

## UHIRD QUARTERLY REPORT

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023

## Management's Discussion and Analysis

of Financial Conditions and Results of Operations

For the third quarter and nine months ended September 30, 2023 All figures in US dollars

This Interim Management's Discussion and Analysis of Financial Conditions and Results of Operations ("MD\&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements for Dorel Industries Inc. ("Dorel" or "the Company") as at and for the third quarter and nine months ended September 30, 2023 and the Company's audited consolidated financial statements and MD\&A as at and for the year ended December 30, 2022. 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 3 of the Company's audited consolidated financial statements for the year ended December 30, 2022. 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 online at www.sedar.com, as well as on the Company's corporate website 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", or "Financial Instruments", to those outlined in the Company's 2022 annual MD\&A as filed with the Canadian securities regulatory authorities on March 13, 2023. As such, they are not repeated herein. The information in this MD\&A is current as of November 2, 2023.

Certain totals, subtotals and percentages may not agree due to rounding.

## 1. OPERATING RESULTS

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

## a) Macro-economic conditions

There continues to be uncertainty in the macro-economic environment, including inflationary pressures, changes in consumer spending, exchange rate fluctuations and increases in interest rates. These events and conditions are making it difficult to assess the future impact on Dorel's customer base, the end markets we serve as well as the impact on our business, both in the short-term and long term. Despite these ongoing risks and uncertainties, Dorel's focus remains to closely monitor its cash position and control its spending, while managing its inventory levels in line with the unprecedented change in demand behavior.

In addition, the Russia-Ukraine and Israeli-Hamas wars have created and are expected to continue to create further global economic uncertainty. We will continue to monitor the situation closely, but to date we have not experienced any disruptions in our business operations as we do not have significant operations, customers or supplier relationships in Russia, Belarus, Ukraine or Israel. However, it is difficult to predict the broader impact of the conflicts on global economies going forward and their impact on our business.

Refer to the "Consolidated operating review - Continuing operations" and "Segmented operating review" sections for further details of the impact on Dorel's business during the third quarter and nine months ended September 30, 2023.

## b) Non-GAAP financial ratios and measures

Dorel uses non-GAAP financial ratios and measures to assess its operating performance and liquidity. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. In this MD\&A, we and certain investors and analysts use non-GAAP financial ratios and measures including adjusted gross profit, adjusted gross margin, adjusted operating profit (loss), adjusted net income (loss) from continuing operations, adjusted diluted earnings (loss) per share from continuing operations, and organic revenue growth (decline) and adjusted organic revenue growth (decline) to measure our performance and financial condition from one period to the next, which excludes the variation caused by certain adjustments that could potentially distort the analysis of trends in our operating performance, and because we believe such measures provide meaningful information to investors and analysts on the Company's financial condition and financial performance. Dorel also uses non-GAAP financial ratios and measures including total debt, debt-to-equity ratio and free cash flow.

We refer the reader to section entitled "Definition and reconciliation of non-GAAP financial ratios and measures" in this MD\&A for the definition and complete reconciliation of all non-GAAP financial ratios and measures used and presented by Dorel to the most directly comparable IFRS measures.

