DOREL

SECOND QUARTERLY REPORT

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

For the second quarter and six months ended June 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 second quarter and six months ended June 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 August 3, 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 has determined that an amount of $17.3 million of trade accounts receivable from this customer as at June 30, 2018 is at risk of collection ($7.6 million as at December 30, 2017). Accordingly, the Company has 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) is within Dorel Home, $3.8 million (fourth quarter ended December 30, 2017 – $0.7 million) is within Dorel Juvenile and $6.6 million (fourth quarter ended December 30, 2017 – $3.1 million) is within Dorel Sports. These amounts represent management’s current best estimate of potential losses arising from non-payment based on information available to date; the actual loss incurred may differ from these amounts. The maximum credit risk to which the Company is exposed as at June 30, 2018 represents the total value of the trade accounts receivable.

As at June 30, 2018, in total, the Company has trade accounts receivable from Toys“R”Us U.S. amounting to $4.9 million (net of impairment loss allowance including the impairment loss referred to above). This represents $0.7 million within Dorel Home, $1.4 million within Dorel Juvenile and $2.8 million within Dorel Sports. The Company will continue to carefully monitor the Toys“R”Us situation as it unfolds, and will revise its estimated impairment loss allowance and record any required allowance adjustment in its 2018 quarterly consolidated financial statements.

As Dorel Juvenile – Latin America’s business continues 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 in the second quarter of 2018 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, $11.2 million was recorded in the second quarter of 2018 as restructuring costs.

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 loss on goodwill and intangibles 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

	Second Quarters Ended June 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	**623,244**	100.0	-	**623,244**	100.0	**611,270**	100.0	-	**611,270**	100.0
Cost of sales	**488,901**	78.4	(1,671)	**487,230**	78.2	**465,244**	76.1	(172)	**465,072**	76.1
GROSS PROFIT	**134,343**	21.6	1,671	**136,014**	21.8	**146,026**	23.9	172	**146,198**	23.9
Selling expenses	**58,825**	9.4	-	**58,825**	9.4	**58,616**	9.6	-	**58,616**	9.6
General and administrative expenses	**46,190**	7.4	-	**46,190**	7.4	**55,036**	9.0	-	**55,036**	9.0
Research and development expenses	**8,637**	1.4	-	**8,637**	1.4	**7,194**	1.2	-	**7,194**	1.2
Impairment loss on trade and other receivables	**132**	-	-	**132**	-	**858**	0.1	-	**858**	0.1
Restructuring and other costs	**11,408**	1.8	(11,408)	**-**	-	**1,485**	0.2	(1,485)	**-**	-
Impairment loss on intangible assets	**24,193**	4.0	(24,193)	**-**	-	**-**	-	-	**-**	-
OPERATING PROFIT (LOSS)	**(15,042)**	(2.4)	37,272	**22,230**	3.6	**22,837**	3.8	1,657	**24,494**	4.0
Finance expenses	**8,009**	1.3	-	**8,009**	1.3	**7,115**	1.2	-	**7,115**	1.2
INCOME (LOSS) BEFORE INCOME TAXES	**(23,051)**	(3.7)	37,272	**14,221**	2.3	**15,722**	2.6	1,657	**17,379**	2.8
Income taxes expense (recovery)	**(8,283)**	(1.3)	9,848	**1,565**	0.3	**4,282**	0.7	653	**4,935**	0.8
Tax rate	***35.9%***			***11.0%***		***27.2%***			***28.4%***	
NET INCOME (LOSS)	**(14,768)**	(2.4)	27,424	**12,656**	2.0	**11,440**	1.9	1,004	**12,444**	2.0
EARNINGS (LOSS) PER SHARE										
Basic	**(0.46)**		0.85	**0.39**		**0.35**		0.03	**0.38**	
Diluted	**(0.46)**		0.85	**0.39**		**0.35**		0.03	**0.38**	
SHARES OUTSTANDING										
Basic - weighted average	**32,438,446**			**32,438,446**		**32,403,980**			**32,403,980**	
Diluted - weighted average	**32,438,446**			**32,721,216**		**32,677,845**			**32,677,845**	

[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:

	Second Quarters Ended June 30,		
	Change		
	Reported	Impairment loss on intangible assets, restructuring and other costs	**Adjusted**
	$	$	**$**
Dorel Home increase	**191**	-	**191**
Dorel Juvenile (decrease)	**(29,587)**	25,111	**(4,476)**
Dorel Sports (decrease) increase	**(8,210)**	10,504	**2,294**
OPERATING PROFIT (DECREASE)	**(37,606)**	35,615	**(1,991)**
(Increase) in finance expenses	**(894)**	-	**(894)**
(Increase) in corporate expenses	**(273)**	-	**(273)**
Decrease in income taxes expense	**12,565**	(9,195)	**3,370**
NET INCOME (DECREASE) INCREASE	**(26,208)**	26,420	**212**

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

Reconciliation of non-GAAP financial measures

	Six Months Ended June 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	**1,265,530**	100.0	-	**1,265,530**	100.0	**1,257,982**	100.0	-	**1,257,982**	100.0
Cost of sales	**982,619**	77.6	(1,671)	**980,948**	77.5	**958,511**	76.2	(445)	**958,066**	76.2
GROSS PROFIT	**282,911**	22.4	1,671	**284,582**	22.5	**299,471**	23.8	445	**299,916**	23.8
Selling expenses	**117,788**	9.3	-	**117,788**	9.3	**113,278**	9.0	-	**113,278**	9.0
General and administrative expenses	**99,410**	7.9	-	**99,410**	7.9	**106,542**	8.4	-	**106,542**	8.4
Research and development expenses	**18,061**	1.4	-	**18,061**	1.4	**14,717**	1.2	-	**14,717**	1.2
Impairment loss on trade and other receivables	**13,161**	1.0	-	**13,161**	1.0	**1,846**	0.1	-	**1,846**	0.1
Restructuring and other costs	**12,500**	1.0	(12,500)	**-**	-	**6,318**	0.6	(6,318)	**-**	-
Impairment loss on intangible assets	**24,193**	2.0	(24,193)	**-**	-	**-**	-	-	**-**	-
OPERATING PROFIT (LOSS)	**(2,202)**	(0.2)	38,364	**36,162**	2.9	**56,770**	4.5	6,763	**63,533**	5.1
Finance expenses	**15,770**	1.2	-	**15,770**	1.2	**27,303**	2.2	(10,475)	**16,828**	1.4
INCOME (LOSS) BEFORE INCOME TAXES	**(17,972)**	(1.4)	38,364	**20,392**	1.7	**29,467**	2.3	17,238	**46,705**	3.7
Income taxes expense (recovery)	**(7,933)**	(0.6)	10,127	**2,194**	0.3	**9,186**	0.7	2,370	**11,556**	0.9
Tax rate	***44.1%***			***10.8%***		***31.2%***			***24.7%***	
NET INCOME (LOSS)	**(10,039)**	(0.8)	28,237	**18,198**	1.4	**20,281**	1.6	14,868	**35,149**	2.8
EARNINGS (LOSS) PER SHARE										
Basic	**(0.31)**		0.87	**0.56**		**0.63**		0.45	**1.08**	
Diluted	**(0.31)**		0.87	**0.56**		**0.62**		0.46	**1.08**	
SHARES OUTSTANDING										
Basic - weighted average	**32,438,446**			**32,438,446**		**32,403,980**			**32,403,980**	
Diluted - weighted average	**32,438,446**			**32,706,551**		**32,675,600**			**32,675,600**	

[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:

	Six Months Ended June 30,		
	Change		
	Reported	Impairment loss on intangible assets, restructuring and other costs	Adjusted
	$	$	**$**
Dorel Home (decrease)	**(3,307)**	-	**(3,307)**
Dorel Juvenile (decrease)	**(36,548)**	20,455	**(16,093)**
Dorel Sports (decrease)	**(19,098)**	11,146	**(7,952)**
OPERATING PROFIT (DECREASE)	**(58,953)**	31,601	**(27,352)**
Decrease in finance expenses other than the remeasurement of forward purchase agreement liabilities and the loss on early extinguishment of long-term debt	**1,058**	-	**1,058**
Decrease in remeasurement of forward purchase agreement liabilities	**276**	(276)	**-**
Decrease in loss on early extinguishment of long-term debt	**10,199**	(10,199)	**-**
(Increase) in corporate expenses	**(19)**	-	**(19)**
Decrease in income taxes expense	**17,119**	(7,757)	**9,362**
NET INCOME (DECREASE)	**(30,320)**	13,369	**(16,951)**

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:

	Second Quarters Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	$	$	$	$
Write-down of long-lived assets (reversal)	-	(149)	-	368
Inventory markdowns	1,671	321	1,671	228
Recorded within gross profit	**1,671**	**172**	**1,671**	**596**
Employee severance and termination benefits	2,330	913	3,422	3,400
Write-down of long-lived assets	7,962	-	7,962	-
Net losses (gains) from the remeasurement and disposals of assets held for sale	-	(90)	-	622
Other associated costs	1,116	662	1,116	2,296
Recorded within a separate line in the condensed consolidated interim income statements	**11,408**	**1,485**	**12,500**	**6,318**
Total restructuring costs	**13,079**	**1,657**	**14,171**	**6,914**
Other costs recorded within gross profit	-	-	-	(151)
Total other costs	**-**	**-**	**-**	**(151)**
Total restructuring and other costs	**13,079**	**1,657**	**14,171**	**6,763**
Impairment loss on intangible assets	**24,193**	**-**	**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)	**37,272**	**1,657**	**38,364**	**17,238**
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	**27,424**	**1,004**	**28,237**	**14,868**
Total impact on diluted earnings (loss) per share	**(0.85)**	**(0.03)**	**(0.87)**	**(0.46)**
(1) Includes non-cash amounts of:	**33,458**	**82**	**33,458**	**2,911**

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 continues 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 six months ended June 30, 2018, the Company recorded total expenses of $14.2 million (2017 – $6.9 million) with respect to restructuring costs, of which $1.7 million (2017 – $0.6 million) were recorded within gross profit and $12.5 million (2017 – $6.3 million) were recorded as restructuring costs as a separate line within the condensed consolidated interim income statements.

