were $37.6 million in 2015 compared to $41.5 million in 2014. The Company disbursed $1.7 million in the nine months of 2015 corresponding to the balance of sale paid in connection with the acquisition of Intercycle in Chile. The acquisition of businesses represented $54.7 million for the same period in 2014 which was related to the acquisitions in January 2014 of Tiny Love and in April 2014 of Infanti Brazil.

Bank indebtedness plus long-term debt less cash and cash equivalents include a combined net increase of $34.9 million for the nine months ended September 30, 2015 which is mainly a result of the net changes in non-cash working capital balances and lower net income.

## Changes in accounting policies

The following are changes in accounting policies applied by the Company in the preparation of the condensed consolidated interim financial statements for the third quarter and nine months ended September 30, 2015.

*Change in Accounting Policy Related to the Accounting of a Written Put Option*
*Reclassification of Certain Costs Related to the Forward Purchase Agreements*
*Reclassification of Certain Other Costs*
*IAS 19 – Employee Benefits*

Further information on these modifications can be found in Note 2 of the September 30, 2015 condensed consolidated interim financial statements.

## Future Accounting Changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the nine months ended September 30, 2015 and have not been applied in preparing the condensed consolidated interim financial statements. The following standards have been issued by the IASB with effective dates in the future that have been determined by management to impact the consolidated financial statements:

*IFRS 15 – Revenue from contracts with customers*
*IFRS 9 – Financial Instruments*

Further information on these modifications can be found in Note 3 of the September 30, 2015 condensed consolidated interim financial statements.

## OTHER INFORMATION

The designation, number and amount of each class and series of the Company's shares outstanding as of October 30, 2015 are as follows:

- An unlimited number of Class "A" Multiple Voting Shares without nominal or par value, convertible at any time at the option of the holder into Class "B" Subordinate Voting Shares on a one-for-one basis, and;
- An unlimited number of Class "B" Subordinate Voting Shares without nominal or par value, convertible into Class "A" Multiple Voting Shares, under certain circumstances, if an offer is made to purchase the Class "A" shares.

Details of the issued and outstanding shares are as follows:

| Class A | | Class B | | Total |
|---|---|---|---|---|
| Number | $('000) | Number | $('000) | $('000) |
| 4,195,135 | 1,771 | 28,126,876 | 198,217 | 199,988 |

Outstanding stock options, Deferred Share Units, cash-settled Share Appreciation Rights and cash-settled Performance Share Units are disclosed in Note 10 to the Company's condensed consolidated interim 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.

## Disclosure Controls and Procedures and Internal Controls over Financial Reporting

During the quarter ended September 30, 2015, the Company has made no change that has materially affected or is likely to materially affect the Company's internal control over financial reporting.

In accordance with *National Instrument 52-109* and with practices accepted by the Autorités des Marchés Financiers, the Company excluded Dorel Juvenile China from its assessment of internal control over financial reporting. Supplemental information about this acquisition is provided in the table below:

| **Dorel Juvenile China**<br>Selected financial information from the income statement | **Nine months ended**<br>**September 30, 2015**<br>**$** |
|---|---|
| Total Revenue | 111,481 |
| Adjusted Operating Profit(1) | (4,090) |

(1) Excludes the restructuring and acquisition-related costs incurred since the beginning of the period of $2,869

| **Dorel Juvenile China**<br>Selected financial information from the statement of financial position | **As at**<br>**September 30, 2015**<br>**$** |
|---|---|
| Total current assets | 43,521 |
| Total non-current assets | 136,059 |
| Total current liabilities | 63,955 |
| Total non-current liabilities | 7,976 |

## Caution Regarding 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, or if any of them do, what benefits the Company will derive from them. 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 channels; 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 there being no certainty that the Company's dividend current 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 the Company'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.

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

ALL FIGURES IN THOUSANDS OF US $ (UNAUDITED)

| | As at September 30, 2015 | As at December 30, 2014 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Note 13) | $ 34,701 | $ 47,101 |
| Trade and other receivables | 445,265 | 474,704 |
| Inventories | 681,777 | 633,022 |
| Other financial assets | 3,179 | 4,299 |
| Income taxes receivable | 11,930 | 15,731 |
| Prepaid expenses | 34,318 | 25,343 |
| | 1,211,170 | 1,200,200 |
| Assets held for sale (Note 4) | 2,966 | 1,308 |
| | 1,214,136 | 1,201,508 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 210,105 | 226,893 |
| Intangible assets | 476,048 | 519,798 |
| Goodwill (Note 14) | 498,474 | 544,782 |
| Other financial assets | – | 571 |
| Deferred tax assets | 32,292 | 31,009 |
| Other assets | 5,047 | 5,398 |
| | 1,221,966 | 1,328,451 |
| | $ 2,436,102 | $ 2,529,959 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Bank indebtedness | $ 60,220 | $ 27,053 |
| Trade and other payables | 495,159 | 490,527 |
| Written put option and forward purchase agreement liabilities (Note 8) | 2,918 | – |
| Other financial liabilities | 2,762 | 1,655 |
| Income taxes payable | 21,198 | 19,046 |
| Long-term debt (Note 7) | 32,897 | 62,556 |
| Provisions | 33,564 | 37,727 |
| | 648,718 | 638,564 |
| NON-CURRENT LIABILITIES | | |
| Long-term debt (Note 7) | 509,135 | 490,188 |
| Net pension and post-retirement defined benefit liabilities | 45,180 | 46,128 |
| Deferred tax liabilities | 75,688 | 89,199 |
| Provisions | 1,677 | 1,765 |
| Written put option and forward purchase agreement liabilities (Note 8) | 29,625 | 44,640 |
| Other financial liabilities | 2,352 | 2,063 |
| Other long-term liabilities | 10,067 | 10,428 |
| | 673,724 | 684,411 |
| **EQUITY** | | |
| Share capital (Note 9) | 199,988 | 199,927 |
| Contributed surplus | 26,395 | 25,691 |
| Accumulated other comprehensive income | (105,898) | (20,579) |
| Other equity | 1,979 | 579 |
| Retained earnings | 991,196 | 1,001,366 |
| | 1,113,660 | 1,206,984 |
| | $ 2,436,102 | $ 2,529,959 |

*(See accompanying notes)*

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS

ALL FIGURES IN THOUSANDS OF US $, EXCEPT PER SHARE AMOUNTS (UNAUDITED)

| | Third Quarters Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 Restated (Note 2) | September 30, 2015 | September 30, 2014 Restated (Note 2) |
| Sales | $ 676,196 | $ 669,923 | $ 2,004,519 | $ 1,966,496 |
| Licensing and commission income | 3,091 | 3,097 | 9,900 | 10,056 |
| TOTAL REVENUE | 679,287 | 673,020 | 2,014,419 | 1,976,552 |
| Cost of sales (Note 4) | 542,732 | 521,526 | 1,582,052 | 1,514,173 |
| GROSS PROFIT | 136,555 | 151,494 | 432,367 | 462,379 |
| Selling expenses (Note 2) | 57,943 | 57,118 | 174,452 | 174,332 |
| General and administrative expenses (Note 2) | 46,245 | 49,347 | 154,680 | 152,955 |
| Research and development expenses | 9,210 | 8,557 | 27,041 | 24,253 |
| Restructuring and other costs (Notes 2 and 4) | 6,155 | 5,934 | 7,246 | 9,278 |
| Impairment losses on goodwill and customer relationships (Notes 5 and 14) | 26,510 | – | 26,510 | – |
| OPERATING PROFIT (LOSS) | (9,508) | 30,538 | 42,438 | 101,561 |
| Finance expenses (Notes 2 and 12) | 1,522 | 6,375 | 20,463 | 28,539 |
| INCOME (LOSS) BEFORE INCOME TAXES | (11,030) | 24,163 | 21,975 | 73,022 |
| Income taxes (recovery) expense (Note 12) | (2,273) | 4,683 | 2,885 | 13,542 |
| NET INCOME (LOSS) | $ (8,757) | $ 19,480 | $ 19,090 | $ 59,480 |
| EARNINGS (LOSS) PER SHARE | | | | |
| Basic | $ (0.27) | $ 0.60 | $ 0.59 | $ 1.85 |
| Diluted | $ (0.27) | $ 0.60 | $ 0.59 | $ 1.83 |
| SHARES OUTSTANDING (Note 11) | | | | |
| Basic – weighted average | 32,322,011 | 32,305,379 | 32,321,887 | 32,180,681 |
| Diluted – weighted average | 32,322,011 | 32,493,300 | 32,522,810 | 32,417,922 |

