

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

For the third quarter and nine months ended September 30, 2018

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 for Dorel Industries Inc. ("Dorel" or "the Company") as at and for the third quarter and nine months ended September 30, 2018 and the Company's audited consolidated financial statements and MD&A as at and for the year ended December 30, 2017. 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, 2017, except for new accounting standards noted within this MD&A. 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 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 2017 annual MD&A as filed with the Canadian securities regulatory authorities on March 22, 2018. As such, they are not repeated herein. The information in this MD&A is current as of November 2, 2018.

1. SIGNIFICANT EVENTS IN 2018

On March 15, 2018, Toys"R"Us, Inc. ("Toys"R"Us"), one of the Company's customers, announced that it had filed a motion seeking Bankruptcy Court approval to begin the process of conducting an orderly wind-down of its U.S. business and liquidation of inventory in all of its U.S. stores. Considering this event, the Company had determined that an amount of \$17.3 million of trade accounts receivable from this customer as at June 30, 2018 was at risk of collection (\$7.6 million as at December 30, 2017). Accordingly, the Company had recorded an additional impairment loss of \$12.5 million within impairment loss on trade and other receivables in its condensed consolidated interim income statement for the six months ended June 30, 2018 with respect to these trade accounts receivable from Toys"R"Us U.S. (fourth quarter ended December 30, 2017 – \$3.8 million). Of this amount, \$2.1 million (fourth quarter ended December 30, 2017 – nil) was within Dorel Home, \$3.8 million (fourth quarter ended December 30, 2017 – \$0.7 million) was within Dorel Juvenile and \$6.6 million (fourth quarter ended December 30, 2017 – \$3.1 million) was within Dorel Sports. These amounts represented management's best estimate of potential losses arising from non-payment based on information available at that time.

In August 2018, the Bankruptcy Court approved the Toys“R”Us settlement agreement with its creditors and lenders. As part of the settlement agreement reached, the Company expects to receive approximately 22 cents on the dollar which is consistent with management’s estimate as at June 30, 2018. Accordingly, no impairment loss allowance adjustment was necessary to record as a result of the settlement agreement. As at September 30, 2018, \$1.2 million was received under the settlement agreement and in total, the Company had a remaining balance of trade accounts receivable from Toys“R”Us U.S. amounting to \$3.7 million (net of impairment loss allowance). On October 12, 2018, the Company received an additional amount of \$3.0 million under the settlement agreement.

During the second quarter of 2018, as Dorel Juvenile – Latin America’s business continued to face a decline in sales and profitability as a result of changes in the market and consumer behaviour, assumptions on projected earnings and cash flows growth for Dorel Juvenile – Latin America cash generating unit (“CGU”) were revised which resulted in impairment charges on customer relationships of \$8.9 million and trademarks of \$15.3 million (Infanti brand) for a total of \$24.2 million.

In addition, in the second quarter of 2018, the Company announced it was divesting its performance apparel line of business to focus on its core strategic businesses of bikes, parts and accessories and electric ride-ons and has sold the SUGOI and Sombrio brands. As a result of the sale of the performance apparel line of business, \$11.8 million was recorded as restructuring costs.

On October 1, 2018, Dorel Home acquired the assets and operations of UK-based Alphason for a purchase price of approximately \$3.3 million (GBP 2.5 million) of which a balance of sale of \$0.3 million (GBP 0.3 million) remains to be paid. Established some 30 years ago, Alphason designs and distributes award-winning home office and audio-visual furniture. The Alphason brand is well known in the UK and is sold at several large independent retailers across the country. This acquisition is highly strategic and the Company will use this base to expand and to provide strong logistics support with a distribution hub to serve and grow Dorel’s European business, including the North American e-commerce partners, many of whom have been growing in Europe and have been asking Dorel Home to support this growth.

2. OPERATING RESULTS

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

a) Non-GAAP financial measures

As a result of impairment losses on goodwill and intangible assets, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt incurred in 2018 and 2017, the Company is including in this MD&A the following non-GAAP financial measures: “adjusted cost of sales”, “adjusted gross profit”, “adjusted operating profit”, “adjusted finance expenses”, “adjusted income before income taxes”, “adjusted income taxes expense”, “adjusted tax rate”, “adjusted net income”, “adjusted earnings per basic and diluted share” and “adjusted diluted weighted average number of shares outstanding”. 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 loss on intangible assets, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt

Reconciliation of non-GAAP financial measures

	Third Quarters Ended September 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	670,437	100.0	-	670,437	100.0	642,634	100.0	-	642,634	100.0
Cost of sales	531,603	79.3	(100)	531,503	79.3	491,802	76.5	(253)	491,549	76.5
GROSS PROFIT	138,834	20.7	100	138,934	20.7	150,832	23.5	253	151,085	23.5
Selling expenses	59,177	8.8	-	59,177	8.8	60,899	9.5	-	60,899	9.5
General and administrative expenses	47,431	7.1	-	47,431	7.1	54,144	8.4	-	54,144	8.4
Research and development expenses	9,276	1.4	-	9,276	1.4	8,309	1.3	-	8,309	1.3
Impairment loss on trade and other receivables	246	-	-	246	-	1,513	0.2	-	1,513	0.2
Restructuring and other costs	1,093	0.2	(1,093)	-	-	1,358	0.3	(1,358)	-	-
OPERATING PROFIT	21,611	3.2	1,193	22,804	3.4	24,609	3.8	1,611	26,220	4.1
Finance expenses	8,254	1.2	-	8,254	1.2	7,723	1.2	-	7,723	1.2
INCOME BEFORE INCOME TAXES	13,357	2.0	1,193	14,550	2.2	16,886	2.6	1,611	18,497	2.9
Income taxes expense	3,763	0.6	(201)	3,562	0.6	3,592	0.5	367	3,959	0.6
Tax rate	28.2%			24.5%		21.3%			21.4%	
NET INCOME	9,594	1.4	1,394	10,988	1.6	13,294	2.1	1,244	14,538	2.3
EARNINGS PER SHARE										
Basic	0.30		0.04	0.34		0.41		0.04	0.45	
Diluted	0.29		0.05	0.34		0.41		0.03	0.44	
SHARES OUTSTANDING										
Basic - weighted average	32,438,503			32,438,503		32,403,980			32,403,980	
Diluted - weighted average	32,738,830			32,738,830		32,699,875			32,699,875	

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in net income from 2017 to 2018 are summarized as follows:

	Third Quarters Ended September 30,		
	Change		
	Reported	Restructuring and other costs	Adjusted
	\$	\$	\$
Dorel Home (decrease)	(1,033)	-	(1,033)
Dorel Juvenile (decrease)	(9,117)	(563)	(9,680)
Dorel Sports increase	6,817	145	6,962
OPERATING PROFIT (DECREASE)	(3,333)	(418)	(3,751)
(Increase) in finance expenses	(531)	-	(531)
Decrease in corporate expenses	335	-	335
(Increase) decrease in income taxes expense	(171)	568	397
NET INCOME (DECREASE)	(3,700)	150	(3,550)

The causes of these variations are discussed in more detail as part of the consolidated operating review.