Dorel Juvenile segment

For the second quarter and for the six months ended June 30, 2018, Dorel Juvenile segment recorded restructuring costs of $1.8 million and $2.9 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 $39.3 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, $21.7 million of employee severance and termination benefits and $4.9 million of other associated costs. Of the $39.3 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 $2.9 million was recorded in 2018. The estimate of future charges of $0.4 million consist of reductions in people costs mainly related to further streamlining of the China-based manufacturing 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 has sold the SUGOI and Sombrio brands. As a result of the sale of the performance apparel line of business, $11.2 million was recorded in 2018 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]	
	Jun. 30	Mar. 31	Dec. 30	Sep. 30	Jun. 30	Mar. 31	Dec. 30	Sep. 30
	$	$	$	$	$	$	$	$
Total revenue	623,244	642,286	677,052	642,634	611,270	646,712	648,749	671,273
Net income (loss)	(14,768)	4,729	(6,134)	13,294	11,440	8,841	(5,567)	15,866
Per share - Basic	(0.46)	0.15	(0.19)	0.41	0.35	0.27	(0.17)	0.49
Per share - Diluted	(0.46)	0.14	(0.19)	0.41	0.35	0.27	(0.17)	0.49
Adjusted net income	12,656	5,542	17,268	14,538	12,444	22,705	7,740	20,647
Per share - Basic	0.39	0.17	0.53	0.45	0.38	0.70	0.24	0.64
Per share - Diluted	0.39	0.17	0.53	0.44	0.38	0.69 [2]	0.24	0.63
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	(0.85)	(0.03)	(0.72)	(0.03)	(0.03)	(0.42)	(0.41)	(0.14)

(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 others 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 others 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 impairment loss on intangible assets and restructuring and others 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 second quarter of 2018, Dorel's revenue increased by $12.0 million, or 2.0%, to $623.2 million. Organic revenue rose by approximately 0.8% after removing the variation of foreign exchange rates year-over-year. This revenue growth is in Dorel Sports, generated mainly by Cycling Sports Group ("CSG") and Caloi due to recent product launches and the gradual improvement in the Brazilian economy. This growth was offset by lower sales in Dorel Juvenile's European and Chilean markets partially offset by double digit improvements in Dorel Juvenile U.S. market despite the Toys"R"Us disruption. Dorel Home's revenue through the e-commerce channel grew to represent 55% of total segment gross sales; this improvement was offset by declines in the brick and mortar channel as well as the impact of the Toys"R"Us liquidation on this quarter's shipments.

For the six months, Dorel's revenue increased by $7.5 million, or 0.6%, to $1,265.5 million compared to $1,258.0 million recorded a year ago. Organic revenue declined by approximately 1.5% after removing the variation of foreign exchange rates year-over-year. 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 230 basis points to 21.6% compared to 23.9% in the second quarter of 2017, and by 140 basis points to 22.4% year-to-date compared to 23.8% in 2017. Adjusted gross profit was 21.8% for the quarter and was 22.5% year-to-date representing a decline of 210 and 130 basis points respectively. These declines were across all three segments. Dorel Sports decline was driven mainly by increased product costs at Pacific Cycle, customer mix and discounting at CSG. Gross profit declined in Dorel Home due to product mix and higher input costs while Dorel Juvenile's gross profit declined due to lower sales volumes principally in Europe and Chile and higher commodity price at the Dorel Juvenile China factory.

Selling expenses for the second quarter were comparable with the prior year and decreased by 20 basis points as a percentage of revenue. For the six months, the selling expenses increased by $4.5 million, or 4.0%, to $117.8 million and by 30 basis points as a percentage of revenue. The variation for the six months 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 $8.8 million, or 16.1%, to $46.2 million and by 160 basis points as a percentage of revenue. For the year-to-date, these expenses decreased by $7.1 million, or 6.7%, to $99.4 million and by 50 basis points as a percentage of revenue. These decreases were mainly due to lower product liability costs in Dorel Sports and Dorel Home and lower performance-based incentive and cost reductions in response to lower organic revenue at Dorel Juvenile.

Research and development expenses increased by $1.4 million, or 20.1%, to $8.6 million for the quarter and by $3.3 million, or 22.7%, to $18.1 million for the six months. This represents for both the quarter and year-to-date an increase of 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 $0.1 million for the second quarter of 2018 compared to $0.9 million in 2017. For the six months, this impairment loss was $13.2 million and grew by $11.3 million. 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 is within Dorel Home, $3.8 million is within Dorel Juvenile and $6.6 million is within Dorel Sports.

For the quarter, the Company reported an operating loss of $15.0 million compared to an operating profit of $22.8 million in 2017. Excluding impairment loss on intangible assets, restructuring and other costs, adjusted operating profit decreased by $2.3 million, or 9.2%, to $22.2 million from $24.5 million in the comparable quarter. Year-to-date, the Company reported an operating loss of $2.2 million compared to an operating profit of $56.8 million in 2017 while the adjusted operating profit decreased by $27.4 million, or 43.1%, to $36.2 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 $14.9 million. The causes of these variations are discussed as part of the segmented operating review section below.

Details of finance expenses are summarized below:

	Second Quarters Ended June 30,				Six Months Ended June 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	**6,584**	5,284	1,300	24.6	**12,696**	12,009	687	5.7
Remeasurement of forward purchase agreement liabilities	**-**	-	-	-	**-**	276	(276)	(100.0)
Amortization of deferred financing costs	**266**	433	(167)	(38.6)	**534**	764	(230)	(30.1)
Loss on early extinguishment of long-term debt	**-**	-	-	-	**-**	10,199	(10,199)	(100.0)
Other interest	**1,159**	1,398	(239)	(17.1)	**2,540**	4,055	(1,515)	(37.4)
TOTAL REPORTED	**8,009**	7,115	894	12.6	**15,770**	27,303	(11,533)	(42.2)
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	**8,009**	7,115	894	12.6	**15,770**	16,828	(1,058)	(6.3)

Finance expenses increased by $0.9 million to $8.0 million during the second quarter and decreased by $11.5 million to $15.8 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 $1.1 million to $15.8 million year-to-date. Other interest expense declined by $0.2 million for the second quarter and by $1.5 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 $1.3 million during the second quarter and $0.7 million year-to-date due to higher average long-term debt balances.

Second quarter loss before income taxes was $23.1 million, a decrease of $38.8 million from an income before income taxes of $15.7 million in 2017. Excluding impairment loss on intangible assets, restructuring and other costs, second quarter adjusted income before income taxes decreased by $3.2 million to $14.2 million from $17.4 million in 2017. For the six months, the Company reported a loss before income taxes of $18.0 million in 2018, a decrease of $47.4 million. Year-to-date adjusted income before income taxes declined by $26.3 million to $20.4 million in 2018.

During the second quarter of 2018, the net loss was $14.8 million or $0.46 per diluted share compared with a net income of $11.4 million or $0.35 per diluted share in 2017. Excluding impairment loss on intangible assets, restructuring and other costs, adjusted net income for the quarter increased to $12.7 million compared with $12.4 million a year ago. During the six months of 2018, the Company reported a net loss of $10.0 million or $0.31 per diluted share versus a net income of $20.3 million or $0.62 per diluted share in 2017. Year-to-date adjusted net income was $18.2 million from the $35.1 million in 2017. Adjusted diluted EPS was $0.56 for the six months of 2018 compared with $1.08 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 six months of 2018 was $27.6 million or $0.85 per diluted share compared to $35.1 million or $1.08 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 second quarter and six months ended June 30, 2018, the Company’s effective tax rates were 35.9% and 44.1%, respectively versus 27.2% and 31.2% for the same periods in the prior year.

Excluding income taxes on impairment loss on intangible assets and restructuring and other costs, the Company's second quarter adjusted tax rate was 11.0% in 2018 and 28.4% 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 six months was 10.8% in 2018 versus 24.7% in 2017. Variations in the adjusted tax rate year-over-year for the second quarter and six 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 which reduces the U.S. federal corporate income tax rate from 35% to 21%, 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

	Second Quarters Ended June 30,						
	2018		**2017(1)**		**Change**		
	$	% of revenue	**$**	% of revenue	**$**	%	% of revenue
TOTAL REVENUE	**181,296**	100.0	**184,157**	100.0	**(2,861)**	(1.6)	-
Cost of sales	**150,744**	83.1	**151,285**	82.2	**(541)**	(0.4)	0.9
GROSS PROFIT	**30,552**	16.9	**32,872**	17.8	**(2,320)**	(7.1)	(0.9)
Selling expenses	**6,502**	3.6	**6,553**	3.6	**(51)**	(0.8)	-
General and administrative expenses	**6,065**	3.4	**8,688**	4.6	**(2,623)**	(30.2)	(1.2)
Research and development expenses	**1,046**	0.6	**932**	0.5	**114**	12.2	0.1
Impairment loss on trade and other receivables (reversal)	**33**	-	**(16)**	-	**49**	306.3	-
OPERATING PROFIT	**16,906**	9.3	**16,715**	9.1	**191**	1.1	0.2

	Six Months Ended June 30,						
	2018		**2017(1)**		**Change**		
	$	% of revenue	**$**	% of revenue	**$**	%	% of revenue
TOTAL REVENUE	**373,558**	100.0	**388,195**	100.0	**(14,637)**	(3.8)	-
Cost of sales	**309,013**	82.7	**320,751**	82.6	**(11,738)**	(3.7)	0.1
GROSS PROFIT	**64,545**	17.3	**67,444**	17.4	**(2,899)**	(4.3)	(0.1)
Selling expenses	**12,823**	3.4	**12,702**	3.3	**121**	1.0	0.1
General and administrative expenses	**14,364**	3.9	**16,393**	4.2	**(2,029)**	(12.4)	(0.3)
Research and development expenses	**2,133**	0.6	**1,844**	0.5	**289**	15.7	0.1
Impairment loss on trade and other receivables	**2,052**	0.5	**25**	-	**2,027**	8,108.0	0.5
OPERATING PROFIT	**33,173**	8.9	**36,480**	9.4	**(3,307)**	(9.1)	(0.5)

(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.

Dorel Home's second quarter revenue decreased by $2.9 million, or 1.6%, to $181.3 million compared with $184.2 million a year ago. For the six months, Dorel Home's revenue declined by $14.6 million, or 3.8%, to $373.6 million from $388.2 million in 2017. In the second quarter and for the six months, the e-commerce sales represented 55% and 54% of total segment gross sales compared to 52% and 49% respectively for the comparable periods in 2017. The e-commerce sales improvement including the strong direct-to-customer on-line sales was offset by the reductions in the brick and mortar channel and the reduction in sales from the Toys"R"Us liquidation.

Gross profit, at 16.9% in the second quarter and 17.3% year-to-date, decreased by 90 and 10 basis points respectively over last year's second quarter and year-to-date periods, mainly due to product mix and higher input costs. Warehouse and distribution costs were slightly 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 lower by $2.6 million, or 15.8%, for the second quarter and by $1.6 million, or 5.2%, year-to-date compared to the same periods in 2017. These decreases are mostly related to lower product liability costs and people related costs, offset in part by higher internet promotional and analytical costs.

Impairment loss on trade and other receivables remained comparable to 2017 for the second 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 $16.9 million from $16.7 million in 2017. This slight increase was explained by reduced operating expenses offset by lower gross profit as a percentage of revenue. For the six months, operating profit declined by $3.3 million, or 9.1%, to $33.2 million compared with $36.5 million in 2017, mainly due to the impairment loss on trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018 and lower revenue offset by reduced operating expenses.