*(See accompanying notes)*

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

ALL FIGURES IN THOUSANDS OF US $ (UNAUDITED)

| | Third Quarters Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| NET INCOME (LOSS) | $ (8,757) | $ 19,480 | $ 19,090 | $ 59,480 |
| OTHER COMPREHENSIVE INCOME (LOSS): | | | | |
| **Items that are or may be reclassified subsequently to net income:** | | | | |
| Cumulative translation account: | | | | |
| Net change in unrealized foreign currency gains (losses) on translation of net investments in foreign operations, net of tax of nil | (37,730) | (51,891) | (83,554) | (51,782) |
| Net changes in cash flow hedges: | | | | |
| Net change in unrealized gains (losses) on derivatives designated as cash flow hedges | 1,723 | 7,085 | 1,490 | 6,146 |
| Reclassification to income | 214 | 208 | 808 | 688 |
| Reclassification to the related non-financial asset | 88 | (494) | (5,384) | 983 |
| Deferred income taxes | (163) | (2,008) | 1,260 | (2,235) |
| | 1,862 | 4,791 | (1,826) | 5,582 |
| **Items that will not be reclassified to net income:** | | | | |
| Defined benefit plans: | | | | |
| Remeasurements of the net pension and post-retirement defined benefit liabilities | (1) | 107 | 91 | 116 |
| Deferred income taxes | – | (30) | (30) | (33) |
| | (1) | 77 | 61 | 83 |
| TOTAL OTHER COMPREHENSIVE LOSS | (35,869) | (47,023) | (85,319) | (46,117) |
| TOTAL COMPREHENSIVE INCOME (LOSS) | $ (44,626) | $ (27,543) | $ (66,229) | $ 13,363 |

*(See accompanying notes)*

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

ALL FIGURES IN THOUSANDS OF US $ (UNAUDITED)

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Accumulated other comprehensive income | | | | | |
| | Share Capital | Contributed Surplus | Cumulative Translation Account | Cash Flow Hedges | Defined Benefit Plans | Other Equity | Retained Earnings | Total Equity |
| **Balance as at December 30, 2013** | $ 190,458 | $ 26,994 | $ 75,378 | $ (2,154) | $ (5,400) | $ – | $ 1,061,484 | $ 1,346,760 |
| *Total comprehensive income:* | | | | | | | | |
| Net income | – | – | – | – | – | – | 59,480 | 59,480 |
| Other comprehensive income (loss) | – | – | (51,782) | 5,582 | 83 | – | – | (46,117) |
| | – | – | (51,782) | 5,582 | 83 | – | 59,480 | 13,363 |
| Issued under stock option plan | 7,065 | – | – | – | – | – | – | 7,065 |
| Reclassification from contributed surplus due to exercise of stock options | 1,881 | (1,881) | – | – | – | – | – | – |
| Reclassification from contributed surplus due to settlement of deferred share units (Note 10) | 264 | (484) | – | – | – | – | – | (220) |
| Share-based payments (Note 10) | – | 719 | – | – | – | – | – | 719 |
| Dividends on common shares | – | – | – | – | – | – | (28,957) | (28,957) |
| Dividends on deferred share units (Note 10) | – | 147 | – | – | – | – | (147) | – |
| **Balance as at September 30, 2014** | $ 199,668 | $ 25,495 | $ 23,596 | $ 3,428 | $ (5,317) | $ – | $ 1,091,860 | $ 1,338,730 |
| **Balance as at December 30, 2014** | $ 199,927 | $ 25,691 | $ (8,842) | $ 2,180 | $ (13,917) | $ 579 | $ 1,001,366 | $ 1,206,984 |
| *Total comprehensive loss:* | | | | | | | | |
| Net income | – | – | – | – | – | – | 19,090 | 19,090 |
| Other comprehensive income (loss) | – | – | (83,554) | (1,826) | 61 | – | – | (85,319) |
| | – | – | (83,554) | (1,826) | 61 | – | 19,090 | (66,229) |
| Reclassification from contributed surplus due to settlement of deferred share units (Notes 9 and 10) | 61 | (101) | – | – | – | – | – | (40) |
| Share-based payments (Note 10) | – | 635 | – | – | – | – | – | 635 |
| Remeasurement of written put option liabilities (Note 8) | – | – | – | – | – | 1,400 | – | 1,400 |
| Dividends on common shares | – | – | – | – | – | – | (29,090) | (29,090) |
| Dividends on deferred share units (Note 10) | – | 170 | – | – | – | – | (170) | – |
| **Balance as at September 30, 2015** | $ 199,988 | $ 26,395 | $ (92,396) | $ 354 | $ (13,856) | $ 1,979 | $ 991,196 | $ 1,113,660 |

*(See accompanying notes)*

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

ALL FIGURES IN THOUSANDS OF US $ (UNAUDITED)

| | Third Quarters Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| **CASH PROVIDED BY (USED IN):** | | *Restated (Note 2)* | | *Restated (Note 2)* |
| **OPERATING ACTIVITIES** | | | | |
| Net income (loss) | $ (8,757 ) | $ 19,480 | $ 19,090 | $ 59,480 |
| Items not involving cash: | | | | |
| Depreciation and amortization | 14,957 | 14,797 | 43,692 | 44,509 |
| Impairment losses on goodwill and customer relationships (Note 5) | 26,510 | – | 26,510 | – |
| Unrealized losses (gains) arising on financial assets and financial liabilities classified as held for trading | (522 ) | (613 ) | (357 ) | (75 ) |
| Finance expenses (Note 12) | 1,522 | 6,375 | 20,463 | 28,539 |
| Restructuring and other costs (Note 4) | 9,534 | 6,438 | 10,625 | 10,453 |
| Income taxes (recovery) expense | (2,273 ) | 4,683 | 2,885 | 13,542 |
| Share-based payments (Note 10) | 104 | 69 | 294 | 575 |
| Defined benefit pension and post-retirement costs | 815 | 821 | 2,448 | 2,525 |
| Loss (gain) on disposal of property, plant and equipment | 745 | (11) | 727 | 9 |
| | 42,635 | 52,039 | 126,377 | 159,557 |
| Net changes in balances related to operations (Note 13) | 43,023 | 15,531 | (100,325 ) | (50,180 ) |
| Income taxes paid | (4,527 ) | (3,310 ) | (13,925 ) | (21,854 ) |
| Income taxes received | 972 | 395 | 7,100 | 6,840 |
| Interest paid | (4,784 ) | (5,548 ) | (11,594 ) | (18,938 ) |
| Interest received | 85 | 301 | 258 | 575 |
| CASH PROVIDED BY OPERATING ACTIVITIES | 77,404 | 59,408 | 7,891 | 76,000 |
| **FINANCING ACTIVITIES** | | | | |
| Bank indebtedness | (14,458) | 4,663 | 45,310 | (32,531 ) |
| Increase of long-term debt | 504 | – | 72,721 | 106,083 |
| Repayments of long-term debt | (52,927 ) | (40,932 ) | (63,125 ) | (26,237 ) |
| Increase of written put option and forward purchase agreement liabilities (Note 8) | – | – | 525 | – |
| Financing costs | (398 ) | (93 ) | (1,863 ) | (1,384 ) |
| Issuance of share capital (Note 9) | – | 149 | – | 7,050 |
| Dividends on common shares | (9,697 ) | (9,691 ) | (29,090 ) | (28,957 ) |
| CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (76,976 ) | (45,904 ) | 24,478 | 24,024 |
| **INVESTING ACTIVITIES** | | | | |
| Acquisition of businesses (Note 13) | – | (150 ) | (1,736 ) | (54,743 ) |
| Additions to property, plant and equipment | (7,788 ) | (7,964 ) | (24,617 ) | (26,048 ) |
| Disposals of property, plant and equipment | 27 | 294 | 557 | 862 |
| Additions to intangible assets | (3,816 ) | (6,193 ) | (13,491 ) | (16,269 ) |
| CASH USED IN INVESTING ACTIVITIES | (11,577 ) | (14,013 ) | (39,287 ) | (96,198 ) |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | (2,584 ) | (4,739 ) | (5,482 ) | (8,290 ) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (13,733 ) | (5,248 ) | (12,400 ) | (4,464 ) |
| Cash and cash equivalents, beginning of period | 48,434 | 40,858 | 47,101 | 40,074 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 34,701 | $ 35,610 | $ 34,701 | $ 35,610 |

*(See accompanying notes)*

# Notes to the Condensed Consolidated Interim Financial Statements

For the periods ended September 30, 2015 and 2014
All figures in thousands of US$, except per share amounts (unaudited)

## 1. Nature of operations

Dorel Industries Inc. (the “Company”) is a global consumer products company which designs, manufactures or sources, markets and distributes a diverse portfolio of powerful product brands, marketed through its Dorel Juvenile, Dorel Sports and Dorel Home Furnishings segments. The principal markets for the Company’s products are the United States, Canada, Europe, Latin America and Asia.