Reconciliation of non-GAAP financial measures

Nine Months Ended September 30,										
2018						2017 ⁽¹⁾				
	Reported	% of revenue	Impairment loss on intangible assets, restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	1,935,967	100.0	-	1,935,967	100.0	1,900,616	100.0	-	1,900,616	100.0
Cost of sales	1,514,222	78.2	(1,771)	1,512,451	78.1	1,450,313	76.3	(698)	1,449,615	76.3
GROSS PROFIT	421,745	21.8	1,771	423,516	21.9	450,303	23.7	698	451,001	23.7
Selling expenses	176,965	9.1	-	176,965	9.1	174,177	9.2	-	174,177	9.2
General and administrative expenses	146,841	7.7	-	146,841	7.7	160,686	8.4	-	160,686	8.4
Research and development expenses	27,337	1.4	-	27,337	1.4	23,026	1.2	-	23,026	1.2
Impairment loss on trade and other receivables	13,407	0.7	-	13,407	0.7	3,359	0.2	-	3,359	0.2
Restructuring and other costs	13,593	0.7	(13,593)	-	-	7,676	0.4	(7,676)	-	-
Impairment loss on intangible assets	24,193	1.2	(24,193)	-	-	-	-	-	-	-
OPERATING PROFIT	19,409	1.0	39,557	58,966	3.0	81,379	4.3	8,374	89,753	4.7
Finance expenses	24,024	1.2	-	24,024	1.2	35,026	1.9	(10,475)	24,551	1.3
INCOME (LOSS) BEFORE INCOME TAXES	(4,615)	(0.2)	39,557	34,942	1.8	46,353	2.4	18,849	65,202	3.4
Income taxes expense (recovery)	(4,170)	(0.2)	9,926	5,756	0.3	12,778	0.6	2,737	15,515	0.8
Tax rate	90.4%			16.5%		27.6%			23.8%	
NET INCOME (LOSS)	(445)	-	29,631	29,186	1.5	33,575	1.8	16,112	49,687	2.6
EARNINGS (LOSS) PER SHARE										
Basic	(0.01)		0.91	0.90		1.04		0.49	1.53	
Diluted	(0.01)		0.90	0.89		1.03		0.49	1.52	
SHARES OUTSTANDING										
Basic - weighted average	32,438,465		32,438,465	32,403,980		32,403,980		32,403,980	32,403,980	
Diluted - weighted average	32,438,465		32,722,433	32,676,194		32,676,194		32,676,194	32,676,194	

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in net income (loss) from 2017 to 2018 are summarized as follows:

Nine Months Ended September 30,			
Change			
	Reported	Impairment loss on intangible assets, restructuring and other costs	Adjusted
	\$	\$	\$
Dorel Home (decrease)	(4,340)	-	(4,340)
Dorel Juvenile (decrease)	(45,665)	19,892	(25,773)
Dorel Sports (decrease)	(12,281)	11,291	(990)
OPERATING PROFIT (DECREASE)	(62,286)	31,183	(31,103)
Decrease in finance expenses other than the remeasurement of forward purchase agreement liabilities and the loss on early extinguishment of long-term debt	527	-	527
Decrease in remeasurement of forward purchase agreement liabilities	276	(276)	-
Decrease in loss on early extinguishment of long-term debt	10,199	(10,199)	-
Decrease in corporate expenses	316	-	316
Decrease in income taxes expense	16,948	(7,189)	9,759
NET INCOME (DECREASE)	(34,020)	13,519	(20,501)

The causes of these variations are discussed in more detail as part of the consolidated operating review.

The details of impairment loss on intangible assets, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt recorded are presented below:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Write-down of long-lived assets	-	-	-	368
Inventory markdowns	100	253	1,771	481
Recorded within gross profit	100	253	1,771	849
Employee severance and termination benefits	398	818	3,820	4,218
Write-down of long-lived assets	-	-	7,962	-
Net losses from the remeasurement and disposals of assets held for sale	-	-	-	622
Other associated costs	695	540	1,811	2,836
Recorded within a separate line in the condensed consolidated interim income statements	1,093	1,358	13,593	7,676
Total restructuring costs	1,193	1,611	15,364	8,525
Other costs recorded within gross profit	-	-	-	(151)
Total other costs	-	-	-	(151)
Total restructuring and other costs	1,193	1,611	15,364	8,374
Impairment loss on intangible assets	-	-	24,193	-
Loss on remeasurement of forward purchase agreement liabilities	-	-	-	276
Loss on early extinguishment of long-term debt	-	-	-	10,199
Total restructuring and other costs, impairment loss on intangible assets, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt before income taxes ⁽¹⁾	1,193	1,611	39,557	18,849
Total restructuring and other costs, impairment loss on intangible assets, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt after income taxes	1,394	1,244	29,631	16,112
Total impact on diluted earnings (loss) per share	(0.05)	(0.03)	(0.90)	(0.49)
⁽¹⁾ Includes non-cash amounts of:	100	253	33,558	3,164

The details of restructuring and other costs recognized are presented in Note 5 of the condensed consolidated interim financial statements.

Impairment loss on intangible assets

During the second quarter of 2018, as Dorel Juvenile – Latin America’s business continued to face a decline in sales and profitability as a result of changes in the market and consumer behaviour, assumptions on projected earnings and cash flows growth for Dorel Juvenile – Latin America CGU were revised. Sales to wholesale customers have declined principally in Chile as many have removed juvenile products from physical stores to 100% on-line. As the proportion of Chilean customers buying on-line continues to grow, this has opened the marketplace to greater competition and the Company’s share of the market and profitability has declined. Due to the new business environment, Dorel Juvenile segment continues to re-organize Dorel Juvenile – Latin America’s business by reducing its retail footprint and investing in digital capabilities to improve its competitiveness. As a result, during the second quarter of 2018, the Company recorded impairment charges on customer relationships of \$8.9 million and trademarks of \$15.3 million (Infanti brand) for a total of \$24.2 million.

Restructuring costs

For the nine months ended September 30, 2018, the Company recorded total expenses of \$15.4 million (2017 – \$8.5 million) with respect to restructuring costs, of which \$1.8 million (2017 – \$0.8 million) were recorded within gross profit and \$13.6 million (2017 – \$7.7 million) were recorded as restructuring costs as a separate line within the condensed consolidated interim income statements.

Dorel Juvenile segment

For the third quarter and nine months ended September 30, 2018, Dorel Juvenile recorded restructuring costs of \$0.6 million and \$3.6 million respectively under its restructuring plan. These restructuring initiatives are expected to generate profitable sales growth by improving agility with a more market-focused approach to reduce costs and better react to trends in the juvenile industry.