Dorel Juvenile

Reconciliation of non-GAAP financial measures

	Second Quarters Ended June 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	**217,435**	100.0	-	**217,435**	100.0	**218,060**	100.0	-	**218,060**	100.0
Cost of sales	**161,433**	74.2	(87)	**161,346**	74.2	**152,930**	70.1	(77)	**152,853**	70.1
GROSS PROFIT	**56,002**	25.8	87	**56,089**	25.8	**65,130**	29.9	77	**65,207**	29.9
Selling expenses	**28,606**	13.2	-	**28,606**	13.2	**29,140**	13.4	-	**29,140**	13.4
General and administrative expenses	**17,902**	8.1	-	**17,902**	8.1	**22,368**	10.3	-	**22,368**	10.3
Research and development expenses	**6,233**	2.9	-	**6,233**	2.9	**5,124**	2.3	-	**5,124**	2.3
Impairment loss on trade and other receivables (reversal)	**(262)**	(0.1)	-	**(262)**	(0.1)	**489**	0.2	-	**489**	0.2
Restructuring and other costs	**1,755**	0.8	(1,755)	**-**	-	**847**	0.4	(847)	**-**	-
Impairment loss on intangible assets	**24,193**	11.2	(24,193)	**-**	-	**-**	-	-	**-**	-
OPERATING PROFIT (LOSS)	**(22,425)**	(10.3)	26,035	**3,610**	1.7	**7,162**	3.3	924	**8,086**	3.7

	Six Months Ended June 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	**460,772**	100.0	-	**460,772**	100.0	**446,718**	100.0	-	**446,718**	100.0
Cost of sales	**335,883**	72.9	(87)	**335,796**	72.9	**311,703**	69.8	(1,294)	**310,409**	69.5
GROSS PROFIT	**124,889**	27.1	87	**124,976**	27.1	**135,015**	30.2	1,294	**136,309**	30.5
Selling expenses	**59,380**	12.9	-	**59,380**	12.9	**57,293**	12.8	-	**57,293**	12.8
General and administrative expenses	**41,357**	9.0	-	**41,357**	9.0	**44,349**	10.0	-	**44,349**	10.0
Research and development expenses	**13,121**	2.8	-	**13,121**	2.8	**10,383**	2.3	-	**10,383**	2.3
Impairment loss on trade and other receivables	**3,783**	0.8	-	**3,783**	0.8	**856**	0.2	-	**856**	0.2
Restructuring and other costs	**2,847**	0.6	(2,847)	**-**	-	**5,378**	1.1	(5,378)	**-**	-
Impairment loss on intangible assets	**24,193**	5.3	(24,193)	**-**	-	**-**	-	-	**-**	-
OPERATING PROFIT (LOSS)	**(19,792)**	(4.3)	27,127	**7,335**	1.6	**16,756**	3.8	6,672	**23,428**	5.2

(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:

	Second Quarters Ended June 30,					Six Months Ended June 30,				
	Change									
	Reported		Impairment loss on intangible assets, restructuring and other costs	**Adjusted**		**Reported**		Impairment loss on intangible assets, restructuring and other costs	**Adjusted**	
	$	%	$	**$**	%	**$**	%	$	**$**	%
TOTAL REVENUE	**(625)**	(0.3)	-	**(625)**	(0.3)	**14,054**	3.1	-	**14,054**	3.1
Cost of sales	**8,503**	5.6	(10)	**8,493**	5.6	**24,180**	7.8	1,207	**25,387**	8.2
GROSS PROFIT	**(9,128)**	(14.0)	10	**(9,118)**	(14.0)	**(10,126)**	(7.5)	(1,207)	**(11,333)**	(8.3)
Selling expenses	**(534)**	(1.8)	-	**(534)**	(1.8)	**2,087**	3.6	-	**2,087**	3.6
General and administrative expenses	**(4,466)**	(20.0)	-	**(4,466)**	(20.0)	**(2,992)**	(6.7)	-	**(2,992)**	(6.7)
Research and development expenses	**1,109**	21.6	-	**1,109**	21.6	**2,738**	26.4	-	**2,738**	26.4
Impairment loss on trade and other receivables	**(751)**	(153.6)	-	**(751)**	(153.6)	**2,927**	341.9	-	**2,927**	341.9
Restructuring and other costs	**908**	107.2	(908)	**-**	-	**(2,531)**	(47.1)	2,531	**-**	-
Impairment loss on intangible assets	**24,193**	100.0	(24,193)	**-**	-	**24,193**	100.0	(24,193)	**-**	-
OPERATING PROFIT (LOSS)	**(29,587)**	(413.1)	25,111	**(4,476)**	(55.4)	**(36,548)**	(218.1)	20,455	**(16,093)**	(68.7)

During the second quarter of 2018, as Dorel Juvenile – Latin America's business continues 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 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.

Dorel Juvenile's second quarter revenue decreased by $0.6 million, or 0.3%, to $217.4 million. Organic revenue decreased by approximately 2.5% after removing the impact of varying foreign exchange rates year-over-year. Strong growth in the U.S. market, where revenue rose by double digits despite the Toys"R"Us disruption, as well as strong growth in the Brazilian market were offset by declines in Europe and Chile. In Europe, issues with a Warehouse Management System (WMS) implementation resulted in reduced sales of approximately $8.0 million for the quarter and missed delivery dates resulted in cancelled orders. As of June 2018, improved processes have been implemented and technical issues have been resolved, but most lost sales will not be recovered in the third quarter. In Chile, overall market conditions and pricing pressure, principally from e-commerce competition, continue to affect revenue and margins, particularly in the wholesale channel, which resulted in the impairment loss on intangible assets of $24.2 million mentioned above. The segment's revenue for the six months increased by $14.1 million, or 3.1%, to $460.8 million versus the prior year's $446.7 million. Organic revenue declined approximately 1.0% after removing the impact of varying foreign exchange rates. The year-to-date organic revenue decreased principally for the same reasons as explained above.

Second quarter and year-to-date gross profit was 25.8% and 27.1% respectively, and adjusted gross profit for both periods was the same when excluding restructuring and other costs. This represented declines of 410 basis points in the quarter and 310 basis points year-to-date. On an adjusted basis, the declines were 410 basis points for the quarter and 340 basis points year-to-date. The decreases in basis points are the result of negative impact on margins due to lower sales volumes, principally in Europe and Chile. At the Dorel Juvenile China factory, higher commodity prices continue to negatively impact the gross margin, partially offset by improvements due to price increases.

Selling expenses in the second quarter declined slightly by $0.5 million, or 1.8%, and by 0.2% as a percentage of revenue. For the six months, selling expenses increased by $2.1 million, or 3.6%, and by 0.1% as a percentage of revenue.

General and administrative expenses decreased by $4.5 million, or 20.0%, during the quarter and by 2.2% as a percentage of revenue and for the six months, decreased by $3.0 million, or 6.7%, 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 21.6%, in the quarter and by $2.7 million, or 26.4%, year-to-date due to more on-going new product projects resulting in higher spending and amortization.

The reversal of impairment loss on trade and other receivables was $0.3 million for the second quarter of 2018 compared to an impairment loss of $0.5 million in 2017. Year-to-date, the impairment loss was $3.8 million in 2018 compared to $0.9 million last year. The year-to-date increase is 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 $29.6 million to an operating loss of $22.4 million during the second quarter of 2018 compared to an operating profit of $7.2 million in 2017. Excluding impairment loss on intangible assets, restructuring and other costs, adjusted operating profit decreased by $4.5 million to $3.6 million from $8.1 million in 2017 mainly due to lower gross profit as a percentage of revenue partially offset by lower operating expenses as detailed above. Year-to-date operating profit declined by $36.5 million to an operating loss of $19.8 million, while adjusted operating profit for the six months declined by $16.1 million to $7.3 million from $23.4 million in the same period of 2017. When excluding the impairment loss on the trade accounts receivable from Toys"R"Us U.S. which occurred in the first quarter of 2018, year-to-date adjusted operating profit for the six months was $11.1 million compared to $23.4 million last year which is mainly explained by the decrease of 340 basis points in adjusted gross profit and higher operating expenses as explained above.

Dorel Sports

Reconciliation of non-GAAP financial measures

	Second Quarters Ended June 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	224,513	100.0	-	224,513	100.0	209,053	100.0	-	209,053	100.0
Cost of sales	176,724	78.7	(1,584)	175,140	78.0	161,029	77.0	(95)	160,934	77.0
GROSS PROFIT	47,789	21.3	1,584	49,373	22.0	48,024	23.0	95	48,119	23.0
Selling expenses	23,397	10.4	-	23,397	10.4	22,546	10.8	-	22,546	10.8
General and administrative expenses	16,302	7.3	-	16,302	7.3	18,389	8.8	-	18,389	8.8
Research and development expenses	1,358	0.6	-	1,358	0.6	1,138	0.5	-	1,138	0.5
Impairment loss on trade and other receivables	361	0.2	-	361	0.2	385	0.2	-	385	0.2
Restructuring and other costs	9,653	4.3	(9,653)	-	-	638	0.3	(638)	-	-
OPERATING PROFIT (LOSS)	(3,282)	(1.5)	11,237	7,955	3.5	4,928	2.4	733	5,661	2.7

	Six Months Ended June 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	431,200	100.0	-	431,200	100.0	423,069	100.0	-	423,069	100.0
Cost of sales	337,723	78.3	(1,584)	336,139	78.0	326,057	77.1	849	326,906	77.3
GROSS PROFIT	93,477	21.7	1,584	95,061	22.0	97,012	22.9	(849)	96,163	22.7
Selling expenses	45,086	10.4	-	45,086	10.4	42,403	10.0	-	42,403	10.0
General and administrative expenses	32,661	7.5	-	32,661	7.5	35,172	8.3	-	35,172	8.3
Research and development expenses	2,807	0.7	-	2,807	0.7	2,490	0.6	-	2,490	0.6
Impairment loss on trade and other receivables	7,326	1.7	-	7,326	1.7	965	0.2	-	965	0.2
Restructuring and other costs	9,653	2.3	(9,653)	-	-	940	0.2	(940)	-	-
OPERATING PROFIT (LOSS)	(4,056)	(0.9)	11,237	7,181	1.7	15,042	3.6	91	15,133	3.6

(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:

	Second Quarters Ended June 30,					Six Months Ended June 30,				
	Change									
	Reported		Restructuring and other costs	Adjusted		Reported		Restructuring and other costs	Adjusted	
	$	%	$	$	%	$	%	$	$	%
TOTAL REVENUE	15,460	7.4	-	15,460	7.4	8,131	1.9	-	8,131	1.9
Cost of sales	15,695	9.7	(1,489)	14,206	8.8	11,666	3.6	(2,433)	9,233	2.8
GROSS PROFIT	(235)	(0.5)	1,489	1,254	2.6	(3,535)	(3.6)	2,433	(1,102)	(1.1)
Selling expenses	851	3.8	-	851	3.8	2,683	6.3	-	2,683	6.3
General and administrative expenses	(2,087)	(11.3)	-	(2,087)	(11.3)	(2,511)	(7.1)	-	(2,511)	(7.1)
Research and development expenses	220	19.3	-	220	19.3	317	12.7	-	317	12.7
Impairment loss on trade and other receivables	(24)	(6.2)	-	(24)	(6.2)	6,361	659.2	-	6,361	659.2
Restructuring and other costs	9,015	1,413.0	(9,015)	-	-	8,713	926.9	(8,713)	-	-
OPERATING PROFIT (LOSS)	(8,210)	(166.6)	10,504	2,294	40.5	(19,098)	(127.0)	11,146	(7,952)	(52.5)

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, $11.2 million of restructuring costs were recorded.