## 2. Statement of compliance and basis of preparation and measurement

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* as adopted by the International Accounting Standards Board (“IASB”), using the U.S. dollar as the reporting currency. The U.S. dollar is the functional currency of the Canadian parent company. All financial information presented in U.S. dollars has been rounded to the nearest thousand, unless otherwise indicated. These condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and with the same accounting policies and methods of computation followed in the most recent audited consolidated annual financial statements as at and for the year ended December 30, 2014, except as disclosed below. The condensed consolidated interim financial statements do not include all of the information required for full consolidated annual financial statements. Certain information and footnote disclosures normally included in consolidated annual financial statements prepared in accordance with IFRS were omitted or condensed where such information is not considered material to the understanding of the Company’s condensed consolidated interim financial information.

These condensed consolidated interim financial statements should be read in conjunction with the Company’s 2014 audited consolidated annual financial statements.

The condensed consolidated interim financial statements have been prepared on a historical basis except for:

- derivative financial instruments which are measured at fair value;
- written put option and forward purchase agreement liabilities which are measured at fair value;
- share-based compensation arrangements which are measured in accordance with IFRS 2 – Share-Based Payments;
- identifiable assets acquired and liabilities assumed in connection with a business combination which are measured at fair value at acquisition date;
- the net pension and post-retirement defined benefit liabilities which are measured as the net total of plan assets measured at fair value less the discounted present value of the defined benefit obligations; and
- product liability which is measured at its discounted present value.

These condensed consolidated interim financial statements were authorized by the Company’s Board of Directors for issue on November 5, 2015.

The results of operations for the interim period are not necessarily indicative of the results of operations for the full year.

## 2. Statement of compliance and basis of preparation and measurement (continued)

*Changes in Accounting Policies*

The following are changes in accounting policies applied by the Company in the preparation of these condensed consolidated interim financial statements.

*Change in Accounting Policy Related to the Accounting of a Written Put Option*

In the fourth quarter of 2014, the Company changed its accounting policy related to the remeasurement of the fair value of the written put option related to Dorel Juvenile Brazil. Historically, the remeasurement was accounted for through the condensed consolidated interim income statement. The Company's new accounting policy is to account for the changes in the fair value of put option financial liabilities as an equity transaction through the other equity account. The Company has determined that this presentation is more indicative of the underlying transaction between the equity holders and as such is a more reliable and relevant presentation for the remeasurement of the written put option. The Company has determined that the retrospective impact of this change in accounting policy was not material to previously issued condensed consolidated interim statements of financial position or condensed consolidated interim income statements and therefore no reclassification was done.

*Reclassification of Certain Costs Related to the Forward Purchase Agreements*

In the fourth quarter of 2014, the Company reclassified the forward purchase agreements unrealized (gains) losses due to foreign exchange exposure and the remeasurement due to change in assumptions from general and administrative expenses to finance expenses as it was determined that these items were more representative of finance expenses and that it will result in a more reliable and relevant presentation. The Company was already recognizing the accretion expense on the forward purchase agreement within finance expenses, therefore no reclassification was required pertaining to the accretion expense. As a result, the forward purchase agreement liabilities are remeasured to fair value and any subsequent changes are recognized as finance expenses in the consolidated income statements. This new accounting policy did not have an impact on income taxes expense, net income, earnings per share and the condensed consolidated interim statements of financial position, comprehensive income or cash flows.

*Reclassification of Certain Other Costs*

The Company has reclassified certain other costs from selling expenses and general and administrative expenses as presented in Note 4 to conform to the current year presentation.

The above reclassifications have been applied retrospectively by the Company.

The following tables illustrates the impact of the reclassifications:

| **Condensed consolidated interim income statement:** | **Third Quarter Ended September 30, 2014** | | |
|---|---|---|---|
| | As presented | Reclassifications | Restated |
| Selling expenses | $ 61,609 | $ (4,491) | $ 57,118 |
| General and administrative expenses | 47,255 | 2,092 | 49,347 |
| Restructuring and other costs | 404 | 5,530 | 5,934 |
| Finance expenses | 9,506 | (3,131) | 6,375 |
| Net income | $ 19,480 | $ – | $ 19,480 |

## 2. Statement of compliance and basis of preparation and measurement (continued)

*Changes in Accounting Policies (continued)*

| **Condensed consolidated interim income statement:** | **Nine Months Ended September 30, 2014** | | |
|---|---|---|---|
| | As presented | Reclassifications | Restated |
| Selling expenses | $ 180,271 | $ (5,939) | $ 174,332 |
| General and administrative expenses | 153,930 | (975) | 152,955 |
| Restructuring and other costs | 1,887 | 7,391 | 9,278 |
| Finance expenses | 29,016 | (477) | 28,539 |
| Net income | $ 59,480 | $ – | $ 59,480 |

*IAS 19 – Employee Benefits*

On November 21, 2013, the IASB issued amendments to IAS 19, *Employee Benefits*, to simplify accounting for employee and third party contributions.

The amendments introduce a relief (practical expedient) that reduces the complexity and burden of accounting for certain contributions from employees or third parties. When employee contributions are eligible for the practical expedient, a company is permitted (but not required) to recognize them as a reduction of the service costs in the period in which the related service is rendered. If the practical expedient is not or cannot be applied, the amendments clarify how service-linked contributions from employees or third parties should be included in determining net current service cost and the defined benefit obligation.

The Company adopted these new standards for the annual period beginning on December 31, 2014. The adoption of these amendments did not have a material impact on the consolidated financial statements.

## 3. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the nine months ended September 30, 2015 and have not been applied in preparing these condensed consolidated interim financial statements. The following standards have been issued by the IASB with effective dates in the future that have been determined by management to impact the consolidated financial statements:

*IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB released IFRS 15*, Revenue from Contracts with Customers*, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. IFRS 15 also requires more comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and a number of revenue-related interpretations (IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*). IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

## 3. Future accounting changes (continued)

*IFRS 9 – Financial Instruments*

As part of the initial phase to replace IAS 39, *Financial Instruments: Recognition and Measurement*, this standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets. This first phase only covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two phases. More specifically, the standard:

- Deals with classification and measurement of financial assets;
- Establishes two primary measurement categories for financial assets: amortized cost and fair value;
- Prescribes that classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset; and
- Eliminates the following existing categories of financial assets: held to maturity, available for sale, and loans and receivables.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, certain changes were also made regarding the fair value option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments.

In November 2013, the IASB released IFRS 9, *Financial Instruments (2013)*, which introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a significant change in hedge accounting requirements. It increases the scope of hedged items eligible for hedge accounting and it enables entities to better reflect their risk management activities in their financial statements.

On July 24, 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

## 4. Restructuring and other costs

For the nine months ended September 30, 2015, the Company recorded total expenses of $10,625 (2014 – $10,453) with respect to restructuring and other costs, of which $3,379 (2014 – $1,175) was recorded as cost of sales and $7,246 (2014 – $9,278) were recorded as restructuring and other costs as a separate line within the condensed consolidated interim income statements.

*Dorel Juvenile segment*

In the third quarter of 2015, Dorel Juvenile segment initiated restructuring activities as part of its on-going transformation into a more fully integrated operation in its various markets. These initiatives will continue in the fourth quarter of 2015 and into 2016 as the strategic direction identified is put into action.

Among the initiatives, the segment has identified cost savings opportunities principally through the consolidation of certain facilities in China where two smaller facilities will be closed combining some operations and outsourcing certain activities to third party partners thereby lowering component costs and simplifying the overall complexity of the business in China. The goal is to exit these two facilities by the end of the fourth quarter. In addition, the indirect labour levels have been reduced at the Company's two main facilities in China.

Within North America, the operations based in the United States ("US") will take over back office support for the Canadian operations, including supporting newly located Canadian based warehousing and allow the Canadian business to focus on sales and marketing activities. In addition, a former US based Lerado Group office will be closed.

## 4. Restructuring and other costs (continued)

*Dorel Juvenile segment (continued)*

Efficiencies and changes in the way product is brought to market in Europe and Latin America have also been identified that will provide long term cost savings opportunities. In Europe, through on-going process harmonization and the re-alignment of the sales organization, the Company has identified efficiencies which will allow for better service levels for its customers and reduce costs. Finally, the business based in Panama that services Central America and the Caribbean will be downsized with a greater focus on direct import model, realignment of management and a streamlined product offering which will reduce cost, and drive improved profitability.