## c) Third quarter and nine months operating results

|  | Third Quarters Ended |  |  |  | Nine Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{array}{r} \text { Sep } 30, \\ 2023 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2022 \end{array}$ | Variation |  | $\begin{array}{r} \text { Sep 30, } \\ 2023 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2022 \end{array}$ | Variation |  |
| CONTINUING OPERATIONS |  |  |  |  |  |  |  |  |
| Revenue | 359,661 | 374,143 | $(14,482)$ | (3.9)\% | 1,038,069 | 1,230,013 | $(191,944)$ | (15.6)\% |
| Cost of sales | 293,666 | 335,247 | $(41,581)$ | (12.4)\% | 865,126 | 1,053,601 | $(188,475)$ | (17.9)\% |
| Gross profit | 65,995 | 38,896 | 27,099 | 69.7\% | 172,943 | 176,412 | $(3,469)$ | (2.0)\% |
| Selling expenses | 32,222 | 30,422 | 1,800 | 5.9\% | 95,838 | 95,013 | 825 | 0.9\% |
| General and administrative expenses | 31,424 | 33,595 | $(2,171)$ | (6.5)\% | 103,051 | 112,903 | $(9,852)$ | (8.7)\% |
| Research and development expenses | 6,113 | 6,041 | 72 | 1.2\% | 18,557 | 18,901 | (344) | (1.8)\% |
| Impairment (reversal) loss on trade accounts receivable | (53) | 303 | (356) | n.m. | 280 | 1,034 | (754) | (72.9)\% |
| Restructuring costs | - | 2,251 | $(2,251)$ | (100.0)\% | - | 6,809 | $(6,809)$ | (100.0)\% |
| Operating loss | $(3,711)$ | $(33,716)$ | $(30,005)$ | (89.0)\% | $(44,783)$ | $(58,248)$ | $(13,465)$ | (23.1)\% |
| Adjusted operating loss ${ }^{(1)}$ | $(3,711)$ | $(31,465)$ | $(27,754)$ | (88.2)\% | $(44,783)$ | $(51,439)$ | $(6,656)$ | (12.9)\% |
| Finance expenses | 6,464 | 5,079 | 1,385 | 27.3\% | 18,763 | 22,228 | $(3,465)$ | (15.6)\% |
| Loss before income taxes | $(10,175)$ | $(38,795)$ | $(28,620)$ | (73.8)\% | $(63,546)$ | $(80,476)$ | $(16,930)$ | (21.0)\% |
| Income taxes expense (recovery) | 185 | $(2,048)$ | 2,233 | n.m. | $(4,953)$ | $(2,915)$ | 2,038 | 69.9\% |
| Net loss from continuing operations | $(10,360)$ | $(36,747)$ | $(26,387)$ | (71.8)\% | $(58,593)$ | $(77,561)$ | $(18,968)$ | (24.5)\% |
| Adjusted net loss from continuing operations ${ }^{(1)}$ | $(10,360)$ | $(34,691)$ | $(24,331)$ | (70.1)\% | $(58,593)$ | $(71,166)$ | $(12,573)$ | (17.7)\% |
| Basic loss per share from continuing operations | (0.32) | (1.13) | (0.81) | (71.7)\% | (1.80) | (2.38) | (0.58) | (24.4)\% |
| Diluted loss per share from continuing operations | (0.32) | (1.13) | (0.81) | (71.7)\% | (1.80) | (2.38) | (0.58) | (24.4)\% |
| Adjusted diluted loss per share from continuing operations ${ }^{(1)}$ | (0.32) | (1.07) | (0.75) | (70.1)\% | (1.80) | (2.19) | (0.39) | (17.8)\% |
| DISCONTINUED OPERATION |  |  |  |  |  |  |  |  |
| Income from discontinued operation, net of tax | - | - | - | n/a | - | 254,478 | $(254,478)$ | (100.0)\% |
| Net (loss) income | $(10,360)$ | $(36,747)$ | $(26,387)$ | (71.8)\% | $(58,593)$ | 176,917 | $(235,510)$ | n.m. |
| Basic (loss) earnings per share | (0.32) | (1.13) | (0.81) | (71.7)\% | (1.80) | 5.44 | (7.24) | n.m. |
| Diluted (loss) earnings per share | (0.32) | (1.13) | (0.81) | (71.7)\% | (1.80) | 5.30 | (7.10) | n.m. |
| Weighted average number of shares - Basic | 32,540,167 | 32,536,472 | n/a | n/a | 32,538,473 | 32,536,782 | n/a | n/a |
| Weighted average number of shares - Diluted | 32,540,167 | 32,536,472 | n/a | n/a | 32,538,473 | 33,373,873 | n/a | n/a |
| Gross margin ${ }^{(2)}$ | 18.3\% | 10.4\% | n/a | 790 bp | 16.7\% | 14.3\% | n/a | 240 bp |
| Selling expenses as a percentage of revenue ${ }^{(3)}$ | 9.0\% | 8.1\% | n/a | 90 bp | 9.2\% | 7.7\% | n/a | 150 bp |
| General and administrative expenses as a percentage of revenue ${ }^{(4)}$ | 8.7\% | 9.0\% | n/a | (30) bp | 9.9\% | 9.2\% | n/a | 70 bp |