For the second quarter of 2018, Dorel Sports' revenue increased by $15.5 million, or 7.4%, to $224.5 million and by approximately 6.5% after removing the impact of varying foreign exchange rates year-over-year. The segment's revenue for the six months of 2018 was $431.2 million, an increase of $8.1 million, or 1.9%, and was equal to prior year after removing the impact of varying foreign exchange rates year-over-year. The organic revenue increase during the second quarter comes mainly from CSG and Caloi partially offset by Pacific Cycle. Growth at CSG was seen in all key regions with good momentum from recent product launches while Caloi continued to grow on new product innovation and was aided by a gradual improvement in the Brazilian economy. Pacific Cycle experienced modest revenue decline overall with the negative impact of the Toys"R"Us U.S. liquidation while revenue to other key customers increased. These explanations for the second quarter on the increased revenue are valid for the year-to-date figures.

During the second quarter, gross profit declined by 170 basis points to 21.3% from 23.0% in 2017 and when excluding restructuring and other costs, adjusted gross profit declined by 100 basis points to 22.0% from 23.0% in 2017. The primary drivers of the margin compression were increased product costs at Pacific Cycle, customer mix and discounting at CSG in light of the arrival of the model-year 2019 inventory in the third quarter.

On a year-to-date basis, gross profit declined by 120 basis points to 21.7% from 22.9% in 2017 and when excluding restructuring and other costs, adjusted gross profit declined by 70 basis points to 22.0% from 22.7% reported in the six months of 2017. The year-to-date decline is mainly explained by increased product costs and lower gross profit dollars from decreased revenue at Pacific Cycle, customer mix, discounting at CSG and less favourable sales mix in the Brazilian market.

Selling expenses in the second quarter increased by $0.9 million, or 3.8%, and decreased by 0.4% as a percentage of revenue. For the six months, selling expenses increased by $2.7 million, or 6.3%, and by 0.4% as a percentage of revenue. This was mainly attributable to people costs and additional marketing expenses related to new product launches.

General and administrative expenses decreased by $2.1 million, or 11.3%, during the quarter and by 1.5% as a percentage of revenue and for the six months, decreased by $2.5 million, or 7.1%, and by 0.8% as a percentage of revenue. These reductions are mainly from lower product liability costs.

Research and development expenses increased by $0.2 million, or by 0.1% as a percentage of revenue, in the quarter and by $0.3 million, or by 0.1% as a percentage of revenue, year-to-date.

Impairment loss on trade and other receivables remained comparable to 2017 for the second quarter and grew by $6.4 million year-to-date. The year-to-date increase is 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.

The segment reported an operating loss in the second quarter of $3.3 million compared to an operating profit of $4.9 million in 2017 due to the restructuring costs related to the divesting of the performance apparel line of business mentioned above. When excluding restructuring and other costs, adjusted operating profit rose by $2.3 million, or 40.5%, to $8.0 million from $5.7 million in 2017. Year-to-date, the segment reported an operating loss of $4.1 million compared to an operating profit of $15.0 million last year and adjusted operating profit was $7.2 million compared to $15.1 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 six months was $13.8 million compared to $15.1 million last year which is mainly explained by adjusted gross profit which decreased by 70 basis points partly offset by higher revenue.

3. LIQUIDITY AND CAPITAL RESOURCES

a) Statements of Financial Position

Certain of the Company's ratios are as follows:

	As at:		
	Jun. 30, 2018	**Dec. 30, 2017**	**Jun. 30, 2017**
Debt* to equity	0.49	0.46	0.46
# of days in receivables	55	60	56
# of days in inventory	109	110	109
# of days in payables	70	67	65

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

The net working capital position decreased by 6 days to 94 days as at June 30, 2018 compared to 100 days as at June 30, 2017. When comparing the June 30, 2018 net working capital position with the December 30, 2017 one, there was a decrease of 9 days. The decrease for both periods is principally due to the lower level of receivables, mainly as a result of the additional impairment loss allowance with respect to the Toys"R"Us U.S. trade accounts receivable balances and the collection of significant trade accounts receivable at the end of June 2018, and the increase of payables, mainly due to timing of payments to suppliers.

The increase in the debt to equity ratio as at June 30, 2018 from December 30, 2017 and from June 30, 2017 is a function of higher borrowings, mainly due to the timing of collection of trade accounts receivable at the end of June 2018 and the repayments of borrowings.

As a result of the quarterly Excess Cash Flow calculation required under the USD denominated term loan as at June 30, 2018, the Company will be required to make a repayment of $15.9 million during the third quarter of 2018, in addition to the scheduled quarterly instalment of $3.8 million, thereby reducing the remaining outstanding amount due at maturity.

As at June 30, 2018, certain of the Company's bank lines of credit amounting to $4.9 million are secured by trade accounts receivable representing a carrying value of $2.5 million.

As at June 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 $244.9 million, $423.7 million, $81.6 million and $82.4 million, respectively.

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

b) Statements of Cash Flows

For the second quarter of 2018, the cash provided by operating activities increased by $16.8 million to $44.8 million compared to $28.0 million in 2017. The increase is explained mainly by the timing of payments to suppliers partly offset by the timing of collection of trade accounts receivable. During the six months of 2018, cash flow provided by operating activities increased by $35.2 million to $45.7 million compared to $10.5 million a year ago, mainly due to 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.

Additions to property, plant and equipment and intangible assets were $28.6 million for the six months ended June 30, 2018 compared to $23.0 million in 2017, an increase of $5.6 million. The rest of the 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.

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 June 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 six months ended June 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 June 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 July 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	28,249,471	201,532	203,300

Outstanding stock options and 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. On July 4, 2018, the Company granted 102,267 RSUs and 201,480 PSUs. There were no other significant changes other than the grants mentioned above 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

During the second quarter ended June 30, 2018, the Company has made no 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.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

ALL FIGURES IN THOUSANDS OF US $ (UNAUDITED)

	As at June 30, 2018	As at December 30, 2017 (1)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 15)	$ 48,884	$ 36,841
Trade and other receivables (Note 10)	390,826	425,736
Inventories	596,097	592,136
Other financial assets	2,298	553
Income taxes receivable	13,858	12,035
Prepaid expenses	30,493	26,593
Other assets	14,249	13,747
	1,096,705	1,107,641
Assets held for sale (Note 6)	8,464	8,481
	1,105,169	1,116,122
NON-CURRENT ASSETS		
Property, plant and equipment	193,075	199,026
Intangible assets (Note 7)	404,169	442,626
Goodwill (Note 16)	433,142	438,072
Deferred tax assets	25,734	26,159
Other financial assets	571	550
Other assets	6,337	7,152
	1,063,028	1,113,585
	$ 2,168,197	$ 2,229,707
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 8)	$ 47,799	$ 58,229
Trade and other payables	443,596	440,410
Other financial liabilities	468	4,546
Income taxes payable	8,424	14,338
Long-term debt (Note 8)	32,108	13,667
Provisions (Note 5)	41,405	43,475
Other liabilities (Note 9)	22,898	11,150
	596,698	585,815
NON-CURRENT LIABILITIES		
Long-term debt (Note 8)	433,618	433,760
Net pension and post-retirement defined benefit liabilities	34,561	35,237
Deferred tax liabilities	33,346	43,832
Provisions	2,871	2,953
Written put option liabilities (Note 10)	16,327	23,464
Other financial liabilities	1,148	1,338
Other liabilities	8,520	11,157
	530,391	551,741
EQUITY		
Share capital (Note 11)	203,300	203,300
Contributed surplus	28,294	27,557
Accumulated other comprehensive loss	(95,187)	(70,205)
Other equity	13,025	5,888
Retained earnings	891,676	925,611
	1,041,108	1,092,151
	$ 2,168,197	$ 2,229,707

(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. See Note 3.

(See accompanying notes)

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS

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

	Second Quarters Ended		Six Months Ended	
	June 30, 2018	June 30, 2017 (1)	June 30, 2018	June 30, 2017 (1)
Sales	$ 622,822	$ 610,805	$ 1,264,774	$ 1,257,230
Licensing and commission income	422	465	756	752
TOTAL REVENUE (Note 16)	623,244	611,270	1,265,530	1,257,982
Cost of sales (Notes 5 and 14)	488,901	465,244	982,619	958,511
GROSS PROFIT	134,343	146,026	282,911	299,471
Selling expenses	58,825	58,616	117,788	113,278
General and administrative expenses	46,190	55,036	99,410	106,542
Research and development expenses	8,637	7,194	18,061	14,717
Impairment loss on trade and other receivables (Note 10)	132	858	13,161	1,846
Restructuring and other costs (Note 5)	11,408	1,485	12,500	6,318
Impairment loss on intangible assets (Note 7)	24,193	–	24,193	–
OPERATING PROFIT (LOSS)	(15,042)	22,837	(2,202)	56,770
Finance expenses (Note 14)	8,009	7,115	15,770	27,303
INCOME (LOSS) BEFORE INCOME TAXES	(23,051)	15,722	(17,972)	29,467
Income taxes expense (recovery) (Note 14)	(8,283)	4,282	(7,933)	9,186
NET INCOME (LOSS)	$ (14,768)	$ 11,440	$ (10,039)	$ 20,281
EARNINGS (LOSS) PER SHARE				
Basic	$ (0.46)	$ 0.35	$ (0.31)	$ 0.63
Diluted	$ (0.46)	$ 0.35	$ (0.31)	$ 0.62
SHARES OUTSTANDING (Note 13)				
Basic – weighted average	32,438,446	32,403,980	32,438,446	32,403,980
Diluted – weighted average	32,438,446	32,677,845	32,438,446	32,675,600

(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. See Note 3.

(See accompanying notes)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

ALL FIGURES IN THOUSANDS OF US $ (UNAUDITED)

	Second Quarters Ended		Six Months Ended	
	June 30, 2018	June 30, 2017 (1)	June 30, 2018	June 30, 2017 (1)
NET INCOME (LOSS)	$ (14,768)	$ 11,440	$ (10,039)	$ 20,281
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	(38,550)	12,074	(26,306)	21,650
Net gains (losses) on hedge of net investments in foreign operations, net of tax of nil	(5,206)	6,616	(2,590)	7,546
	(43,756)	18,690	(28,896)	29,196
Net changes in cash flow hedges:				
Net change in unrealized gains (losses) on derivatives designated as cash flow hedges	4,142	(4,852)	1,795	(5,051)
Reclassification to net income	24	40	24	139
Reclassification to the related non-financial asset	943	(628)	3,566	(2,271)
Deferred income taxes	(1,289)	1,432	(1,431)	1,847
	3,820	(4,008)	3,954	(5,336)
Items that will not be reclassified to net income:				
Defined benefit plans:				
Remeasurements of the net pension and post-retirement defined benefit liabilities	64	(73)	34	(110)
Deferred income taxes	(15)	25	(74)	33
	49	(48)	(40)	(77)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(39,887)	14,634	(24,982)	23,783
TOTAL COMPREHENSIVE INCOME (LOSS)	$ (54,655)	$ 26,074	$ (35,021)	$ 44,064

(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. See Note 3.