This restructuring plan is continuing into 2018. Total costs related to these restructuring initiatives are estimated at \$41.1 million, including \$13.3 million of non-cash charges related to the write-down of long-lived assets and net losses from the remeasurement and disposals of assets held for sale, \$2.5 million of non-cash inventory markdowns, \$3.1 million of curtailment gain on net pension defined benefit liabilities, \$23.4 million of employee severance and termination benefits and \$5.0 million of other associated costs. Of the \$41.1 million, \$10.3 million was recorded for the year ended December 30, 2015, \$13.8 million was recorded for the year ended December 30, 2016, \$11.9 million was recorded for the year ended December 30, 2017 and \$3.6 million was recorded in 2018. The estimate of future charges of \$1.5 million consist of reductions in people costs mainly related to further streamlining of the China-based manufacturing, the reorganization of Dorel Juvenile – Latin America business by reducing its retail footprint and additional headcount reduction opportunities overall.

Dorel Sports segment

In the second quarter of 2018, the Company announced it was divesting its performance apparel line of business to focus on its core strategic businesses of bikes, parts and accessories and electric ride-ons and had sold the SUGOI and Sombrio brands. As a result of the sale of the performance apparel line of business, \$0.6 million and \$11.8 million were recorded for the third quarter and nine months ended September 30, 2018, respectively as restructuring costs. There are no significant expected remaining costs associated with this restructuring initiative.

Remeasurement of forward purchase agreement liabilities

The remeasurement to fair value of the financial liabilities related to written put option agreements is recorded within other equity. The financial liability related to Caloi being a forward purchase agreement liability, and resulted in the remeasurement of the liability being accounted for as finance expenses. The remaining balance of the forward purchase agreement liability was fully repaid in the first quarter of 2017.

Loss on early extinguishment of long-term debt

Effective March 24, 2017, the Company amended and restated its Credit Agreement with respect to its revolving bank loans and secured a term loan of \$200.0 million which both have the same maturity date. As such, the net proceeds from the term loan were used by the Company to prepay the Series “B” and “C” Senior Guaranteed Notes and the non-convertible debentures, and to reduce bank indebtedness. The prepayments of the Series “B” and “C” Senior Guaranteed Notes and the non-convertible debentures were accounted for as an extinguishment. A loss on early extinguishment of long-term debt of \$10.2 million was recorded as finance expenses during the three months ended March 31, 2017. As a result of the proceeds obtained from this term loan, the Company was able to reduce its interest on long-term debt by \$4.9 million for the year ended December 30, 2017 due to lower average long-term debt balances and lower average interest rates which will benefit the Company for on-going periods.

c) Selected financial information

The table below shows selected financial information for the eight most recently completed quarters ended:

	2018			2017 ⁽¹⁾				2016 ⁽¹⁾
	Sep. 30	Jun. 30	Mar. 31	Dec. 30	Sep. 30	Jun. 30	Mar. 31	Dec. 30
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	670,437	623,244	642,286	677,052	642,634	611,270	646,712	648,749
Net income (loss)	9,594	(14,768)	4,729	(6,134)	13,294	11,440	8,841	(5,567)
Per share - Basic	0.30	(0.46)	0.15	(0.19)	0.41	0.35	0.27	(0.17)
Per share - Diluted	0.29	(0.46)	0.14	(0.19)	0.41	0.35	0.27	(0.17)
Adjusted net income	10,988	12,656	5,542	17,268	14,538	12,444	22,705	7,740
Per share - Basic	0.34	0.39	0.17	0.53	0.45	0.38	0.70	0.24
Per share - Diluted	0.34	0.39	0.17	0.53	0.44	0.38	0.69 ⁽²⁾	0.24
After-tax impact of impairment losses on goodwill and intangible assets, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt on the diluted earnings (loss) per share for the quarter	(0.05)	(0.85)	(0.03)	(0.72)	(0.03)	(0.03)	(0.42)	(0.41)

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

⁽²⁾ As at March 31, 2017, the convertible debentures were included in the calculation of the adjusted diluted earnings per share ("EPS") by adjusting the adjusted net income attributable to equity holders as well as the adjusted diluted weighted average number of shares outstanding as these debentures were deemed to be dilutive.

In the fourth quarter of 2016, the Company reported a net loss of \$5.6 million or \$0.17 per diluted share due to restructuring and other costs and remeasurement of forward purchase agreement liabilities representing \$13.3 million. Adjusted net income for the fourth quarter was \$7.7 million or \$0.24 adjusted diluted EPS.

In the first quarter of 2017, the Company reported a net income of \$8.8 million or \$0.27 per diluted share due to restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt for a net amount of \$0.42 per diluted share. Adjusted net income was \$22.7 million for the first quarter or \$0.69 adjusted diluted EPS.

In the fourth quarter of 2017, the Company reported a net loss of \$6.1 million or \$0.19 per diluted share due to an impairment loss on goodwill and restructuring and other costs, for a net amount of \$0.72 per diluted share. Adjusted net income was \$17.3 million for the fourth quarter or \$0.53 adjusted diluted EPS.

In the second quarter of 2018, the Company reported a net loss of \$14.8 million or \$0.46 per diluted share due to an impairment loss on intangible assets and restructuring and other costs, for a net amount of \$0.85 per diluted share. Adjusted net income was \$12.7 million for the second quarter or \$0.39 adjusted diluted EPS.

d) Consolidated operating review

For the third quarter of 2018, Dorel's revenue increased by \$27.8 million, or 4.3%, to \$670.4 million from \$642.6 million in 2017. Organic revenue rose by approximately 6.1% after removing the variation of foreign exchange rates year-over-year. When also removing the impact on revenue related to the performance apparel line of business divestment, organic revenue rose by approximately 6.8%. This organic revenue growth is in Dorel Home with the e-commerce channel representing 58% of total segment gross sales and in Dorel Sports mainly driven by retailers building inventory in anticipation of a busy holiday season at Pacific Cycle and new product innovation initiatives along with price increases at Caloi. This organic growth was offset by lower sales in several Dorel Juvenile's markets such as Europe and Chile partially offset by continuous growth in the U.S. and Brazilian markets.

For the nine months, Dorel's revenue increased by \$35.4 million, or 1.9%, to \$1,936.0 million compared to \$1,900.6 million recorded a year ago. Organic revenue increased by approximately 1.0% after removing the variation of foreign exchange rates year-over-year. When also excluding the impact of the divestment of the performance apparel line of business, the organic revenue increased by approximately 1.2%. The year-to-date organic revenue variation is explained mainly for the same reasons as in the quarter.

Gross profit for the quarter decreased by 280 basis points to 20.7% compared to 23.5% in the third quarter of 2017, and by 190 basis points to 21.8% year-to-date compared to 23.7% in 2017. Adjusted gross profit was 20.7% for the quarter and was 21.9% year-to-date representing a decline of 280 and 180 basis points respectively. These declines were mainly due to higher input costs across all three segments. The gross profit was also affected by less favourable sales mix in Dorel Sports.