These restructuring initiatives are expected to be completed by the end of 2016 and result in cumulative restructuring charges of $10,631. For the third quarter ended September 30, 2015, the Company has recorded an expense of $3,930 for the quarter and year-to-date under the plan, including $917 of non-cash charges related to the write-down of long-lived assets and inventory markdowns, $2,322 of employee severance and termination benefits and $691 of other associated costs. The remaining costs associated with these restructuring initiatives will be incurred in the fourth quarter of 2015 and in fiscal 2016.

*Dorel Sports segment*

In the third quarter of 2015, the Company announced a new Go-to-Market strategy and structure for its North American independent bike dealer operation ("2015 Plan"). This included realigning the organization to allow for more focus and support on the Parts and Accessories and Apparel product segments as well as realigning executive management. More specifically, the SUGOI business operations were descaled and relocated, within British Columbia, Canada, to a product center of excellence, while back office administrative support functions and sales were integrated into the existing Cycling Sports Group North America infrastructure. In accordance with this change, the Company executed significant cost reductions across the segment which included a headcount reduction in North America.

In conjunction with the structural changes, the Cannondale and SUGOI apparel product lines will be consolidated into a single global apparel portfolio with SUGOI as the primary brand. Going forward, Cannondale apparel will become a focused offering manufactured under the SUGOI brand and available in certain key bike apparel categories. Inventory markdown charges were taken in the third quarter of 2015 to reflect the impact of the new product line plans.

For the third quarter and nine months ended September 30, 2015, the Company has recorded an expense of $4,653 under the 2015 Plan, including $3,462 of non-cash charges related to the write-down of long-lived assets and inventory markdowns, $1,082 of employee severance and termination benefits and $109 of other associated costs. The restructuring initiatives related to the 2015 Plan are expected to be completed by the end of 2015. There are additional estimated cash charges of $1,000 in connection with the 2015 Plan that are expected to occur in the fourth quarter of 2015.

In the second and fourth quarters of 2013, restructuring activities affecting the Dorel Sports segment were undertaken and the Company initiated significant cost reductions across the Dorel Sports segment ("2013 Plan"). Operational changes were made to simplify and optimize its business model. Operations in Australia transitioned to Monza Imports who became the official distributor of the brands. In addition, all of the activities performed at Bedford, including manufacturing, assembly, testing, quality control and customer and technical services have essentially been redeployed. As a result, during the second quarter of 2015, the Bedford facility was made available for sale and accordingly, its land and building are presented as current assets held for sale on the Company's condensed consolidated interim statements of financial position. Furthermore, the relocation of the research and development facility in Bethel, Connecticut to the segment's headquarters in Wilton, Connecticut was completed in April 2015.

These restructuring initiatives are currently mainly completed and resulted in cumulative restructuring charges of $19,531, including $10,952 of non-cash charges related to the write-down on long-lived assets, accelerated depreciation due to the revision of the estimated useful lives of long-lived assets and inventory markdowns, $7,794 of employee severance and termination benefits and $785 of other associated costs. There are no significant expected remaining costs associated with these restructuring activities. Of this $19,531 cumulative charge, $(793) was recorded in the current fiscal year, $4,892 in 2014 and $15,432 in 2013.

## 4. Restructuring and other costs (continued)

*Restructuring and Other Costs Recognized*

The costs recognized for these restructuring activities and other costs consist of the following for the third quarters ended September 30:

| | Third Quarters Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | TOTAL | | Dorel Juvenile | | Dorel Sports (2015 Plan) | | Dorel Sports (2013 Plan) | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Employee severance and termination benefits | $ 3,235 | $ 402 | $ 2,322 | $ – | $ 1,082 | $ – | $ (169) | $ 402 |
| Write-down of assets | 1,000 | – | 50 | – | 950 | – | – | – |
| Other associated costs | 800 | 2 | 691 | – | 109 | – | – | 2 |
| Recorded as restructuring costs | $ 5,035 | $ 404 | $ 3,063 | $ – | $ 2,141 | $ – | $ (169) | $ 404 |
| Inventory markdowns | $ 3,379 | $ – | $ 867 | $ – | $ 2,512 | $ – | $ – | $ – |
| Accelerated depreciation | – | 504 | – | – | – | – | – | 504 |
| Restructuring costs recorded in cost of sales | $ 3,379 | $ 504 | $ 867 | $ – | $ 2,512 | $ – | $ – | $ 504 |
| Total restructuring costs | $ 8,414 | $ 908 | $ 3,930 | $ – | $ 4,653 | $ – | $ (169) | $ 908 |
| Acquisition-related costs | $ 1,120 | $ 1,039 | $ 1,120 | $ 1,033 | $ – | $ – | $ – | $ 6 |
| Brixia investment write-down and other costs related to team sponsorship | – | 4,491 | – | – | – | – | – | 4,491 |
| Total other costs | $ 1,120 | $ 5,530 | $ 1,120 | $ 1,033 | $ – | $ – | $ – | $ 4,497 |
| Total restructuring and other costs | $ 9,534 | $ 6,438 | $ 5,050 | $ 1,033 | $ 4,653 | $ – | $ (169) | $ 5,405 |

## 4. Restructuring and other costs (continued)

*Restructuring and Other Costs Recognized (continued)*

The costs recognized for these restructuring activities and other costs consist of the following for the nine months ended September 30:

| | Nine months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | TOTAL | | Dorel Juvenile | | Dorel Sports (2015 Plan) | | Dorel Sports (2013 Plan) | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Employee severance and termination benefits | $ 2,976 | $ 750 | $ 2,322 | $ – | $ 1,082 | $ – | $ (428) | $ 750 |
| Accelerated depreciation | – | 916 | – | – | – | – | – | 916 |
| Write-down of assets | 1,000 | – | 50 | – | 950 | – | – | – |
| Other associated costs | 435 | 221 | 691 | – | 109 | – | (365) | 221 |
| Recorded as restructuring costs | $ 4,411 | $ 1,887 | $ 3,063 | $ – | $ 2,141 | $ – | $ (793) | $ 1,887 |
| Inventory markdowns | $ 3,379 | $ (317) | $ 867 | $ – | $ 2,512 | $ – | $ – | $ (317) |
| Accelerated depreciation | – | 1,492 | – | – | – | – | – | 1,492 |
| Restructuring costs recorded in cost of sales | $ 3,379 | $ 1,175 | $ 867 | $ – | $ 2,512 | $ – | $ – | $ 1,175 |
| Total restructuring costs | $ 7,790 | $ 3,062 | $ 3,930 | $ – | $ 4,653 | $ – | $ (793) | $ 3,062 |
| Acquisition-related costs | $ 2,835 | $ 1,452 | $ 2,835 | $ 1,268 | $ – | $ – | $ – | $ 184 |
| Brixia investment write-down and other costs related to team sponsorship | – | 5,939 | – | – | – | – | – | 5,939 |
| Total other costs | $ 2,835 | $ 7,391 | $ 2,835 | $ 1,268 | $ – | $ – | $ – | $ 6,123 |
| Total restructuring and other costs | $ 10,625 | $ 10,453 | $ 6,765 | $ 1,268 | $ 4,653 | $ – | $ (793) | $ 9,185 |

## 4. Restructuring and other costs (continued)

*Restructuring Provision*

As at September 30, 2015, the related restructuring plans provision totaling $1,852 consists of employee severance and termination benefits. A summary of the Company's restructuring plan provision is as follows:

| | Balance December 30, 2014 | 2015 Provision | Cash paid | Effect of foreign exchange | Balance September 30, 2015 |
|---|---|---|---|---|---|
| ***Dorel Juvenile segment:*** | | | | | |
| Employee severance and termination benefits | $ – | $ 2,322 | $ (2,113) | $ – | $ 209 |
| Other associated costs | – | 691 | (232) | – | 459 |
| | $ – | $ 3,013 | $ (2,345) | $ – | $ 668 |
| ***Dorel Sports segment (2015 Plan):*** | | | | | |
| Employee severance and termination benefits | $ – | $ 1,082 | $ (328) | $ 39 | $ 793 |
| Other associated costs | – | 109 | (9) | – | 100 |
| | $ – | $ 1,191 | $ (337) | $ 39 | $ 893 |
| ***Dorel Sports segment (2013 Plan):*** | | | | | |
| Employee severance and termination benefits | $ 3,490 | $ (428) | $ (2,665) | $ (106) | $ 291 |
| Other associated costs | 929 | (365) | (564) | – | – |
| | $ 4,419 | $ (793) | $ (3,229) | $ (106) | $ 291 |

## 5. Impairment of goodwill and intangible assets

During the third quarter ended September 30, 2015, as a result of the economic and political instability in Brazil, the rising inflation and the foreign exchange currency pressure, assumptions on projected earnings and cash flow growth were revised for the Dorel Sports – Caloi cash generating unit (CGU) resulting in a goodwill impairment loss of $19,902 and an impairment charge with respect to the customer relationships of $6,608. The Company concluded that the recoverable amount based on the value in use was less than the carrying amount of the CGU.