(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 (loss)					
	Share Capital	Contributed Surplus	Cumulative Translation Account	Cash Flow Hedges	Defined Benefit Plans	Other Equity	Retained Earnings	Total Equity
Balance as at December 30, 2016 (1)	$ 202,400	$ 27,139	$ (102,629)	$ 2,852	$ (14,063)	$ 3,027	$ 937,373	$ 1,056,099
Total comprehensive income:								
Net income	–	–	–	–	–	–	20,281	20,281
Other comprehensive income (loss)	–	–	29,196	(5,336)	(77)	–	–	23,783
	–	–	29,196	(5,336)	(77)	–	20,281	44,064
Share-based payments (Note 12)	–	932	–	–	–	–	–	932
Remeasurement of written put option liabilities	–	–	–	–	–	(871)	–	(871)
Dividends on common shares	–	–	–	–	–	–	(19,442)	(19,442)
Dividends on deferred share units (Note 12)	–	143	–	–	–	–	(143)	–
Balance as at June 30, 2017 (1)	$ 202,400	$ 28,214	$ (73,433)	$ (2,484)	$ (14,140)	$ 2,156	$ 938,069	$ 1,080,782
Balance as at December 30, 2017 (1)	$ 203,300	$ 27,557	$ (49,478)	$ (3,242)	$ (17,485)	$ 5,888	$ 925,611	$ 1,092,151
Adjustment on initial application of IFRS 15 (net of tax) (Note 3)	–	–	–	–	–	–	(497)	(497)
Adjustment on initial application of IFRS 9 (net of tax) (Note 3)	–	–	–	–	–	–	(3,758)	(3,758)
Adjusted balance as at December 31, 2017	$ 203,300	$ 27,557	$ (49,478)	$ (3,242)	$ (17,485)	$ 5,888	$ 921,356	$ 1,087,896
Total comprehensive loss:								
Net loss	–	–	–	–	–	–	(10,039)	(10,039)
Other comprehensive income (loss)	–	–	(28,896)	3,954	(40)	–	–	(24,982)
	–	–	(28,896)	3,954	(40)	–	(10,039)	(35,021)
Share-based payments (Note 12)	–	559	–	–	–	–	–	559
Remeasurement of written put option liabilities (Note 10)	–	–	–	–	–	7,137	–	7,137
Dividends on common shares	–	–	–	–	–	–	(19,463)	(19,463)
Dividends on deferred share units (Note 12)	–	178	–	–	–	–	(178)	–
Balance as at June 30, 2018	$ 203,300	$ 28,294	$ (78,374)	$ 712	$ (17,525)	$ 13,025	$ 891,676	$ 1,041,108

(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. See Note 3.

(See accompanying notes)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

ALL FIGURES IN THOUSANDS OF US $ (UNAUDITED)

	Second Quarters Ended June 30, 2018	Second Quarters Ended June 30, 2017 (1)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017 (1)
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income (loss)	$ (14,768)	$ 11,440	$ (10,039)	$ 20,281
Items not involving cash:				
Depreciation and amortization	12,041	12,387	24,098	24,404
Impairment loss on intangible assets (Note 7)	24,193	–	24,193	–
Unrealized losses (gains) arising on financial assets and financial liabilities classified as mandatorily at fair value through profit or loss	971	(216)	(403)	(144)
Share-based payments (Note 12)	16	105	80	96
Defined benefit pension and post-retirement costs	1,100	1,050	2,284	1,970
Loss on disposal of property, plant and equipment	267	115	250	182
Restructuring and other costs (Note 5)	9,265	82	9,265	1,218
Finance expenses (Note 14)	8,009	7,115	15,770	27,303
Income taxes expense (recovery)	(8,283)	4,282	(7,933)	9,186
Net changes in balances related to operations (Note 15)	24,588	4,054	13,939	(49,712)
Income taxes paid	(5,186)	(7,334)	(14,115)	(12,211)
Income taxes received	992	1,866	2,998	4,905
Interest paid	(8,477)	(7,094)	(14,922)	(17,237)
Interest received	76	135	216	254
CASH PROVIDED BY OPERATING ACTIVITIES	44,804	27,987	45,681	10,495
FINANCING ACTIVITIES				
Bank indebtedness	(347)	7,609	(5,178)	2,700
Increase of long-term debt	12	22,000	23,986	208,782
Repayments of long-term debt	(8,369)	(35,327)	(5,470)	(179,217)
Repayments of forward purchase agreement liabilities (Note 10)	–	–	–	(7,857)
Financing costs	(5)	(64)	(13)	(2,706)
Dividends on common shares	(9,731)	(9,721)	(19,463)	(19,442)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(18,440)	(15,503)	(6,138)	2,260
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(6,001)	(8,043)	(16,558)	(14,364)
Disposals of property, plant and equipment	1,405	110	1,435	182
Net proceeds from disposals of assets held for sale	–	3,378	–	15,027
Additions to intangible assets	(6,221)	(5,173)	(12,041)	(8,627)
CASH USED IN INVESTING ACTIVITIES	(10,817)	(9,728)	(27,164)	(7,782)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,329)	280	(336)	1,317
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,218	3,036	12,043	6,290
Cash and cash equivalents, beginning of period	34,666	35,137	36,841	31,883
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 48,884	$ 38,173	$ 48,884	$ 38,173

(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. See Note 3.

(See accompanying notes)

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 Home, Dorel Juvenile and Dorel Sports segments. The principal markets for the Company's products are the United States, Europe, Latin America, Canada 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 US dollar as the reporting currency. The US dollar is the functional currency of the Canadian parent company. All financial information is presented in US dollars and 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, 2017, 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 statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2017 audited consolidated annual financial statements. This is the first second quarter set of the Company's consolidated financial statements where IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 3 of the Company's first quarter consolidated financial statements. Certain comparative amounts in the condensed consolidated interim financial statements have been reclassified in order to conform to the 2018 consolidated financial statements presentation.

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 Payment*;
- assets held for sale which are measured at the lower of their carrying amount or fair value less costs to sell;
- identifiable assets acquired and liabilities assumed in connection with a business combination which are measured at fair value at acquisition date;
- 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 August 3, 2018.

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

3. Changes in significant accounting policies

Except as described below, the accounting policies applied in these 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*, as at December 31, 2017, but they did not have an impact on the Company's consolidated financial statements. Detailed information on initial adoption of these standards, amendments and interpretations to standards, and the related changes to significant accounting policies can be found in the Company's first quarter consolidated financial statements for the three months ended March 31, 2018. The changes in significant accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 30, 2018.

The effect of initially applying these standards, amendments and interpretations is mainly attributed to the following:

- recognition of assets and liabilities in connection with sales with a right of return;
- an increase in impairment losses recognized on trade and other receivables.

In addition, as a result of the adoption of IFRS 9, the Company adopted consequential amendments to IAS 1, *Presentation of Financial Statements,* which requires impairment of financial assets to be presented as a separate line item in the Company's consolidated income statements. Previously, the Company's approach was to include the impairment loss on trade and other receivables in general and administrative expenses. The Company also adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures,* which are applied to disclosures for 2018, but generally have not been applied to comparative information.

4. 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 six months ended June 30, 2018 and have not been applied in preparing these 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

In February 2018, the IASB issued amendments to IAS 19, *Employee Benefits*, clarifying the accounting when a plan amendment, curtailment or settlement occurs. The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The amendments clarify:

- that when a defined benefit plan amendment, curtailment or settlement occurs and an entity remeasures its net defined benefit liability or asset, the entity uses the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan; and
- the effect of a plan amendment, curtailment or settlement on the asset ceiling requirements.

The Company intends to adopt the amendments to IAS 19 in its consolidated financial statements for the annual period beginning on December 31, 2018. The Company is currently assessing the impact of the adoption of these amendments on its consolidated financial statements.

4. Future accounting changes (continued)

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16, *Leases*, to replace the previous leases standard, IAS 17, *Leases,* and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted only if the Company applies IFRS 15, *Revenue from Contracts with Customers*. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on December 31, 2018. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements. The most significant impact identified is that this standard will affect primarily the accounting for the Company's operating leases. As at December 30, 2017, the Company had non-cancellable operating lease commitments of $202,271. However, the Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. 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 has not yet decided whether it will use the optional exemptions. No material impact is expected for the Company's finance leases.

5. Restructuring and other costs

For the six months ended June 30, 2018, the Company recorded total expenses of $14,171 (2017 – $6,763) with respect to restructuring and other costs, of which $1,671 (2017 – $445) were recorded within gross profit and $12,500 (2017 – $6,318) were recorded as restructuring and other costs as a separate line within the condensed consolidated interim income statements.

Restructuring costs

Dorel Juvenile segment

The restructuring activities initiated previously as part of the Dorel Juvenile segment's on-going transformation, whose main objective is to further align its operations to drive profitable sales growth by concentrating on improved agility with a more market-focused approach to reduce costs and better react to trends in the juvenile industry, are continuing into 2018. Continued changes in the retail environment, which resulted in brick and mortar store bankruptcies and closures, and the continued growth of the Internet retailers channel of distribution has necessitated a reduction in headcount and people costs at several divisions. The segment is re-positioning itself to succeed in this new environment through further investments in digital capabilities, changes in support functions and the re-orientation of its workforce. The ability to develop and bring meaningful products to market faster is continuously being improved by decreasing complexity and by sourcing opportunities to supplement existing best-in-class product development and manufacturing.

The main initiatives consist of the following cost saving opportunities:

- The consolidation and streamlining of manufacturing and other facilities in China.
- The U.S. based division assuming back office support for the Canadian operations, including supporting Canadian based warehousing.
- In Europe, changes in the way product is brought to market, on-going process harmonization and re-alignment of the sales organization.
- The elimination of positions identified as duplicative within several departments.
- Exiting certain licensed third-party brands used in North America.
- Closing certain retail stores in the Latin American market.

5. Restructuring and other costs (continued)

Restructuring costs (continued)

Dorel Juvenile segment (continued)

Total costs related to these restructuring initiatives are estimated at $39,292, including $13,325 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, $2,524 of non-cash inventory markdowns, $3,125 of curtailment gain on net pension defined benefit liabilities, $21,703 of employee severance and termination benefits and $4,865 of other associated costs. Of this amount, $10,276 was recorded for the year ended December 30, 2015, $13,825 was recorded for the year ended December 30, 2016, $11,933 was recorded for the year ended December 30, 2017 and $2,934 was recorded in 2018, details of which can be found in the tables below. The estimate of future charges of $324 consist of further reductions in people costs. The main driver of these headcount reduction costs is the further streamlining of China-based manufacturing 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 has sold the SUGOI and Sombrio brands. As a result of the sale of the performance apparel line of business, $11,237 was recorded in 2018 as restructuring costs, details of which can be found in the tables below. There are no significant expected remaining costs associated with this restructuring initiative.