Selling expenses for the third quarter decreased by \$1.7 million, or 2.8%, to \$59.2 million compared with the prior year and by 70 basis points as a percentage of revenue. The decrease in the quarter was mainly attributable to reduction on sponsorship costs at Cycling Sports Group ("CSG") and savings due to the decision to exit the apparel business in Dorel Sports. For the nine months, the selling expenses increased by \$2.8 million, or 1.6%, to \$177.0 million, but decreased by 10 basis points as a percentage of revenue. The variation year-to-date is explained mainly by increased marketing activity related to new product launches and people costs to support both Dorel Juvenile's and Dorel Sports' businesses, while selling expenses in Dorel Home remained stable year-over-year.

General and administrative expenses declined in the quarter by \$6.7 million, or 12.4%, to \$47.4 million and by 130 basis points as a percentage of revenue. For the year-to-date, these expenses decreased by \$13.8 million, or 8.6%, to \$146.8 million and by 70 basis points as a percentage of revenue. These decreases were mainly due to lower product liability costs in Dorel Sports and Dorel Home, lower performance-based incentive and cost reductions in response to lower organic revenue at Dorel Juvenile, savings due to the decision to exit the apparel business in Dorel Sports and other cost containment initiatives from previous restructuring activities.

Research and development expenses for the third quarter increased by \$1.0 million, or 11.6%, to \$9.3 million and by 10 basis points as a percentage of revenue. For the nine months, these expenses increased by \$4.3 million, or 18.7%, to \$27.3 million and by 20 basis points as a percentage of revenue, mainly due to higher spending in connection with more on-going new product projects and amortization at Dorel Juvenile.

Impairment loss on trade and other receivables was \$0.2 million for the third quarter of 2018 compared to \$1.5 million in 2017. For the nine months, this impairment loss was \$13.4 million and grew by \$10.0 million compared with the prior year. The year-to-date increase is explained by the impairment loss of \$12.5 million with respect to the trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018, of which \$2.1 million was within Dorel Home, \$3.8 million was within Dorel Juvenile and \$6.6 million was within Dorel Sports. As mentioned above, during the third quarter of 2018, the Bankruptcy Court approved the Toys"R"Us settlement agreement with its creditors and lenders and the Company expects to receive approximately 22 cents on the dollar which is consistent with management's estimate as at June 30, 2018.

For the quarter, the Company reported an operating profit of \$21.6 million compared to \$24.6 million in 2017. Excluding restructuring and other costs, adjusted operating profit decreased by \$3.4 million, or 13.0%, to \$22.8 million. Year-to-date, the Company reported an operating profit of \$19.4 million compared to \$81.4 million in 2017 while excluding impairment loss on intangible assets, restructuring and other costs, the adjusted operating profit decreased by \$30.8 million, or 34.3%, to \$59.0 million. When removing the impairment loss of \$12.5 million with respect to the trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018, the year-to-date adjusted operating profit declined by \$18.3 million. The causes of these variations are discussed as part of the segmented operating review section below.

Details of finance expenses are summarized below:

	Third Quarters Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Change		2018	2017	Change	
	\$	\$	\$	%	\$	\$	\$	%
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	6,619	5,598	1,021	18.2	19,315	17,607	1,708	9.7
Remeasurement of forward purchase agreement liabilities	-	-	-	-	-	276	(276)	(100.0)
Amortization of deferred financing costs	264	436	(172)	(39.4)	798	1,200	(402)	(33.5)
Loss on early extinguishment of long-term debt	-	-	-	-	-	10,199	(10,199)	(100.0)
Other interest	1,371	1,689	(318)	(18.8)	3,911	5,744	(1,833)	(31.9)
TOTAL REPORTED	8,254	7,723	531	6.9	24,024	35,026	(11,002)	(31.4)
Adjustment due to remeasurement of forward purchase agreement liabilities	-	-	-	-	-	(276)	276	100.0
Adjustment due to loss on early extinguishment of long-term debt	-	-	-	-	-	(10,199)	10,199	100.0
TOTAL ADJUSTED	8,254	7,723	531	6.9	24,024	24,551	(527)	(2.1)

Finance expenses increased by \$0.5 million to \$8.3 million during the third quarter and decreased by \$11.0 million to \$24.0 million year-to-date from 2017 periods. The decrease of the 2018 year-to-date finance expenses from 2017 is mainly due to the \$10.2 million loss on early extinguishment of the long-term debt following the prepayments of the Series "B" and "C" Senior Guaranteed Notes and the non-convertible debentures using the net proceeds from the term loan secured on March 24, 2017.

2017 year-to-date finance expenses include the non-cash and non-taxable amounts related to the remeasurement of forward purchase agreement liabilities with respect to the past business acquisition of Caloi which represented for the first quarter of 2017 an expense of \$0.3 million. The remaining forward purchase agreement liability was fully repaid during the first quarter of 2017.

Adjusted finance expenses, which exclude the remeasurement of forward purchase agreement liabilities and the loss on early extinguishment of long-term debt, declined by \$0.5 million to \$24.0 million year-to-date. Other interest expense declined by \$0.3 million for the third quarter and by \$1.8 million year-to-date due to lower average bank indebtedness balances compared to the same periods last year. Interest on long-term debt increased by \$1.0 million during the third quarter and \$1.7 million year-to-date due to higher average long-term debt balances and higher year-to-date average interest rate of 5.0% compared to 4.8% in 2017.

Third quarter income before income taxes was \$13.4 million, a decrease of \$3.5 million from \$16.9 million in 2017. Excluding restructuring and other costs, third quarter adjusted income before income taxes decreased by \$3.9 million to \$14.6 million from \$18.5 million in 2017. For the nine months, the Company reported a loss before income taxes of \$4.6 million in 2018, a decrease of \$51.0 million from an income before income taxes of \$46.4 million in 2017. Excluding impairment loss on intangible assets, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt, year-to-date adjusted income before income taxes declined by \$30.3 million to \$34.9 million in 2018 from \$65.2 million in 2017.

During the third quarter of 2018, the net income was \$9.6 million or \$0.29 per diluted share compared with \$13.3 million or \$0.41 per diluted share in 2017. Excluding restructuring and other costs, adjusted net income for the quarter declined to \$11.0 million compared with \$14.5 million a year ago. During the nine months of 2018, the Company reported a net loss of \$0.4 million or \$0.01 per diluted share versus a net income of \$33.6 million or \$1.03 per diluted share in 2017. Excluding impairment loss on intangible assets, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt, year-to-date adjusted net income was \$29.2 million from \$49.7 million in 2017. Adjusted diluted EPS was \$0.89 for the nine months of 2018 compared with \$1.52 in 2017. The liquidation of Toys"R"Us in the U.S. resulted in a 2018 first quarter impairment loss on trade and other receivables of \$12.5 million (\$9.4 million net of tax), or \$0.29 per diluted share. When also removing the impact of Toys"R"Us, adjusted net income for the nine months of 2018 was \$38.6 million or \$1.18 per diluted share compared to \$49.7 million or \$1.52 per diluted share for the same period of 2017.