The Company did not make any changes to the valuation methodology used to assess the recoverable amounts of the CGU since its last annual impairment test. The amount of impairment loss was calculated using a discounted cash flow model, which is based on key assumptions such as future cash flows and a pre-tax discount rates of 21.72% (year ended December 30, 2014 – 20.45%) and a terminal growth rate of 5.0% (year ended December 30, 2014 – 5.0%).

Other CGUs were not tested for impairment because there were no impairment indicators during the quarter and the nine months ended September 30, 2015.

## 6. Business acquisition

*Dorel Juvenile business of the Lerado Group*

On November 3, 2014, the Company completed the acquisition of all of the outstanding shares of the juvenile business of Hong Kong-based Lerado Group, a juvenile product manufacturer in China specializing in the design and manufacture of a wide range of infant and juvenile products. The Lerado Group is composed of subsidiaries of Lerado Group (Holding) Company Limited, a publicly traded company listed on the Hong Kong Stock Exchange. The purchase price was established at HK$930,000 in cash ($119,931), subject to post-closing adjustments. As per the Share Purchase Agreement, the post-closing adjustments are based on the Net Asset Value at the acquisition date which has not yet been finalized. Once the actual Net Asset Value will be completed and compared with the Reference Net Asset Value as per the Share Purchase Agreement, the adjustment will be recorded as an element of the purchase price. The Company is presently in the process of establishing the fair value of the identifiable assets acquired, liabilities assumed and consideration transferred of the acquired business.

The acquisition has been accounted for using the acquisition method with the results of the operation of the Dorel Juvenile business of the Lerado Group being included in the accompanying condensed consolidated interim financial statements since the date of acquisition. The goodwill is not expected to be deductible for tax purposes. The total goodwill amount is included in the Company's Dorel Juvenile segment as reported in Note 14.

The following table summarizes the consideration transferred, the preliminary fair value of the identifiable assets acquired and liabilities assumed as at the date of acquisition.

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 4,841 |
| Trade and other receivables | 24,520 |
| Inventories | 25,905 |
| Income taxes receivable | 9 |
| Prepaid expenses | 1,231 |
| Property, plant and equipment | 62,343 |
| Land use rights | 43,798 |
| Goodwill | 24,800 |
| Deferred tax assets | 1,226 |
| | 188,673 |
| **Liabilities** | |
| Trade and other payables | 40,491 |
| Income taxes payable | 16,636 |
| Net pension defined benefit obligations | 2,005 |
| Deferred tax liabilities | 9,610 |
| | 68,742 |
| Net assets acquired | $ 119,931 |
| **Consideration:** | |
| Cash | $ 119,931 |

The fair values of the inventories, the property, plant and equipment, the land use rights, the other intangibles assets and contingencies have been determined on a provisional basis pending completion of the assessment of the estimated fair values and completion of the independent valuations.

The fair value, as well, as the gross amount of the trade accounts receivable amount to $20,818 of which $847 was expected to be uncollectible as at the acquisition date and $646 was assumed for anticipated credits.

## 6. Business acquisition (continued)

*Dorel Juvenile business of the Lerado Group (continued)*

The preliminary goodwill of $24,800 includes a control premium, expected synergies from vertical integration as well as the Company's ability to extend their reach into a market that has future growth potential and further solidifies its position as a global leader in the juvenile industry.

Acquisition-related costs of $2,835 for the nine months ended September 30, 2015 (year ended December 30, 2014 – $4,036) have been excluded from the consideration transferred and have been recognized as an expense for the current year, within restructuring and other costs in the condensed consolidated interim income statement and within the Dorel Juvenile segment's operating profit.

## 7. Long-term debt

As of June 19, 2015, the Company amended and restated its Note Purchase Agreement. The Company repaid the $50,000 Series "A" Senior Guaranteed Notes and issued $50,000 Series "C" Senior Guaranteed Notes with similar terms and conditions. The existing Series "B" Senior Guaranteed Notes and the newly issued $50,000 Series "C" Senior Guaranteed Notes bear interest as at September 30, 2015 at 6.39% and 4.60% respectively.

The Series "C" Senior Guaranteed Notes are repayable in 3 annual instalments of $16,667 starting in June 2018 and ending in June 2020.

In addition, as of June 19, 2015, the Company amended and restated its Credit Agreement and increased the total availability under the revolving bank loans to $400,000 from the availability as at December 30, 2014 of $360,000. The accordion feature included in the agreement allowing the Company to have access to an additional $100,000 as of December 30, 2014 was decreased to $60,000.

As of September 30, 2015, the Series "B" and "C" Senior Guaranteed Notes as well as the revolving bank loans are secured over certain of the Company's trade receivables and inventories, with a carrying value of $280,227 and $492,396 respectively.

## 8. Fair value of financial instruments

*Fair value disclosure*

The Company has determined that the fair value of its current financial assets and liabilities approximates their respective carrying amounts as at the statement of financial position dates because of the short-term nature of those financial instruments. For long-term debt bearing interest at variable rates, the fair value is considered to approximate the carrying amount. For long-term debt bearing interest at fixed rates, the fair value is estimated using Level 2 inputs in the fair value hierarchy based on discounting expected future cash flows at the discount rates which represent borrowing rates presently available to the Company for loans with similar terms and maturity.

The fair value of the long-term debt bearing interest at fixed rates is as follows:

| | September 30, 2015 | | December 30, 2014 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Financial liabilities | | | | |
| *Other financial liabilities:* | | | | |
| Long-term debt – bearing interest at fixed rates | $ 279,585 | $ 289,966 | $ 286,235 | $ 296,190 |

## 8. Fair value of financial instruments (continued)

*Fair value measurement*

The following table provides information about financial assets and liabilities measured at fair value in the statement of financial position and categorized by level of the fair value hierarchy as at September 30, 2015:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Financial assets | | | | |
| *Held for trading financial assets:* | | | | |
| Foreign exchange contracts | $ 442 | $ – | $ 442 | $ – |
| *Derivatives designated as cash flow hedges:* | | | | |
| Foreign exchange contracts | $ 3,078 | $ – | $ 3,078 | $ – |
| Financial liabilities | | | | |
| *Held for trading financial liabilities:* | | | | |
| Foreign exchange contracts | $ 120 | $ – | $ 120 | $ – |
| *Financial liabilities measured at fair value:* | | | | |
| Written put option and forward purchase agreement liabilities | $ 32,543 | $ – | $ – | $ 32,543 |
| *Derivatives designated as cash flow hedges:* | | | | |
| Foreign exchange contracts | $ 1,976 | $ – | $ 1,976 | $ – |
| Interest rate swaps | $ 1,336 | $ – | $ 1,336 | $ – |

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing the fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Should any of the inputs to these models or changes in assumptions about these factors occur, this could affect the reported fair value of financial instruments.

The fair value of the foreign exchange contracts is measured using a generally accepted valuation technique which is the discounted value of the difference between the contract's value at maturity based on the foreign exchange rate set out in the contract and the contract's value at maturity based on the foreign exchange rate that the counterparty would use if it were to renegotiate the same contract at today's date under the same conditions. The Company's or the counterparty's credit risk is also taken into consideration in determining fair value.

The fair value of the interest rate swaps is measured using a generally accepted valuation technique which is the discounted value of the difference between the value of the swap based on variable interest rates (estimated using the yield curve for anticipated interest rates) and the value of the swap based on the swap's fixed interest rate. The counterparty's credit risk is also taken into consideration in determining fair value.

Written put option and forward purchase agreement liabilities are valued at fair value using Level 3 inputs in the fair value hierarchy. The fair value represents the present value of the exercise price of the put option or the forward and is measured by applying the income approach using the probability-weighted expected payment of the exit price and is based on discounted cash flows. Unobservable inputs within the fair value measurement include the exit price and the expected payment date for the written put options. The exit price is based on a formulaic variable price which is mainly a function of the earnings levels in future periods and requires assumptions about revenue growth rates, operating margins and the expected payment date of the exit price for the written put options. The Company assumes a discount rate in order to calculate the present value of the expected payment of the exit price which represents the cost of borrowing of the specific period for the cash flows. If the future earnings levels in future periods would increase (decrease), the estimated fair value of the written put option and forward purchase agreement liabilities would increase (decrease).