The expenses recorded in the condensed consolidated interim income statements related to the restructuring activities and other costs consist of the following:

	Second Quarters Ended June 30,							
	TOTAL		Dorel Juvenile		Dorel Sports (2018 Plan)		Dorel Sports (2016 Plan)	
	2018	2017	2018	2017	2018	2017	2018	2017
Write-down of long-lived assets (reversal)*	$ –	$ (149)	$ –	$ (149)	$ –	$ –	$ –	$ –
Inventory markdowns*	1,671	321	87	226	1,584	–	–	95
Recorded within gross profit	$ 1,671	$ 172	$ 87	$ 77	$ 1,584	$ –	$ –	$ 95
Employee severance and termination benefits	$ 2,330	$ 913	$ 1,529	$ 834	$ 801	$ –	$ –	$ 79
Write-down of long-lived assets*	7,962	–	–	–	7,962	–	–	–
Net gains from the remeasurement and disposals of assets held for sale*	–	(90)	–	(90)	–	–	–	–
Other associated costs	1,116**	662	226	103	890**	–	–	559
Recorded within a separate line in the condensed consolidated interim income statements	$ 11,408	$ 1,485	$ 1,755	$ 847	$ 9,653	$ –	$ –	$ 638
Total restructuring costs	**$ 13,079**	**$ 1,657**	**$ 1,842**	**$ 924**	**$ 11,237**	**$ –**	**$ –**	**$ 733**

* non-cash
** includes a non-cash gain of $368

5. Restructuring and other costs (continued)

	Six Months Ended June 30,							
	TOTAL		Dorel Juvenile		Dorel Sports (2018 Plan)		Dorel Sports (2016 Plan)	
	2018	2017	2018	2017	2018	2017	2018	2017
Write-down of long-lived assets*	$ –	$ 368	$ –	$ 368	$ –	$ –	$ –	$ –
Inventory markdowns (reversals)*	1,671	228	87	926	1,584	–	–	(698)
Recorded within gross profit	$ 1,671	$ 596	$ 87	$ 1,294	$ 1,584	$ –	$ –	$ (698)
Employee severance and termination benefits	$ 3,422	$ 3,400	$ 2,621	$ 3,019	$ 801	$ –	$ –	$ 381
Write-down of long-lived assets*	7,962	–	–	–	7,962	–	–	–
Net losses from the remeasurement and disposals of assets held for sale*	–	622	–	622	–	–	–	–
Other associated costs	1,116**	2,296	226	1,737	890**	–	–	559
Recorded within a separate line in the condensed consolidated interim income statements	$ 12,500	$ 6,318	$ 2,847	$ 5,378	$ 9,653	$ –	$ –	$ 940
Total restructuring costs	**$ 14,171**	**$ 6,914**	**$ 2,934**	**$ 6,672**	**$ 11,237**	**$ –**	**$ –**	**$ 242**
Other costs recorded within gross profit	$ –	$ (151)	$ –	$ –	$ –	$ –	$ –	$ (151)
Total other costs	**$ –**	**$ (151)**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ (151)**
Total restructuring and other costs	**$ 14,171**	**$ 6,763**	**$ 2,934**	**$ 6,672**	**$ 11,237**	**$ –**	**$ –**	**$ 91**

* non-cash
** includes a non-cash gain of $368

5. Restructuring and other costs (continued)

Restructuring provision

As at June 30, 2018, the related restructuring plans provision totaling $2,860 consists of employee severance and termination benefits and other associated costs. A summary of the Company's restructuring plans provision is as follows:

	Balance December 30, 2017	2018 provision	Cash paid	Effect of foreign exchange	Balance June 30, 2018
Dorel Juvenile segment:					
Employee severance and termination benefits	$ 1,775	$ 2,621	$ (3,650)	$ (5)	$ 741
Other associated costs	14	226	(169)	–	71
	$ 1,789	$ 2,847	$ (3,819)	$ (5)	$ 812
Dorel Sports segment (2018 Plan):					
Employee severance and termination benefits	$ –	$ 801	$ –	$ –	$ 801
Other associated costs	–	1,258	(126)	–	1,132
	$ –	$ 2,059	$ (126)	$ –	$ 1,933
Dorel Sports segment (2016 Plan):					
Employee severance and termination benefits	$ 1,050	$ –	$ (924)	$ (11)	$ 115
Total	$ 2,839	$ 4,906	$ (4,869)	$ (16)	$ 2,860

6. Assets held for sale

	June 30, 2018	December 30, 2017
Balance, beginning of period	$ 8,481	$ 20,017
Additions	–	4,090
Disposals	–	(15,658)
Effect of foreign currency exchange rate changes	(17)	32
Balance, end of period	$ 8,464	$ 8,481

As part of the on-going restructuring program described in Note 5, no property was made available for sale during the six months ended June 30, 2018 (year ended December 30, 2017 – additions of $4,090 within Dorel Juvenile segment). These properties are presented as assets held for sale in the condensed consolidated interim statements of financial position and measured at the lower of carrying amount and fair value less costs to sell. The fair value measurement of the assets held for sale have been categorized in Level 2 in the fair value hierarchy based on observable market inputs, i.e. offers from third-party buyers for these assets or similar assets or recent market prices of similar properties in similar locations.

During the year ended December 30, 2017, the Company completed the sale of certain underutilized facilities that were presented as assets held for sale as at December 30, 2016 representing $15,658 within Dorel Juvenile segment.

7. Impairment of intangible assets

During the second quarter of 2018, as Dorel Juvenile – Latin America's business continues 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. 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 $8,915 and trademarks of $15,278 (Infanti brand) for a total of $24,193, as it has concluded that the recoverable amount based on the value in use was less than the carrying amount of the CGU. The Company used a discounted cash flow model to determine the value in use which is the same as in its last annual impairment test. The amount of impairment loss is based on key assumptions such as future cash flows, a pre-tax discount rate of 20.26% (year ended December 30, 2017 – 21.49%) and a terminal growth rate of 4.64% (year ended December 30, 2017 – 4.58%).

8. Bank indebtedness, long-term debt and capital management

a) Bank indebtedness and long-term debt

Under the USD denominated term loan, the Company is required to make quarterly instalments corresponding to 50% of the quarterly Excess Cash Flow, in addition to its quarterly fixed instalments, as principal repayments. As at June 30, 2018, the required instalment as a result of the Excess Cash Flow calculation amounts to $15,892 and has been reclassified as current portion of long-term debt.

As at June 30, 2018, certain of the Company's bank lines of credit amounting to $4,906 are secured by trade accounts receivable representing a carrying value of $2,453.

As at June 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 $244,891, $423,739, $81,585 and $82,410, respectively.

For the six months ended June 30, 2018, the average interest rate on the Company's long-term debt was 4.9% (2017 – 4.9%).

Under the USD denominated term loan and the revolving bank loans, the Company is subject to certain covenants, including maintaining certain financial ratios. As at June 30, 2018, the Company was compliant with all its borrowing covenant requirements.

b) Capital management

The Company has revised during the three months ended March 31, 2018 its definition of adjusted EBITDA used in its indebtedness to adjusted EBITDA ratio in order to align management monitoring of its capital structure with the financial ratios calculation under the covenants of its long-term debt.

Adjusted EBITDA is defined as earnings before finance expenses, income taxes, depreciation and amortization, stock option plan expense, impairment losses on goodwill and intangible assets, write-down of long-lived assets, (paid) unpaid product liability costs related to judgments, restructuring and other costs and expenses incurred as a result of the wind-down of the Toys"R"Us, Inc. ("Toys"R"Us") business and liquidation of inventory in its U.S. stores up to a maximum of $25,000. Adjusted EBITDA is based on the last four quarters ending on the same date as the consolidated statement of financial position date used to compute the indebtedness but including retroactively the results of operations of the acquired businesses.

9. Contract liabilities

	June 30, 2018
Balance, beginning of period	$ 2,793
Revenue recognized that was included in the contract liabilities balance at the beginning of the period	(2,705)
Increases due to cash received, excluding amounts recognized as revenue during the period	16,763
Effect of foreign currency exchange rate changes	(212)
Balance, end of period	$ 16,639

10. Financial instruments

Classification

The Company classifies cash and cash equivalents and trade and other receivables as amortized cost. The Company classifies bank indebtedness, trade and other payables and long-term debt as amortized cost. It also classifies interest rate swaps used for hedging and foreign exchange contracts used for hedging as fair value – hedging instrument, and other foreign exchange contracts as fair value through profit or loss.

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 consolidated 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:

	June 30, 2018		December 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt – bearing interest at fixed rates	$ 123,176	$ 123,536	$ 122,557	$ 124,675

10. Financial instruments (continued)

Fair value measurement

The following table provides information about financial assets and liabilities measured at fair value in the consolidated statement of financial position and categorized by level of the fair value hierarchy as at June 30, 2018:

	June 30, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Mandatorily at fair value through profit or loss:				
Foreign exchange contracts	$ 778	$ –	$ 778	$ –
Financial assets measured at fair value – hedging instruments:				
Foreign exchange contracts	$ 1,289	$ –	$ 1,289	$ –
Interest rate swaps	$ 231	$ –	$ 231	$ –
Financial liabilities				
Financial liabilities measured at fair value – hedging instruments:				
Foreign exchange contracts	$ 468	$ –	$ 468	$ –
Financial liabilities measured at fair value – other:				
Written put option liabilities	$ 16,327	$ –	$ –	$ 16,327

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 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.

10. Financial instruments (continued)

Fair value measurement (continued)

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).

Changes in fair value of Level 3 financial instruments were as follows, for the six months ended June 30, 2018 and the year ended December 30, 2017:

	Written Put Option Liabilities		Forward Purchase Agreement Liabilities		Total	
	2018	2017	2018	2017	2018	2017
Balance, beginning of period	$ 23,464	$ 26,325	$ –	$ 7,500	$ 23,464	$ 33,825
Remeasurement of the fair value [unrealized] (1)	(7,137)	(2,861)	–	276	(7,137)	(2,585)
Repayments	–	–	–	(7,857)	–	(7,857)
Effect of foreign currency exchange rate changes recognized in other comprehensive income (loss)	–	–	–	81	–	81
Balance, end of period	$ 16,327	$ 23,464	$ –	$ –	$ 16,327	$ 23,464

(1) In connection with the impairment test performed for Dorel Juvenile – Latin America CGU (Note 7), the assumptions about revenue growth rates, operating margins and earnings level in future periods were revised during the second quarter ended June 30, 2018. As a result, these revised assumptions were used to determine the fair value of the written put options liabilities. The discount rates used to determine the fair value of the exit price as at June 30, 2018 remained the same as the ones used for the year ended December 30, 2017. For Dorel Sports Chile S.A., the assumptions used to fair value the written put option liabilities for the six months ended June 30, 2018 remained the same as the ones used for the year ended December 30, 2017.