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 variations can occur from year-to-year and between quarters within a given year. During the third quarter and nine months ended September 30, 2018, the Company's effective tax rates were 28.2% and 90.4%, respectively versus 21.3% and 27.6% for the same periods in the prior year. Excluding income taxes on restructuring and other costs, the Company's third quarter adjusted tax rate was 24.5% in 2018 and 21.4% in 2017. Excluding income taxes on impairment loss on intangible assets, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt, the adjusted tax rate for the nine months was 16.5% in 2018 versus 23.8% in 2017. Variations in the adjusted tax rate year-over-year for the third quarter and nine months are explained largely due to changes in the jurisdictions in which the Company generated its income, including the impact related to the U.S. Tax Reform signed into law on December 22, 2017, effective as of January 1, 2018. The Company is stating that for the full year it expects its annual adjusted tax rate to be between 20% and 25%. However, variations in earnings across quarters mean that this rate may vary significantly between quarters.

e) Segmented operating review

Segmented figures are presented in Note 16 of the Company's condensed consolidated interim financial statements. Further reporting segment detail is presented below:

Dorel Home

	Third Quarters Ended September 30,						
	2018		2017 ⁽¹⁾		Change		
	\$	% of revenue	\$	% of revenue	\$	%	% of revenue
TOTAL REVENUE	221,627	100.0	201,449	100.0	20,178	10.0	-
Cost of sales	186,783	84.3	166,041	82.4	20,742	12.5	1.9
GROSS PROFIT	34,844	15.7	35,408	17.6	(564)	(1.6)	(1.9)
Selling expenses	6,440	2.9	6,429	3.2	11	0.2	(0.3)
General and administrative expenses	7,783	3.5	7,450	3.7	333	4.5	(0.2)
Research and development expenses	1,115	0.5	983	0.5	132	13.4	-
Impairment loss on trade and other receivables	2	-	9	-	(7)	(77.8)	-
OPERATING PROFIT	19,504	8.8	20,537	10.2	(1,033)	(5.0)	(1.4)

	Nine Months Ended September 30,						
	2018		2017 ⁽¹⁾		Change		
	\$	% of revenue	\$	% of revenue	\$	%	% of revenue
TOTAL REVENUE	595,185	100.0	589,644	100.0	5,541	0.9	-
Cost of sales	495,796	83.3	486,792	82.6	9,004	1.8	0.7
GROSS PROFIT	99,389	16.7	102,852	17.4	(3,463)	(3.4)	(0.7)
Selling expenses	19,263	3.2	19,131	3.2	132	0.7	-
General and administrative expenses	22,147	3.8	23,843	4.0	(1,696)	(7.1)	(0.2)
Research and development expenses	3,248	0.5	2,827	0.5	421	14.9	-
Impairment loss on trade and other receivables	2,054	0.3	34	-	2,020	5,941.2	0.3
OPERATING PROFIT	52,677	8.9	57,017	9.7	(4,340)	(7.6)	(0.8)

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

Dorel Home's third quarter revenue increased by \$20.2 million, or 10.0%, to \$221.6 million compared with \$201.4 million a year ago. For the nine months, Dorel Home's revenue increased by \$5.5 million, or 0.9%, to \$595.2 million. In the third quarter and for the nine months, the e-commerce sales represented 58% and 55% of total segment gross sales compared to 51% and 50% respectively for the comparable periods in 2017, driven by increased sales to on-line retailers and to the direct-to-customers internet business.

Gross profit, at 15.7% in the third quarter and 16.7% year-to-date, decreased by 190 and 70 basis points respectively over last year's third quarter and year-to-date periods, mainly due to higher input costs. Some divisions were slightly affected by overseas finished goods cost increases that have not yet been fully offset by price increases. Warehouse and distribution costs were higher than last year for both the quarter and year-to-date due to the segment's additional overall warehouse footprint and higher wage costs and inventory levels.

Selling, general and administrative and research and development expenses were higher by \$0.5 million, or 3.2%, for the third quarter and were lower by \$1.1 million, or 2.5%, year-to-date compared to the same periods in 2017. The year-to-date decrease is mostly related to lower people costs and product liability costs, offset in part by higher internet promotional and analytical costs.

Impairment loss on trade and other receivables remained comparable to 2017 for the third quarter and grew by \$2.0 million year-to-date. The year-to-date increase is explained by the impairment loss of \$2.1 million with respect to the trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018.

Dorel Home reported operating profit for the quarter of \$19.5 million from \$20.5 million in 2017. This decrease was explained by lower gross profit and increased operating expenses. For the nine months, operating profit declined by \$4.3 million, or 7.6%, to \$52.7 million compared with \$57.0 million in 2017, mainly due to lower gross profit and the impairment loss on trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018 offset by reduced operating expenses.

Dorel Juvenile

Reconciliation of non-GAAP financial measures

	Third Quarters Ended September 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	229,690	100.0	-	229,690	100.0	235,645	100.0	-	235,645	100.0
Cost of sales	171,844	74.8	-	171,844	74.8	166,044	70.5	-	166,044	70.5
GROSS PROFIT	57,846	25.2	-	57,846	25.2	69,601	29.5	-	69,601	29.5
Selling expenses	29,726	12.9	-	29,726	12.9	29,450	12.5	-	29,450	12.5
General and administrative expenses	19,055	8.4	-	19,055	8.4	22,271	9.4	-	22,271	9.4
Research and development expenses	6,987	3.0	-	6,987	3.0	5,876	2.5	-	5,876	2.5
Impairment loss on trade and other receivables	403	0.2	-	403	0.2	649	0.3	-	649	0.3
Restructuring and other costs	637	0.2	(637)	-	-	1,200	0.5	(1,200)	-	-
OPERATING PROFIT	1,038	0.5	637	1,675	0.7	10,155	4.3	1,200	11,355	4.8

	Nine Months Ended September 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	690,462	100.0	-	690,462	100.0	682,363	100.0	-	682,363	100.0
Cost of sales	507,727	73.5	(87)	507,640	73.5	477,747	70.0	(1,294)	476,453	69.8
GROSS PROFIT	182,735	26.5	87	182,822	26.5	204,616	30.0	1,294	205,910	30.2
Selling expenses	89,106	12.9	-	89,106	12.9	86,743	12.7	-	86,743	12.7
General and administrative expenses	60,412	8.8	-	60,412	8.8	66,620	9.8	-	66,620	9.8
Research and development expenses	20,108	2.9	-	20,108	2.9	16,259	2.4	-	16,259	2.4
Impairment loss on trade and other receivables	4,186	0.6	-	4,186	0.6	1,505	0.2	-	1,505	0.2
Restructuring and other costs	3,484	0.5	(3,484)	-	-	6,578	1.0	(6,578)	-	-
Impairment loss on intangible assets	24,193	3.5	(24,193)	-	-	-	-	-	-	-
OPERATING PROFIT (LOSS)	(18,754)	(2.7)	27,764	9,010	1.3	26,911	3.9	7,872	34,783	5.1