## 8. Fair value of financial instruments (continued)

*Fair value measurement (continued)*

Changes in fair value of Level 3 financial instruments were as follows, for the nine months ended September 30, 2015 and the fiscal year ended December 30, 2014:

| | Written Put Option Liabilities | | Forward Purchase Agreement Liabilities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **Balance, beginning of the period** | $ 2,904 | $ 3,168 | $ 41,736 | $ 89,402 | $ 44,640 | $ 92,570 |
| Transfer from forward purchase agreement liabilities to written put option liabilities (1) | 24,671 | – | (24,671) | – | – | – |
| Addition through incorporation of a business | – | 2,876 | – | – | – | 2,876 |
| Change due to finalization of the fair value of the net assets acquired of Caloi | – | – | – | (16,587) | – | (16,587) |
| Remeasurement of the fair value [unrealized] (2) | (1,400) | 28 | (9,879) | (25,702) | (11,279) | (25,674) |
| Increase due to capital injection done by the non-controlling interest | 525 | – | – | – | 525 | – |
| Repayments | – | (1,600) | – | – | – | (1,600) |
| Transfer balance to other equity upon repayment | – | (1,227) | – | – | – | (1,227) |
| Effect of foreign currency exchange rate changes recognized in other comprehensive income | – | (341) | (1,343) | (5,377) | (1,343) | (5,718) |
| **Balance, end of period** | $ 26,700 | $ 2,904 | $ 5,843 | $ 41,736 | $ 32,543 | $ 44,640 |

(1) Effective December 31, 2014, the terms of certain shareholders agreements were amended changing the mechanism creating the financial liabilities from forward purchase agreements to written put option agreements. Therefore, from the beginning of the first quarter of 2015, the remeasurement of the fair value of the financial liabilities is recorded within other equity.

(2) The assumptions used to fair value the written put option liabilities for the nine months ended September 30, 2015 remained the same as the ones used for the fiscal year ended December 30, 2014, except for the expected payment date or contractual maturity of the shareholders agreements that were amended effective December 31, 2014. The expected payment date used with regards to these amended shareholders agreements is April 2019 for the remaining 30% interest. In connection with the impairment test performed for Dorel Sports – Caloi CGU (Note 5), the assumptions about revenue growth rates, operating margins and earnings level in future periods were reviewed during the third quarter ended September 30, 2015. As a result, these revised assumptions were used to determine the fair value of the forward purchase agreement liability. In addition, the discount rate used to determine the fair value of this exit price as at September 30, 2015 was 13.62% (year ended December 30, 2014 – 12.8%).

## 9. Share capital

Details of the issued and outstanding shares are as follows:

| | Nine Months Ended September 30, 2015 | | Year Ended December 30, 2014 | |
|---|---|---|---|---|
| | **Number** | **Amount** | **Number** | **Amount** |
| **Class "A" Multiple Voting Shares** | | | | |
| Balance, beginning and end of period | 4,195,135 | $ 1,771 | 4,195,135 | $ 1,771 |
| **Class "B" Subordinate Voting Shares** | | | | |
| Balance, beginning of period | 28,124,269 | $ 198,156 | 27,718,003 | $ 188,687 |
| Issued under stock option plan (1) | – | – | 396,000 | 7,281 |
| Reclassification from contributed surplus due to exercise of stock options | – | – | – | 1,924 |
| Reclassification from contributed surplus due to settlement of deferred share units (Note 10) | 2,607 | 61 | 10,266 | 264 |
| Balance, end of period | 28,126,876 | $ 198,217 | 28,124,269 | $ 198,156 |
| **TOTAL SHARE CAPITAL** | | $ 199,988 | | $ 199,927 |

(1) During the year ended December 30, 2014, the Company realized tax benefits amounting to $40 as a result of stock option transactions. The benefit has been credited to share capital and is therefore not reflected in the current income tax provision.

## 9. Share capital (continued)

On May 13, 2015, the Company announced that it had decided to implement a new normal course issuer bid (the "2015 NCIB"). As approved by the TSX, under the 2015 NCIB, the Company is entitled to repurchase for cancellation up to 200,000 Class "B" Subordinate Voting Shares during the period of May 19, 2015 to May 18, 2016, or until such earlier time as the bid is completed or terminated at the option of the Company. Any shares the Company purchases under the 2015 NCIB 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 the 2015 NCIB will be cancelled. In accordance with the 2015 NCIB, the Company did not repurchase any Class "B" Subordinate Voting Shares during the nine months ended September 30, 2015.

During the year ended December 30, 2014, in accordance with its previous normal course issuer bid which ended on May 13, 2015, the Company did not repurchase any Class "B" Subordinate Voting Shares.

## 10. Share-based payments

Stock Option 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 2018. All options are to be settled by physical delivery of shares.

The changes in outstanding stock options are as follows:

| | Nine Months Ended September 30, 2015 | | Year Ended December 30, 2014 | |
|---|---|---|---|---|
| | **Options** | **Weighted Average Exercise Price** | **Options** | **Weighted Average Exercise Price** |
| Options outstanding, beginning of period | 142,000 | $ 28.60 | 589,750 | $ 23.37 |
| Exercised (1) | – | – | (396,000) | 18.36 |
| Forfeited | (5,000) | 22.17 | (51,750) | 33.64 |
| Options outstanding, end of period | 137,000 | $ 24.93 | 142,000 | $ 28.60 |
| Total exercisable, end of period | 74,250 | $ 24.19 | 45,500 | $ 28.37 |

(1) The weighted average share price at the date of exercise for the stock options exercised during the year ended December 30, 2014 was $34.53.

A summary of options outstanding as of September 30, 2015 is as follows:

| | Total Outstanding | | | Total Exercisable | |
|---|---|---|---|---|---|
| **Range of Exercise Prices** | **Options** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Life (in years)** | **Options** | **Weighted Average Exercise Price** |
| $19.30 - $19.91 | 45,000 | $ 19.71 | 1.51 | 31,250 | $ 19.69 |
| $26.43 - $30.57 | 92,000 | 27.48 | 2.69 | 43,000 | 27.47 |
| | 137,000 | $ 24.93 | 2.30 | 74,250 | $ 24.19 |

## 10. Share-based payments (continued)

Stock Option Plan (continued)

Total compensation cost recognized in income for employee stock options for the quarter and nine months ended September 30, 2015 amounts to $41 and $107, respectively (2014 – $(49) and $206, respectively), and was credited to contributed surplus.

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.

The changes in outstanding DSU's are as follows:

| | Third Quarter Ended September 30, 2015 | | Third Quarter Ended September 30, 2014 | |
|---|---|---|---|---|
| | Number of DSU's | Contributed Surplus Amount | Number of DSU's | Contributed Surplus Amount |
| Balance, beginning of period | 137,028 | $ 4,133 | 120,598 | $ 3,622 |
| Issued for fees forfeited | 2,603 | 63 | 3,731 | 118 |
| Issued for dividend equivalents | 1,528 | 41 | 1,137 | 36 |
| Balance, end of period | 141,159 | $ 4,237 | 125,466 | $ 3,776 |

| | Nine Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | Number of DSU's | Contributed Surplus Amount | Number of DSU's | Contributed Surplus Amount |
| Balance, beginning of period | 129,905 | $ 3,930 | 116,160 | $ 3,433 |
| Issued for fees forfeited | 7,004 | 187 | 10,905 | 369 |
| Issued for dividend equivalents | 4,250 | 120 | 3,078 | 105 |
| Settlement of deferred share units (1) | – | – | (4,677) | (131) |
| Balance, end of period | 141,159 | $ 4,237 | 125,466 | $ 3,776 |

(1) During the nine months ended September 30, 2014, 4,677 DSU's were settled for which $131 was debited to contributed surplus and $122 credited to share capital; the difference representing the withholding taxes the Company was required by law to withhold upon settlement.

## 10. Share-based payments (continued)

Executive Deferred Share Unit Plan

The Company has an Executive Deferred Share Unit plan under which executive officers of the Company may elect annually to have a portion of their 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.