Management of risks arising from financial instruments: credit risk

Credit risk stems primarily from the potential inability of clients or counterparties to discharge their obligations and arises primarily from the Company's trade accounts receivable. The Company may also have credit risk relating to cash and cash equivalents, foreign exchange contracts and interest rate swaps resulting from defaults by counterparties. The Company enters into financial instruments with a variety of creditworthy parties. When entering into foreign exchange contracts and interest rate swaps, the counterparties are large Canadian and International banks. Therefore, the Company does not expect to incur material expected credit losses due to its risk management on financial instruments other than trade and other receivables.

The maximum credit risk to which the Company is exposed as at June 30, 2018, represents the carrying value of cash and cash equivalents and trade and other receivables, as well as the fair value of foreign exchange contracts and interest rate swaps with positive fair values.

Substantially all trade accounts receivable arise from the sale to the retail industry. The Company performs on-going credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. In addition, a portion of the total trade accounts receivable is insured against possible losses. The Company establishes an impairment loss allowance on a collective and individual assessment basis, by considering past events, current conditions and forecasts of future economic conditions.

During the six months ended June 30, 2018, sales to a major customer represented 28.6% (2017 – 28.4%) of total revenue. As at June 30, 2018, one customer accounted for 22.4% (December 30, 2017 – 16.1%) of the Company's total trade accounts receivable balance.

10. Financial instruments (continued)

Management of risks arising from financial instruments: credit risk (continued)

The following table provides information about the exposure to credit risk and expected credit losses (“ECLs”) for trade accounts receivable as at June 30, 2018. The ECLs were calculated based on actual credit loss experience and informed credit assessment, including forward-looking information.

	Weighted-average loss rate	Trade accounts receivable - gross	Impairment loss allowance	Trade accounts receivable - net
Current (not past due)	1.0%	$ 313,037	$ (3,096)	$ 309,941
Past due 0-30 days	2.1%	40,297	(837)	39,460
Past due 31-60 days	28.8%	14,795	(4,263)	10,532
Past due 61-90 days	41.8%	12,515	(5,227)	7,288
Past due over 90 days	53.2%	31,904	(16,980)	14,924
		$ 412,548	$ (30,403)	$ 382,145

The movement in the impairment loss allowance with respect to trade accounts receivable during the six months ended June 30, 2018 was as follows:

	Six Months Ended June 30, 2018
Balance, as at December 31, 2017 (1)	$ 19,697
Net remeasurement of impairment loss allowance	13,161
Uncollectible accounts written-off	(1,931)
Effect of foreign currency exchange rate changes	(524)
Balance, as at June 30, 2018	$ 30,403

(1) The Company has initially applied IFRS 9 as at December 31, 2017. Under the transition method chosen, comparative information is not restated. See Note 3.

10. Financial instruments (continued)

Management of risks arising from financial instruments: credit risk (continued)

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 has determined that an amount of $17,342 of trade accounts receivable from this customer as at June 30, 2018 is at risk of collection ($7,630 as at December 30, 2017). Accordingly, the Company has recorded an additional impairment loss of $12,481 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 – $3,815). Of this amount, $2,116 (fourth quarter ended December 30, 2017 – nil) is within Dorel Home segment, $3,798 (fourth quarter ended December 30, 2017 – $747) is within Dorel Juvenile segment and $6,567 (fourth quarter ended December 30, 2017 – $3,068) is within Dorel Sports segment. These amounts represent management’s current best estimate of potential losses arising from non-payment based on information available to date; the actual loss incurred may differ from these amounts. The maximum credit risk to which the Company is exposed as at June 30, 2018 represents the total value of the trade accounts receivable.

As at June 30, 2018, in total, the Company has trade accounts receivable from Toys“R”Us U.S. amounting to $4,861 (net of impairment loss allowance including the impairment loss referred to above). This represents $679 within Dorel Home segment, $1,381 within Dorel Juvenile segment and $2,801 within Dorel Sports segment. The Company will continue to carefully monitor the Toys“R”Us situation as it unfolds, and will revise its estimated impairment loss allowance and record any required allowance adjustment in its 2018 quarterly consolidated financial statements.

11. Share capital

Details of the issued and outstanding shares are as follows:

	Six Months Ended June 30, 2018		Year Ended December 30, 2017	
	Number	**Amount**	**Number**	**Amount**
Class “A” Multiple Voting Shares				
Balance, beginning of period	4,189,835	$ 1,768	4,193,435	$ 1,770
Converted from Class “A” to Class “B” (1)	(860)	–	(3,600)	(2)
Balance, end of period	4,188,975	$ 1,768	4,189,835	$ 1,768
Class “B” Subordinate Voting Shares				
Balance, beginning of period	28,248,611	$ 201,532	28,210,545	$ 200,630
Converted from Class “A” to Class “B” (1)	860	–	3,600	2
Reclassification from contributed surplus due to settlement of deferred share units (Note 12)	–	–	34,466	900
Balance, end of period	28,249,471	$ 201,532	28,248,611	$ 201,532
TOTAL SHARE CAPITAL		$ 203,300		$ 203,300

(1) During the six months ended June 30, 2018, the Company converted 860 Class “A” Multiple Voting Shares into Class “B” Subordinate Voting Shares (year ended December 30, 2017 – 3,600) at an average rate of $0.63 per share (year ended December 30, 2017 – $0.63 per share).

12. 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 were granted. Options granted vest according to a graded schedule of 25% per year commencing a day after the end of the first year, and options outstanding 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:

	Six Months Ended June 30, 2018			Year Ended December 30, 2017		
	Options		Weighted Average Exercise Price	Options		Weighted Average Exercise Price
Options outstanding, beginning of period	35,000	$	28.16	51,000	$	26.82
Expired	–		–	(4,000)		29.98
Forfeited	–		–	(12,000)		29.17
Options outstanding, end of period	35,000	$	26.93	35,000	$	28.16
Total exercisable, end of period	35,000	$	26.93	35,000	$	28.16

The exercise price of the options outstanding and exercisable as at June 30, 2018 is $26.93 and the remaining contractual life is 0.11 year.

Total employee benefits expense recognized in general and administrative expenses for employee stock options for the second quarter and six months ended June 30, 2018 amounts to nil and nil, respectively (2017 – recovery of $14 and $82, respectively), and no amount affected contributed surplus.

Directors' Deferred Share Unit Plan

The Company has a Directors' Deferred Share Unit Plan under which an external director of the Company may elect annually to have their director's fees and fees for attending meetings of the Board of Directors or committees thereof paid in the form of deferred share units ("DSUs"). A plan participant may also receive dividend equivalents paid in the form of DSUs.

The changes in outstanding number of DSUs are as follows:

	Six Months Ended June 30, 2018	Year Ended December 30, 2017
DSUs outstanding, beginning of period	137,849	165,036
Issued for fees forfeited	1,876	8,160
Issued for dividend equivalents	4,016	6,351
Settlement of deferred share units (1)	–	(41,698)
DSUs outstanding, end of period	143,741	137,849

(1) During the year ended December 30, 2017, 41,698 DSUs were settled for which $1,074 was debited to contributed surplus and $900 credited to share capital; the difference representing the withholding taxes the Company was required by law to withhold upon settlement.

12. Share-based payments (continued)

Directors' Deferred Share Unit Plan (continued)

The employee benefits expense included in general and administrative expenses for fees forfeited for the second quarter and six months ended June 30, 2018 amounts to $19 and $38, respectively (2017 – $46 and $91, respectively) and was credited to contributed surplus. In addition, DSUs issued for dividend equivalents for the second quarter and six months ended June 30, 2018 amount to $42 and $83, respectively (2017 – $38 and $75, respectively) which were charged to retained earnings and credited to contributed surplus. As at June 30, 2018, there were 143,741 DSUs outstanding with related contributed surplus amounting to $4,228.

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 ("DSUs"). The Board of Directors may also grant at its discretion DSUs with vesting conditions, such as service or non-market performance conditions. A plan participant may also receive dividend equivalents paid in the form of DSUs.

The changes in outstanding number of DSUs are as follows:

	Six Months Ended June 30, 2018	Year Ended December 30, 2017
DSUs outstanding, beginning of period	140,885	90,455
Issued for salaries and bonus paid	22,768	38,001
Discretionary DSUs granted	–	12,103
Issued for dividend equivalents	4,613	6,289
Performance adjustment	(6,074)	(4,727)
Forfeited	–	(1,236)
DSUs outstanding, end of period	162,192	140,885
Total vested, end of period	153,360	126,534

The employee benefits expense included in general and administrative expenses for salaries and bonus paid and for discretionary DSUs for the second quarter and six months ended June 30, 2018 amounts to $476 and $521, respectively (2017 – $909 and $923, respectively) and was credited to contributed surplus. In addition, DSUs issued for dividend equivalents for the second quarter and six months ended June 30, 2018 amount to $51 and $95, respectively (2017 – $41 and $68, respectively) which were charged to retained earnings and credited to contributed surplus. As at June 30, 2018, there were 162,192 DSUs outstanding with related contributed surplus amounting to $3,975.

12. Share-based payments (continued)

Long-term incentive plans (cash-settled)

The Company has the following long-term incentive plans for senior executives and certain key employees:

- A restricted share unit plan (RSUs) that entitles them to a cash payment equal to the number of the Company's Class "B" Subordinate Voting Shares underlying the vested RSUs multiplied by the weighted average trading price during the five trading days immediately preceding the vesting date. The RSUs granted vest in whole after three years from the date of the issuance of the grant. The RSUs vest based on service conditions and are not subject to performance conditions. A plan participant may also receive dividend equivalents paid in the form of RSUs.
- A share appreciation rights (SARs) plan that entitles 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 settlement date. The SARs vest based on service conditions and are not subject to performance conditions.
- A performance share unit (PSUs) plan that entitles 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.

The employee benefits expense included in general and administrative expenses for these plans for the second quarter and six months ended June 30, 2018 amounts to a recovery of $975 and $658, respectively (2017 – expense of $1,684 and $227, respectively) for which recognized amounts as at June 30, 2018 of $1,203 (December 30, 2017 – $2,721) are included in trade and other payables and $1,711 (December 30, 2017 – $3,773) in other long-term liabilities.

13. Earnings (loss) per share

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

	Second Quarters Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares	32,438,446	32,403,980	32,438,446	32,403,980
Dilutive effect of deferred share units	–	273,865	–	271,620
Weighted average number of diluted shares	32,438,446	32,677,845	32,438,446	32,675,600
Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings (loss) per share calculation	340,933	51,000	340,933	51,000

As at June 30, 2018 and 2017, convertible debentures were excluded from the calculation of diluted earnings per share as these debentures were deemed to be anti-dilutive.