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in operating profit (loss) from 2017 to 2018 are summarized as follows:

	Third Quarters Ended September 30,					Nine Months Ended September 30,				
	Change									
	Reported	%	Restructuring and other costs	Adjusted	%	Reported	%	Restructuring and other costs	Adjusted	%
TOTAL REVENUE	(5,955)	(2.5)	-	(5,955)	(2.5)	8,099	1.2	-	8,099	1.2
Cost of sales	5,800	3.5	-	5,800	3.5	29,980	6.3	1,207	31,187	6.5
GROSS PROFIT	(11,755)	(16.9)	-	(11,755)	(16.9)	(21,881)	(10.7)	(1,207)	(23,088)	(11.2)
Selling expenses	276	0.9	-	276	0.9	2,363	2.7	-	2,363	2.7
General and administrative expenses	(3,216)	(14.4)	-	(3,216)	(14.4)	(6,208)	(9.3)	-	(6,208)	(9.3)
Research and development expenses	1,111	18.9	-	1,111	18.9	3,849	23.7	-	3,849	23.7
Impairment loss on trade and other receivables	(246)	(37.9)	-	(246)	(37.9)	2,681	178.1	-	2,681	178.1
Restructuring and other costs	(563)	(46.9)	563	-	-	(3,094)	(47.0)	3,094	-	-
Impairment loss on intangible assets	-	-	-	-	-	24,193	100.0	(24,193)	-	-
OPERATING PROFIT (LOSS)	(9,117)	(89.8)	(563)	(9,680)	(85.2)	(45,665)	(169.7)	19,892	(25,773)	(74.1)

Dorel Juvenile's third quarter revenue decreased by \$6.0 million, or 2.5%, to \$229.7 million, caused mainly by less favourable foreign exchange rates as the organic revenue decrease was only approximately 0.4%. Alternately, revenue for the nine months increased by \$8.1 million, or 1.2%, to \$690.5 million versus the prior year's \$682.4 million, as year-to-date foreign exchange rates have been more favourable. Excluding the impact of varying foreign exchange rates year-over-year, the year-to-date organic revenue decline was approximately 1.0%.

Dorel Juvenile U.S. sales improved by 5% in the quarter and by 8% year-to-date. Point-of-sales growth was strong again, but a major customer reduced orders to lower on-hand inventory causing the slower growth in the quarter. Sales improvements continued at major customers as they benefitted from the absence of Toys“R”Us stores. Both these positive trends should continue through the balance of the year. New product launches in Brazil combined with price increases, contributed more than 30% revenue growth for both the quarter and year-to-date, though in US dollar terms, this growth equates to 5% for the quarter and 17% for the year-to-date.

Sales in Europe in US dollar terms were down 2% for the quarter and up 1% for the year-to-date as several new market introductions are slowly gaining traction. These new products include strollers and multiple-age car seats under the Maxi-Cosi brand. Sales of single age car seats are slowing as multiple-age models grow in popularity. Dorel Juvenile Europe has begun shipping new items in this space, with several more in the product pipeline for 2019. In Chile, the business is continuing to be re-shaped to meet local challenges, but revenues in local currency were below prior year for both the quarter and year-to-date by over 10%.

Third quarter and year-to-date gross profit was 25.2% and 26.5% respectively, and adjusted gross profit for both periods was the same when excluding restructuring and other costs. This represented declines of 430 basis points in the quarter and 350 basis points year-to-date. On an adjusted basis, the declines were 430 basis points for the quarter and 370 basis points year-to-date. The decrease in gross profit was the largest contributor to the lower operating profit, as virtually all markets faced pressure on input costs, such as resin and less favourable foreign exchange rates which impacted US dollar denominated input costs. In Europe, car seat competition and market trends have forced price reductions to minimize sales shortfalls in this category. In Chile, price discounting continued to reduce inventories and certain categories are being exited as that business continues to focus on profitable growth opportunities. The steady increase in the value of the US dollar and higher input costs have forced several markets to raise prices, the benefit of which will only be realized late in the fourth quarter and into 2019.

Selling expenses in the third quarter increased slightly by \$0.3 million, or 0.9%, and by 0.4% as a percentage of revenue. For the nine months, selling expenses increased by \$2.4 million, or 2.7%, and by 0.2% as a percentage of revenue. The increase in dollars for the nine months is explained mainly by the impact of the foreign exchange rate variations year-over-year during the first quarter.

General and administrative expenses decreased by \$3.2 million, or 14.4%, during the quarter and by 1.0% as a percentage of revenue and for the nine months, decreased by \$6.2 million, or 9.3%, and by 1.0% as a percentage of revenue. These reductions are mainly from lower performance-based incentive and cost reductions in response to lower organic revenue.

Research and development expenses increased by \$1.1 million, or 18.9%, in the quarter and by \$3.8 million, or 23.7%, year-to-date due to more on-going new product projects resulting in higher spending and amortization.

The impairment loss on trade and other receivables was \$0.4 million for the third quarter of 2018 compared to \$0.6 million in 2017. Year-to-date, the impairment loss was \$4.2 million in 2018 compared to \$1.5 million last year. The year-to-date increase is mainly explained by the impairment loss of \$3.8 million with respect to the trade accounts receivable from Toys“R”Us U.S. recorded in the first quarter of 2018.

Operating profit decreased by \$9.1 million to \$1.0 million during the third quarter of 2018. Excluding restructuring and other costs, adjusted operating profit decreased by \$9.7 million to \$1.7 million from \$11.4 million in 2017 due to lower revenue and lower gross profit partially offset by overall lower operating expenses as detailed above. Year-to-date operating profit declined by \$45.7 million to an operating loss of \$18.8 million, while adjusted operating profit declined by \$25.8 million to \$9.0 million from \$34.8 million in the same period of 2017. When excluding the impairment loss on trade accounts receivable from Toys“R”Us U.S. recorded in the first quarter of 2018, year-to-date adjusted operating profit was \$12.8 million compared to \$34.8 million last year which is mainly explained by the decrease of 370 basis points in adjusted gross profit as explained above.