The changes in outstanding DSU's are as follows:

| | Third Quarter Ended September 30, 2015 | | Third Quarter Ended September 30, 2014 | |
|---|---|---|---|---|
| | Number of DSU's | Contributed Surplus Amount | Number of DSU's | Contributed Surplus Amount |
| Balance, beginning of period | 61,959 | $ 1,675 | 59,247 | $ 1,625 |
| Issued for dividend equivalents | 644 | 17 | 461 | 14 |
| Settlement of deferred share units (1) | – | – | (8,021) | (251) |
| Balance, end of period | 62,603 | $ 1,692 | 51,687 | $ 1,388 |

(1) During the third quarter ended September 30, 2014, 8,021 DSU's were settled for which $251 was debited to contributed surplus and $109 credited to share capital; the difference representing the withholding taxes the Company was required by law to withhold upon settlement.

| | Nine Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | Number of DSU's | Contributed Surplus Amount | Number of DSU's | Contributed Surplus Amount |
| Balance, beginning of period | 52,129 | $ 1,402 | 58,286 | $ 1,555 |
| Issued for salaries and bonus paid | 12,428 | 341 | 4,265 | 144 |
| Issued for dividend equivalents | 1,781 | 50 | 1,271 | 42 |
| Settlement of deferred share units (1) | (3,735) | (101) | (12,135) | (353) |
| Balance, end of period | 62,603 | $ 1,692 | 51,687 | $ 1,388 |

(1) During the nine months ended September 30, 2015, 3,735 DSU's (2014 – 12,135) were settled for which $101 (2014 – $353) was debited to contributed surplus and $61 (2014 – $142) credited to share capital; the difference representing the withholding taxes the Company was required by law to withhold upon settlement.

## 10. Share-based payments (continued)

Share Appreciation Rights (cash-settled)

The Company has a Share Appreciation Rights (SARs) plan for senior executives and certain key employees that entitle them to a cash payment based on the increase in the share price of the Company's Class "B" Subordinate Voting Shares from the grant date to the vesting date. The SARs vest based on service conditions and are not subject to performance conditions.

On June 25, 2014, the Company granted 359,516 SARs. The SARs granted on June 25, 2014, vest according to a grading schedule of 10% the first year, 20% the second year, 30% the third year and 40% the fourth year. The weighted average share price at the date the SARs were granted on June 25, 2014 was $36.35. As of September 30, 2015, 34,529 SARs were settled. The weighted average share price of the SARs settled was $28.21.

On June 29, 2015, the Company granted 532,073 SARs. The SARs granted on June 29, 2015, vest in whole after four years. The weighted average share price at the date the SARs were granted on June 29, 2015 was $27.21.

The changes in outstanding SARs are as follows:

| | Third Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| SAR's outstanding, beginning of period | 840,304 | 359,516 | 349,024 | – |
| Granted | – | – | 532,073 | 359,516 |
| Settled | – | – | (34,529) | – |
| Forfeited | (10,176) | (8,324) | (16,440) | (8,324) |
| SAR's outstanding, end of period | 830,128 | 351,192 | 830,128 | 351,192 |

As at September 30, 2015, none of the outstanding SARs had vested.

The employee benefits expense included in general and administrative expenses for SARs for the quarter and nine months ended September 30, 2015 amounts to an expense of $13 and a recovery of $170, respectively (2014 – $122 and $122, respectively). As at September 30, 2015, $8 are included in trade and other payables and $243 in other long-term liabilities.

The employee benefits expense is computed using the fair value of the SARs as at the reporting date as calculated using the Black-Scholes pricing model. The following weighted average assumptions were used to estimate the fair values of the SARs on September 30, 2015:

| | |
|---|---|
| Share price | $23.57 |
| Risk-free interest rate | 0.58% |
| Dividend yield | 5.11% |
| Expected volatility | 26.14% |
| Expected life | 2.85 years |

The weighted average fair value of the SARs outstanding on September 30, 2015 was $1.79 (2014 – $2.20).

The expected volatility reflects the assumption that the historical volatility over a period similar to the expected life of the SARs is indicative of future trends, which may not necessarily be the actual outcome.

Performance Share Units (cash-settled)

The Company has a Performance Share Unit (PSUs) plan for senior executives and certain key employees that entitle them to a cash payment. The PSUs vest based on non-market performance conditions. The number of PSUs that can vest can be up to 1.5 times the actual number of PSUs awarded if exceptional financial performance is achieved. A plan participant may also receive dividend equivalents paid in the form of PSUs.

## 10. Share-based payments (continued)

Performance Share Units (cash-settled) (continued)

On June 25, 2014, the Company granted 105,056 PSUs. The PSUs granted on June 25, 2014, vest according to a grading schedule of 20% at the end of the first year, 30% at the end of the second year and 50% at the end of the third year and have performance vesting conditions. As of September 30, 2015, 20,658 PSUs were settled. The weighted average share price of the PSUs settled was $28.21.

On June 29, 2015, the Company granted 146,486 PSUs. The PSUs granted on June 29, 2015, vest in whole after a 3-year performance cycle and have performance vesting conditions.

The changes in outstanding PSUs are as follows:

| | Third Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| PSU's outstanding, beginning of period | 227,899 | 105,056 | 102,270 | – |
| Granted | – | – | 146,486 | 105,056 |
| Granted for dividend equivalents | 2,528 | 962 | 4,402 | 962 |
| Settled | – | – | (20,658) | – |
| Forfeited | (3,532) | (3,771) | (5,605) | (3,771) |
| PSU's outstanding, end of period | 226,895 | 102,247 | 226,895 | 102,247 |

As at September 30, 2015, none of the outstanding PSUs had vested, the weighted average remaining contractual life of all PSUs outstanding was 2.01 years and the weighted average share price of the unvested PSUs was $23.57.

The employee benefits expense included in general and administrative expenses for PSUs for the quarter and the nine months ended September 30, 2015 amounts to $269 and $701, respectively (2014 – $446 and $1,038, respectively). As at September 30, 2015, $114 are included in trade and other payables and $951 in other long-term liabilities.

## 11. Earnings per share

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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares | 32,322,011 | 32,305,379 | 32,321,887 | 32,180,681 |
| Dilutive effect of stock options | – | 9,422 | 8,025 | 61,440 |
| Dilutive effect of deferred share units | – | 178,499 | 192,898 | 175,801 |
| Weighted average number of diluted shares | 32,322,011 | 32,493,300 | 32,522,810 | 32,417,922 |
| Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings per share calculation | 340,762 | 107,000 | 92,000 | 102,000 |

As at September 30, 2015, convertible debentures were excluded from the calculation of diluted earnings (loss) per share as these debentures were deemed to be anti-dilutive.

## 12. Finance expenses and other information

a) Finance expenses

| | Third Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** *Restated (Note 2)* | **2015** | **2014** *Restated (Note 2)* |
| Interest on long-term debt – including effect of cash flow hedge related to the interest rate swaps and the accreted interest related to long-term debt bearing interest at fixed rates | $ 8,644 | $ 6,400 | $ 24,292 | $ 17,394 |
| Remeasurement of forward purchase agreement liabilities (Note 8) | (9,711) | (1,364) | (9,879) | 5,087 |
| Amortization of deferred financing costs | 324 | 80 | 665 | 463 |
| Other interest | 2,265 | 1,259 | 5,385 | 5,595 |
| | $ 1,522 | $ 6,375 | $ 20,463 | $ 28,539 |

b) Cost of inventories and write-down of inventories included in the condensed consolidated interim income statements:

| | Third Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Included in cost of sales: | | | | |
| Cost of inventories recognized as an expense | $ 518,734 | $ 508,491 | $ 1,529,786 | $ 1,456,518 |
| Write down of inventories as a result of net realizable value being lower than cost | $ 5,937 | $ 1,117 | $ 10,759 | $ 3,901 |

c) Income taxes:

The third quarter and nine months ended September 30, 2015 tax rates were a recovery of 20.6% and an expense of 13.1%, respectively (2014 – expenses of 19.4% and 18.5%, respectively). The main causes of the variations year-over-year are changes in the jurisdictions in which the Company generated its income, the non-deductible impairment of goodwill, the recognition of tax benefits related to tax losses following a Canadian reorganization and the decrease in the fair value adjustments related to the forward purchase agreement liabilities which are non-deductible for tax purposes.

d) Commitments and guarantees:

In the normal course of business, the Company granted during the third quarter ended September 30, 2015 irrevocable standby letters of credit issued by highly rated financial institutions to various third parties to indemnify them in the event the Company does not perform its contractual obligations, such as payment of product liability claims, lease and licensing agreements, duties and workers compensation claims. As at September 30, 2015 standby letters of credit outstanding totalled $37,830 (as at December 30, 2014 – $25,314). As many of these guarantees will not be drawn upon, these amounts are not indicative of future cash requirements. No material loss is anticipated by reason of such agreements and guarantees and no amounts have been accrued in the Company's condensed consolidated interim financial statements with respect to these guarantees.