14. Finance expenses and other information

a) Finance expenses

Finance expenses consist of the following:

	Second Quarters Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
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	$ 6,584	$ 5,284	$ 12,696	$ 12,009
Remeasurement of forward purchase agreement liabilities	–	–	–	276
Amortization of deferred financing costs	266	433	534	764
Loss on early extinguishment of long-term debt	–	–	–	10,199
Other interest	1,159	1,398	2,540	4,055
	$ 8,009	$ 7,115	$ 15,770	$ 27,303

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

	Second Quarters Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Included in cost of sales:				
Cost of inventories recognized as an expense	$ 454,922	$ 423,565	$ 903,347	$ 880,078
Write-downs of inventories as a result of net realizable value being lower than cost (including amounts presented in Note 5)	$ 1,293	$ 3,035	$ 3,435	$ 6,357
Reversal of inventory write-downs recognized in previous years	$ (1,960)	$ (352)	$ (2,867)	$ (962)

c) Income taxes

The effective tax rates for the second quarter and six months ended June 30, 2018 were 35.9% and 44.1%, respectively (2017 – 27.2% and 31.2%, respectively). Variations year-over-year for the second quarter and six 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 which reduces the U.S. federal corporate income tax rate from 35% to 21%, effective as of January 1, 2018). The variation year-over-year for the six months is also due to the loss on early extinguishment of long-term debt for which a tax benefit was not recognized in the first quarter of 2017.

15. Supplemental cash flow information

The condensed consolidated interim statements of cash flows exclude the following non-cash transactions:

	June 30,	
	2018	2017
Acquisition of property, plant and equipment financed by trade and other payables	$ 2,659	$ 2,911
Acquisition of property, plant and equipment financed by obligations under finance leases	$ 406	$ 559
Acquisition of intangible assets financed by trade and other payables	$ 440	$ 1,459

Net changes in balances related to operations are as follows:

	Second Quarters Ended June 30,		Six Months Ended June 30,	
	2018	2017 (1)	2018	2017 (1)
Trade and other receivables	$ 20,658	$ 57,115	$ 21,380	$ 35,169
Inventories	(20,608)	(11,589)	(16,462)	(27,611)
Other financial assets	10	(368)	(72)	(505)
Prepaid expenses	(4,100)	(2,947)	(4,501)	(12,057)
Other assets	(731)	(3,087)	(1,535)	(4,226)
Trade and other payables	19,380	(39,974)	10,687	(18,155)
Net pension and post-retirement defined benefit liabilities	(2,969)	(485)	(2,660)	(2,463)
Provisions, other financial liabilities and other liabilities	12,948	5,389	7,102	(19,864)
	$ 24,588	$ 4,054	$ 13,939	$ (49,712)

(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. See Note 3.

The components of cash and cash equivalents are:

	June 30, 2018	December 30, 2017
Cash	$ 48,589	$ 35,217
Short-term investments	295	1,624
Cash and cash equivalents	$ 48,884	$ 36,841

16. Segmented information

Reporting Segments

	Second Quarters Ended June 30,							
	Total		Dorel Home		Dorel Juvenile		Dorel Sports	
	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)
Total revenue	$ 623,244	$ 611,270	$ 181,296	$ 184,157	$ 217,435	$ 218,060	$ 224,513	$ 209,053
Cost of sales (Note 5)	488,901	465,244	150,744	151,285	161,433	152,930	176,724	161,029
Gross profit	134,343	146,026	30,552	32,872	56,002	65,130	47,789	48,024
Selling expenses	58,505	58,239	6,502	6,553	28,606	29,140	23,397	22,546
General and administrative expenses	40,269	49,445	6,065	8,688	17,902	22,368	16,302	18,389
Research and development expenses	8,637	7,194	1,046	932	6,233	5,124	1,358	1,138
Impairment loss on trade and other receivables (reversal)	132	858	33	(16)	(262)	489	361	385
Restructuring and other costs (Note 5)	11,408	1,485	–	–	1,755	847	9,653	638
Impairment loss on intangible assets (Note 7)	24,193	–	–	–	24,193	–	–	–
Operating profit (loss)	(8,801)	28,805	$ 16,906	$ 16,715	$ (22,425)	$ 7,162	$ (3,282)	$ 4,928
Finance expenses	8,009	7,115						
Corporate expenses	6,241	5,968						
Income taxes expense (recovery)	(8,283)	4,282						
Net income (loss)	$ (14,768)	$ 11,440						
Depreciation and amortization included in operating profit (loss)	$ 11,838	$ 12,186	$ 1,047	$ 977	$ 8,638	$ 8,951	$ 2,153	$ 2,258

(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. See Note 3.

16. Segmented information (continued)

Reporting Segments (continued)

	Six Months Ended June 30,							
	Total		Dorel Home		Dorel Juvenile		Dorel Sports	
	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)
Total revenue	$ 1,265,530	$ 1,257,982	$ 373,558	$ 388,195	$ 460,772	$ 446,718	$ 431,200	$ 423,069
Cost of sales (Note 5)	982,619	958,511	309,013	320,751	335,883	311,703	337,723	326,057
Gross profit	282,911	299,471	64,545	67,444	124,889	135,015	93,477	97,012
Selling expenses	117,289	112,398	12,823	12,702	59,380	57,293	45,086	42,403
General and administrative expenses	88,382	95,914	14,364	16,393	41,357	44,349	32,661	35,172
Research and development expenses	18,061	14,717	2,133	1,844	13,121	10,383	2,807	2,490
Impairment loss on trade and other receivables (Note 10)	13,161	1,846	2,052	25	3,783	856	7,326	965
Restructuring and other costs (Note 5)	12,500	6,318	–	–	2,847	5,378	9,653	940
Impairment loss on intangible assets (Note 7)	24,193	–	–	–	24,193	–	–	–
Operating profit (loss)	9,325	68,278	$ 33,173	$ 36,480	$ (19,792)	$ 16,756	$ (4,056)	$ 15,042
Finance expenses	15,770	27,303						
Corporate expenses	11,527	11,508						
Income taxes expense (recovery)	(7,933)	9,186						
Net income (loss)	$ (10,039)	$ 20,281						
Depreciation and amortization included in operating profit (loss)	$ 23,692	$ 24,003	$ 2,103	$ 2,028	$ 17,283	$ 17,411	$ 4,306	$ 4,564

(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. See Note 3.

16. Segmented information (continued)

Disaggregation of Total Revenue

Within each reporting segment, the Company disaggregates its revenue from customers based on the geographic area where the selling entity is located and based on channels of distribution as it believes it best depicts how the nature, timing and uncertainty of the Company's revenue and cash flows are affected by economics factors. The following table provides the disaggregation of the Company's total revenue:

	Second Quarters Ended June 30,							
	Total		Dorel Home		Dorel Juvenile		Dorel Sports	
	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)
Geographic area								
Canada	$ 48,441	$ 46,096	$ 34,972	$ 31,797	$ 6,539	$ 7,550	$ 6,930	$ 6,749
United States	360,246	350,453	142,191	146,601	76,872	65,825	141,183	138,027
Europe	123,105	120,521	49	8	70,911	78,315	52,145	42,198
Latin America	54,736	52,807	–	–	34,223	35,097	20,513	17,710
Asia	22,042	23,998	7	20	18,293	19,613	3,742	4,365
Other countries	14,674	17,395	4,077	5,731	10,597	11,660	–	4
Total	$ 623,244	$ 611,270	$ 181,296	$ 184,157	$ 217,435	$ 218,060	$ 224,513	$ 209,053
Channels of distribution								
Brick and mortar retailers	$ 450,965	$ 446,951	$ 89,343	$ 96,488	$ 156,898	$ 161,943	$ 204,724	$ 188,520
Internet retailers	161,502	151,257	91,346	87,319	50,694	43,664	19,462	20,274
Other	10,777	13,062	607	350	9,843	12,453	327	259
Total	$ 623,244	$ 611,270	$ 181,296	$ 184,157	$ 217,435	$ 218,060	$ 224,513	$ 209,053

(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. See Note 3.

	Six Months Ended June 30,							
	Total		Dorel Home		Dorel Juvenile		Dorel Sports	
	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)
Geographic area								
Canada	$ 105,135	$ 108,137	$ 70,211	$ 71,280	$ 14,335	$ 15,590	$ 20,589	$ 21,267
United States	725,378	730,104	292,727	306,629	162,685	148,075	269,966	275,400
Europe	257,352	241,918	81	11	163,790	159,377	93,481	82,530
Latin America	107,249	102,860	–	–	68,051	68,305	39,198	34,555
Asia	38,785	42,162	24	64	30,795	32,794	7,966	9,304
Other countries	31,631	32,801	10,515	10,211	21,116	22,577	–	13
Total	$ 1,265,530	$ 1,257,982	$ 373,558	$ 388,195	$ 460,772	$ 446,718	$ 431,200	$ 423,069
Channels of distribution								
Brick and mortar retailers	$ 926,319	$ 944,773	$ 184,579	$ 210,136	$ 341,928	$ 342,138	$ 399,812	$ 392,499
Internet retailers	318,637	290,829	188,241	177,617	99,527	83,086	30,869	30,126
Other	20,574	22,380	738	442	19,317	21,494	519	444
Total	$ 1,265,530	$ 1,257,982	$ 373,558	$ 388,195	$ 460,772	$ 446,718	$ 431,200	$ 423,069

(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. See Note 3.

16. Segmented information (continued)

The continuity of goodwill by reporting segment is as follows:

a) Gross amount

	Total	Dorel Home	Dorel Juvenile	Dorel Sports
Balance as at December 30, 2016	$ 578,056	$ 31,172	$ 351,676	$ 195,208
Effect of foreign currency exchange rate changes	23,395	–	23,399	(4)
Balance as at December 30, 2017	$ 601,451	$ 31,172	$ 375,075	$ 195,204
Disposal (1)	(9,237)	–	–	(9,237)
Effect of foreign currency exchange rate changes	(9,683)	–	(6,111)	(3,572)
Balance as at June 30, 2018	$ 582,531	$ 31,172	$ 368,964	$ 182,395

b) Accumulated impairment losses

	Total	Dorel Home	Dorel Juvenile	Dorel Sports
Balance as at December 30, 2016	$ 142,266	$ –	$ 81,882	$ 60,384
Impairment loss	19,929	–	19,929	–
Effect of foreign currency exchange rate changes	1,184	–	1,185	(1)
Balance as at December 30, 2017	$ 163,379	$ –	$ 102,996	$ 60,383
Disposal (1)	(9,237)	–	–	(9,237)
Effect of foreign currency exchange rate changes	(4,753)	–	(1,181)	(3,572)
Balance as at June 30, 2018	$ 149,389	$ –	$ 101,815	$ 47,574

c) Net book value

	Total	Dorel Home	Dorel Juvenile	Dorel Sports
Balance as at December 30, 2017	$ 438,072	$ 31,172	$ 272,079	$ 134,821
Balance as at June 30, 2018	$ 433,142	$ 31,172	$ 267,149	$ 134,821

(1) As a result of the sale of the performance apparel line of business in the second quarter of 2018 (Note 5), SUGOI's related goodwill was derecognized.