Dorel Sports

Reconciliation of non-GAAP financial measures

	Third Quarters Ended September 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	219,120	100.0	-	219,120	100.0	205,540	100.0	-	205,540	100.0
Cost of sales	172,976	78.9	(100)	172,876	78.9	159,717	77.7	(253)	159,464	77.6
GROSS PROFIT	46,144	21.1	100	46,244	21.1	45,823	22.3	253	46,076	22.4
Selling expenses	22,834	10.4	-	22,834	10.4	24,644	12.0	-	24,644	12.0
General and administrative expenses	14,846	6.9	-	14,846	6.9	18,540	9.0	-	18,540	9.0
Research and development expenses	1,174	0.5	-	1,174	0.5	1,450	0.7	-	1,450	0.7
Impairment loss on trade and other receivables (reversal)	(159)	(0.1)	-	(159)	(0.1)	855	0.4	-	855	0.4
Restructuring and other costs	456	0.2	(456)	-	-	158	0.1	(158)	-	-
OPERATING PROFIT	6,993	3.2	556	7,549	3.4	176	0.1	411	587	0.3

	Nine Months Ended September 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	650,320	100.0	-	650,320	100.0	628,609	100.0	-	628,609	100.0
Cost of sales	510,699	78.5	(1,684)	509,015	78.3	485,774	77.3	596	486,370	77.4
GROSS PROFIT	139,621	21.5	1,684	141,305	21.7	142,835	22.7	(596)	142,239	22.6
Selling expenses	67,920	10.4	-	67,920	10.4	67,047	10.7	-	67,047	10.7
General and administrative expenses	47,507	7.3	-	47,507	7.3	53,712	8.5	-	53,712	8.5
Research and development expenses	3,981	0.6	-	3,981	0.6	3,940	0.6	-	3,940	0.6
Impairment loss on trade and other receivables	7,167	1.1	-	7,167	1.1	1,820	0.3	-	1,820	0.3
Restructuring and other costs	10,109	1.6	(10,109)	-	-	1,098	0.2	(1,098)	-	-
OPERATING PROFIT	2,937	0.5	11,793	14,730	2.3	15,218	2.4	502	15,720	2.5

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in operating profit from 2017 to 2018 are summarized as follows:

	Third Quarters Ended September 30,					Nine Months Ended September 30,				
	Change									
	Reported	Restructuring and other costs	Adjusted	Reported	Restructuring and other costs	Adjusted				
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	13,580	6.6	-	13,580	6.6	21,711	3.5	-	21,711	3.5
Cost of sales	13,259	8.3	153	13,412	8.4	24,925	5.1	(2,280)	22,645	4.7
GROSS PROFIT	321	0.7	(153)	168	0.4	(3,214)	(2.3)	2,280	(934)	(0.7)
Selling expenses	(1,810)	(7.3)	-	(1,810)	(7.3)	873	1.3	-	873	1.3
General and administrative expenses	(3,694)	(19.9)	-	(3,694)	(19.9)	(6,205)	(11.6)	-	(6,205)	(11.6)
Research and development expenses	(276)	(19.0)	-	(276)	(19.0)	41	1.0	-	41	1.0
Impairment loss on trade and other receivables	(1,014)	(118.6)	-	(1,014)	(118.6)	5,347	293.8	-	5,347	293.8
Restructuring and other costs	298	188.6	(298)	-	-	9,011	820.7	(9,011)	-	-
OPERATING PROFIT	6,817	3,873.3	145	6,962	1,186.0	(12,281)	(80.7)	11,291	(990)	(6.3)

For the third quarter of 2018, Dorel Sports' revenue increased by \$13.6 million, or 6.6%, to \$219.1 million from \$205.5 million and by approximately 9.6% after removing the impact of varying foreign exchange rates year-over-year. Revenue for the nine months of 2018 increased by \$21.7 million, or 3.5%, to \$650.3 million compared to \$628.6 million a year ago and by approximately 3.2% after removing the impact of varying foreign exchange rates year-over-year. Organic revenue increased by approximately 11.8% for the quarter and by approximately 3.9% year-to-date when removing foreign exchange fluctuations and the divestment of the performance apparel line of business (SUGOI) in the second quarter of 2018. All the divisions have contributed to the organic revenue increase. The U.S. independent bike dealers channel had a solid third quarter finish on the heels of strong momentum created at the annual August sales meeting as dealers responded positively to the brand strategy outlined. Pacific Cycle experienced a third quarter double-digit revenue increase driven by the retailers building inventory in advance of the busy holiday season. Other drivers of the Pacific Cycle growth included improved parts and accessories shipments, continued growth in Mongoose scooter sales and strong sales of battery powered ride-ons including the new innovative interactive Rideamals. Additional ride-ons introductions offset the earlier loss of the Toys"R"Us U.S. business. Caloi posted strong organic revenue growth in the quarter, although it declined in reported currency due to unfavourable foreign exchange. This organic revenue growth was driven by price increases implemented to offset rising inflationary costs and new product innovation. These explanations for the third quarter on the increased revenue are also valid for the year-to-date figures.

During the third quarter, gross profit declined by 120 basis points to 21.1% from 22.3% in 2017 and when excluding restructuring and other costs, adjusted gross profit declined by 130 basis points to 21.1% from 22.4% in 2017. The primary drivers of the margin compression were increased input costs at Pacific Cycle, discounting at CSG with the arrival of the 2019 model year inventory, increased material costs related to the weakened Brazilian Real at Caloi combined with a less favourable sales mix at all divisions.

On a year-to-date basis, gross profit declined by 120 basis points to 21.5% from 22.7% in 2017 and when excluding restructuring and other costs, adjusted gross profit declined by 90 basis points to 21.7% from 22.6% reported in the nine months of 2017. The year-to-date decline is explained by the same items as the third quarter mentioned earlier.

Selling expenses in the third quarter decreased by \$1.8 million, or 7.3%, and by 1.6% as a percentage of revenue. This was mainly attributable to reduction on sponsorship costs at CSG, savings due to the decision to exit the apparel business partly offset by higher sales commission at Pacific Cycle in line with sales growth. For the nine months, selling expenses increased by \$0.9 million, or 1.3%, and decreased by 0.3% as a percentage of revenue.

General and administrative expenses decreased by \$3.7 million, or 19.9%, during the quarter and by 2.1% as a percentage of revenue and for the nine months, decreased by \$6.2 million, or 11.6%, and by 1.2% as a percentage of revenue. These reductions are mainly from lower product liability costs, savings due to the decision to exit the apparel business and other cost containment initiatives from previous restructuring activities.

Research and development expenses decreased by \$0.3 million, or by 0.2% as a percentage of revenue, in the quarter. These expenses remained comparable to prior year on a year-to-date basis.

The reversal of impairment loss on trade and other receivables was \$0.2 million for the third quarter of 2018 compared to an impairment loss of \$0.9 million in 2017. Year-to-date, the impairment loss was \$7.2 million in 2018 compared to \$1.8 million in 2017, mainly explained by the impairment loss of \$6.6 million with respect to the trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018.