## 13. 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 condensed consolidated interim statements of cash flows exclude the following non-cash transactions:

| | September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Acquisition of property, plant and equipment financed by trade and other payables | $ 1,227 | $ 2,933 |
| Acquisition of intangible assets financed by trade and other payables | $ 288 | $ 303 |

Net changes in balances related to operations are as follows:

| | Third Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Trade and other receivables | $ 7,715 | $ 1,974 | $ 1,923 | $ (9,355) |
| Inventories | (18,028) | (8,625) | (85,636) | (40,241) |
| Other financial assets | 37 | (252) | 149 | (429) |
| Prepaid expenses | (1,452) | 3,134 | (10,470) | (3,369) |
| Other assets | (484) | 1,061 | (566) | 2,133 |
| Trade and other payables | 58,601 | 20,966 | 4,299 | 12,438 |
| Net pension and post-retirement defined benefit liabilities | (671) | (603) | (2,656) | (2,755) |
| Provisions, other financial liabilities and other long-term liabilities | (2,695) | (2,124) | (7,368) | (8,602) |
| Total | $ 43,023 | $ 15,531 | $ (100,325) | $ (50,180) |

Details of business acquisitions:

| | Third Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Acquisition of businesses | $ – | $ – | $ – | $ (63,585) |
| Cash acquired | – | – | – | 7,789 |
| | – | – | – | (55,796) |
| Balance of sale payable (paid) | – | (150) | (1,736) | 1,053 |
| Total | $ – | $ (150) | $ (1,736) | $ (54,743) |

## 13. Statement of cash flows (continued)

The components of cash and cash equivalents are:

| | September 30, 2015 | December 30, 2014 |
|---|---|---|
| Cash | $ 33,347 | $ 40,677 |
| Short-term investments | 1,354 | 6,424 |
| Cash and cash equivalents | $ 34,701 | $ 47,101 |

## 14. Segmented information

Industry Segments

| | Third Quarters Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | | Dorel Juvenile | | Dorel Sports | | Dorel Home Furnishings | |
| | 2015 | 2014 *Restated (Note 2)* | 2015 | 2014 *Restated (Note 2)* | 2015 | 2014 *Restated (Note 2)* | 2015 | 2014 |
| Total revenue | $ 679,287 | $ 673,020 | $ 247,296 | $ 260,723 | $ 266,499 | $ 266,503 | $ 165,492 | $ 145,794 |
| Cost of sales (Note 4) | 542,732 | 521,526 | 183,096 | 187,558 | 215,545 | 204,451 | 144,091 | 129,517 |
| Gross profit | 136,555 | 151,494 | 64,200 | 73,165 | 50,954 | 62,052 | 21,401 | 16,277 |
| Selling expenses | 57,658 | 56,480 | 28,051 | 28,225 | 25,391 | 24,281 | 4,216 | 3,974 |
| General and administrative expenses | 44,267 | 44,169 | 22,503 | 22,163 | 15,712 | 16,209 | 6,052 | 5,797 |
| Research and development expenses | 9,210 | 8,557 | 6,661 | 5,632 | 1,538 | 1,892 | 1,011 | 1,033 |
| Restructuring and other costs (Note 4) | 6,155 | 5,934 | 4,183 | 1,033 | 1,972 | 4,901 | – | – |
| Impairment losses on goodwill and customer relationships (Note 5) | 26,510 | – | – | – | 26,510 | – | – | – |
| Operating profit (loss) | (7,245) | 36,354 | 2,802 | 16,112 | (20,169) | 14,769 | 10,122 | 5,473 |
| Finance expenses | 1,522 | 6,375 | | | | | | |
| Corporate expenses | 2,263 | 5,816 | | | | | | |
| Income taxes (recovery) expense | (2,273) | 4,683 | | | | | | |
| Net income (loss) | $ (8,757) | $ 19,480 | | | | | | |
| Depreciation and amortization included in operating profit (loss) | $ 14,692 | $ 14,753 | $ 10,381 | $ 9,760 | $ 3,200 | $ 3,837 | $ 1,111 | $ 1,156 |

## 14. Segmented information (continued)

Industry Segments (continued)

| | Nine Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | | Dorel Juvenile | | Dorel Sports | | Dorel Home Furnishings | |
| | 2015 | 2014 *Restated (Note 2)* | 2015 | 2014 *Restated (Note 2)* | 2015 | 2014 *Restated (Note 2)* | 2015 | 2014 |
| Total revenue | $ 2,014,419 | $ 1,976,552 | $ 786,910 | $ 781,277 | $ 746,515 | $ 793,100 | $ 480,994 | $ 402,175 |
| Cost of sales (Note 4) | 1,582,052 | 1,514,173 | 578,280 | 558,921 | 585,474 | 603,258 | 418,298 | 351,994 |
| Gross profit | 432,367 | 462,379 | 208,630 | 222,356 | 161,041 | 189,842 | 62,696 | 50,181 |
| Selling expenses | 172,217 | 172,165 | 84,719 | 85,939 | 74,593 | 74,141 | 12,905 | 12,085 |
| General and administrative expenses | 141,792 | 139,739 | 71,698 | 67,142 | 51,466 | 56,222 | 18,628 | 16,375 |
| Research and development expenses | 27,041 | 24,253 | 19,583 | 16,152 | 4,652 | 5,177 | 2,806 | 2,924 |
| Restructuring and other costs (Note 4) | 7,246 | 9,278 | 5,898 | 1,268 | 1,348 | 8,010 | – | – |
| Impairment losses on goodwill and customer relationships (Note 5) | 26,510 | – | – | – | 26,510 | – | – | – |
| Operating profit | 57,561 | 116,944 | 26,732 | 51,855 | 2,472 | 46,292 | 28,357 | 18,797 |
| Finance expenses | 20,463 | 28,539 | | | | | | |
| Corporate expenses | 15,123 | 15,383 | | | | | | |
| Income taxes expense | 2,885 | 13,542 | | | | | | |
| Net income | $ 19,090 | $ 59,480 | | | | | | |
| Depreciation and amortization included in operating profit | $ 43,337 | $ 44,378 | $ 29,903 | $ 30,357 | $ 9,943 | $ 10,705 | $ 3,491 | $ 3,316 |

Geographic Segments – Origin of Revenues

| | Third Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Canada | $ 51,179 | $ 62,147 | $ 170,257 | $ 183,130 |
| United States | 379,695 | 338,402 | 1,097,543 | 996,591 |
| Europe | 138,191 | 161,721 | 428,369 | 506,597 |
| Latin America | 61,139 | 75,118 | 173,384 | 184,485 |
| Asia | 33,917 | 16,611 | 102,039 | 43,442 |
| Other countries | 15,166 | 19,021 | 42,827 | 62,307 |
| Total | $ 679,287 | $ 673,020 | $ 2,014,419 | $ 1,976,552 |

## 14. Segmented information (continued)

The continuity of goodwill by industry segment is as follows:

| | Total | | Dorel Juvenile | | Dorel Sports | | Dorel Home Furnishings | |
|---|---|---|---|---|---|---|---|---|
| | **Sept. 30, 2015** | **Dec. 30, 2014** | **Sept. 30, 2015** | **Dec. 30, 2014** | **Sept. 30, 2015** | **Dec. 30, 2014** | **Sept. 30, 2015** | **Dec. 30, 2014** |
| Balance, beginning of period | $ 544,782 | $ 637,084 | $ 311,303 | $ 381,004 | $ 202,307 | $ 224,908 | $ 31,172 | $ 31,172 |
| Additions (1) (Note 6) | 1,040 | 27,285 | 1,040 | 44,280 | – | (16,995) | – | – |
| Impairment losses of goodwill (Note 5) | (19,902) | (82,675) | – | (82,675) | (19,902) | – | – | – |
| Effect of foreign currency exchange rate changes | (27,446) | (36,912) | (17,023) | (31,306) | (10,423) | (5,606) | – | – |
| Balance, end of period | $ 498,474 | $ 544,782 | $ 295,320 | $ 311,303 | $ 171,982 | $ 202,307 | $ 31,172 | $ 31,172 |

(1) The 2014 additions relate to the finalization of the fair value of the assets acquired, the liabilities assumed and the consideration transferred of Caloi, Tiny Love, Infanti Brazil and Intercycles and to the preliminary fair value of the assets acquired, the liabilities assumed and the consideration transferred of the Dorel Juvenile business of the Lerado Group. The 2015 additions relate to the adjustments to the preliminary fair value of the assets acquired, the liabilities assumed and the consideration transferred of the Dorel Juvenile business of the Lerado Group.