Operating profit increased by \$6.8 million during the third quarter to \$7.0 million compared to \$0.2 million in 2017. When excluding restructuring and other costs, adjusted operating profit rose by \$7.0 million to \$7.5 million, mainly explained by strong revenue growth, cost reduction due to the performance apparel line of business divestment and other cost containment initiatives partly offset by the adjusted gross profit decrease of 130 basis points. Year-to-date, the segment reported an operating profit of \$2.9 million compared to \$15.2 million last year mainly due to the restructuring costs related to the divestment of the performance apparel line of business in the second quarter of 2018. When excluding restructuring and other costs, adjusted operating profit was \$14.7 million compared to \$15.7 million in 2017. When excluding the impairment loss on the trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018, adjusted operating profit for the nine months was \$21.3 million compared to \$15.7 million last year which is mainly explained by higher revenue, reduced general and administrative expenses mentioned above offset by adjusted gross profit which decreased by 90 basis points.

3. LIQUIDITY AND CAPITAL RESOURCES

a) Statements of Financial Position

Certain of the Company's ratios are as follows:

	As at:		
	Sep. 30, 2018	Dec. 30, 2017	Sep. 30, 2017
Debt* to equity	0.47	0.46	0.44
# of days in receivables	59	60	57
# of days in inventory	107	110	121
# of days in payables	74	67	75

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

The net working capital position decreased by 11 days to 92 days as at September 30, 2018 compared to 103 days as at September 30, 2017, principally due to the lower level of inventory, as inventories as at September 30, 2018 decreased by \$50.1 million, or 7.8%, to \$595.5 million from \$645.6 million as at September 30, 2017. The decrease is mainly explained by an overall higher inventories balance as at September 30, 2017 in order to support Dorel Home's growth in the e-commerce market, which required higher inventory levels. The overall inventories and related inventory ratio as at September 30, 2018 are consistent with December 30, 2017, in line with historical trend. The net working capital position also decreased by 11 days to 92 days as at September 30, 2018 compared to 103 days as at December 30, 2017, principally due to the overall higher payable levels due to timing of payments to suppliers.

The increase in the debt to equity ratio as at September 30, 2018 from September 30, 2017 is explained by a lower equity level, as the debt levels were comparable for both periods.

As at September 30, 2018, the USD denominated term loan as well as the revolving bank loans are secured by certain of the Company's trade accounts receivable, inventories, property, plant and equipment and intangible assets, with a carrying value of \$263.2 million, \$416.6 million, \$80.9 million and \$81.5 million, respectively.

Under the terms of its financing agreements, Dorel is required to meet certain financial covenants. As at September 30, 2018, Dorel was compliant with all of its borrowing covenant requirements.

The Company's \$120.0 million convertible debentures are coming to maturity in November 2019. In addition to discussing refinancing alternatives related to the \$120.0 million convertible debentures, management is currently looking at refinancing alternatives in order to explore the optimal debt structure to service Dorel's current and future borrowing needs.

b) Statements of Cash Flows

For the third quarter of 2018, cash provided by operating activities was \$31.2 million, comparable to the third quarter of 2017. During the nine months of 2018, cash provided by operating activities increased by \$35.2 million to \$76.9 million compared to \$41.7 million a year ago, mainly due to lower inventory levels, the timing of payments to suppliers, an increase in cash received from customers in advance as well as the product liability costs payments in 2017 partly offset by the timing of collection of trade accounts receivable.

During the third quarter of 2018, cash used in financing activities increased by \$16.3 million and by \$24.7 million during the nine months of 2018 when compared to 2017. The third quarter increase is due to higher repayments of long-term debt partly offset by higher increase in bank indebtedness. For the nine months, the increase is due to higher net debt repayments of long-term debt and lower increase in bank indebtedness while no repayments of forward purchase agreement liabilities were made in 2018.

Net additions to property, plant and equipment and intangible assets were \$12.2 million for the third quarter of 2018 compared to \$15.6 million in 2017, a decrease of \$3.4 million. Net additions to property, plant and equipment and

intangible assets were \$39.4 million for the nine months ended September 30, 2018 compared to \$38.4 million in 2017, an increase of \$1.0 million. The rest of the year-to-date increase in cash used in investing activities is explained by the net proceeds from disposals of assets held for sale in Dorel Juvenile China of \$15.0 million in 2017 compared to nil in 2018.

As a result of the above, bank indebtedness plus long-term debt less cash and cash equivalents decreased by \$9.2 million from June 30, 2018 to September 30, 2018 and by \$13.3 million from December 30, 2017 to September 30, 2018.

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in the condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ended December 30, 2017.

The Company has initially adopted IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments*, as at December 31, 2017. The Company has also adopted amendments to IFRS 2, *Classification and Measurement of Share-Based Payment Transactions* and IFRIC 23, *Uncertainty over Income Tax Treatments*, on December 31, 2017.

Further information can be found in Note 3 of the March 31, 2018 and September 30, 2018 condensed consolidated interim financial statements.

5. 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 IFRS Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the nine months ended September 30, 2018 and have not been applied in preparing the condensed consolidated interim financial statements. The following standards and amendments to 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:

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement
IFRS 16 – Leases

Further information on these modifications can be found in Note 4 of the September 30, 2018 condensed consolidated interim financial statements.

6. OTHER INFORMATION

The designation, number and amount of each class and series of the Company's shares outstanding as at October 31, 2018 are as follows:

- An unlimited number of preferred shares without nominal or par value, issuable in series and fully paid;
- 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)
4,188,975	1,768	28,250,214	201,545	203,313

Outstanding Deferred Share Units are disclosed in Note 12 to the Company's condensed consolidated interim financial statements. The Company also has cash-settled Restricted Share Units ("RSUs"), cash-settled Share Appreciation Rights and cash-settled Performance Share Units ("PSUs") as described in Note 12 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.

7. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has selected a global lease accounting software to gather its lease information and to quantify the required components of IFRS 16. The Company is currently in the process of implementing this lease accounting software throughout its locations, and developing new reports to capture information required for presentation and disclosure under IFRS 16. Accordingly, internal controls processes and procedures will be put in place and updated in order to ensure proper internal controls over financial reporting, and disclosure controls and procedures will be updated to capture information required for presentation and disclosure under IFRS 16.

During the third quarter ended September 30, 2018, the Company has made no other change that has materially affected or is likely to materially affect the Company's internal controls over financial reporting.

8. 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 risk resulting from the liquidation and reorganization of Toys"R"Us referred to in this MD&A and the concentration of revenues with a small number of 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 current dividend policy will be maintained. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking statements are discussed in the Company's annual MD&A and Annual Information Form filed with the applicable Canadian securities regulatory authorities. The risk factors outlined in the previously-mentioned documents are specifically incorporated herein by reference.

The Company cautions readers that the risks described above are not the only ones that could impact it. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial may also have a material adverse effect on 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.