n.m. = not meaningful
$\mathrm{n} / \mathrm{a}=$ not applicable
$\mathrm{bp}=$ basis point
(1) This is a non-GAAP financial ratio or measure with no standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Refer to the section "Definition and reconciliation of non-GAAP financial ratios and measures" in this MD\&A.
(2) Gross margin is defined as gross profit divided by revenue.
(3) Selling expenses as a percentage of revenue is defined as selling expenses divided by revenue.
(4) General and administrative expenses as a percentage of revenue is defined as general and administrative expenses divided by revenue.

## d) Restructuring costs - Continuing operations

The details of restructuring costs of continuing operations are presented below:

|  | Third Quarter Ended | Nine Months Ended |
| :---: | :---: | :---: |
|  | Sep 30, 2022 | Sep 30, 2022 |
| Employee severance and termination benefits | 1,361 | 4,142 |
| Curtailment gain on net pension defined benefit liabilities (1) | (42) | (204) |
| Write-down of property, plant and equipment (1) | 71 | 71 |
| Other associated costs | 861 | 2,800 |
| Total restructuring costs recorded within a separate line in the condensed consolidated interim income statements | 2,251 | 6,809 |
| (1) Non-cash expenses for a total amount of: | 29 | (133) |

## Restructuring costs

For the third quarter and nine months ended September 30, 2022, the Company recorded total restructuring costs from continuing operations of $\$ 2.3$ million and $\$ 6.8$ million, respectively, all of which were recorded as restructuring costs as a separate line within the condensed consolidated interim income statements and all pertained to the Dorel Juvenile segment.

## Dorel Juvenile segment

## 2021 Restructuring Plan

In the fourth quarter of 2021, a new restructuring program was approved for the Dorel Juvenile United States and European markets. In the United States, several operating divisions were combined into one organization. The expected principal benefits of this change were in the sales and marketing area where process harmonization and the creation of a more nimble organization was expected to reduce costs and bring efficiencies. In Europe, with the successful conclusion of the first phase of restructuring that was initiated in 2019, further cost savings opportunities were identified enabled by the supplier new product co-development program and the consolidation of manufacturing into one European factory. This restructuring program was pursued in 2022, for which additional restructuring costs were recorded, and was completed in 2022.

## e) Selected financial information

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

|  | 2023 |  |  | 2022 |  |  |  | 2021 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Sep 30 | Jun 30 | Mar 31 | Dec 30 | Sep 30 | Jun 30 | Mar 31 | Dec 30 |
| Revenue from continuing operations | 359,661 | 345,211 | 333,197 | 340,261 | 374,143 | 427,835 | 428,035 | 435,269 |
| Net loss from continuing operations | $(10,360)$ | $(16,724)$ | $(31,509)$ | $(41,352)$ | $(36,747)$ | $(13,596)$ | $(27,218)$ | $(29,589)$ |
| Per share - Basic | (0.32) | (0.51) | (0.97) | (1.27) | (1.13) | (0.42) | (0.84) | (0.91) |
| Per share - Diluted | (0.32) | (0.51) | (0.97) | (1.27) | (1.13) | (0.42) | (0.84) | (0.91) |
| Net (loss) income | $(10,360)$ | $(16,724)$ | $(31,509)$ | $(40,954)$ | $(36,747)$ | $(20,831)$ | 234,495 | $(19,638)$ |
| Per share - Basic | (0.32) | (0.51) | (0.97) | (1.26) | (1.13) | (0.64) | 7.20 | (0.60) |
| Per share - Diluted | (0.32) | (0.51) | (0.97) | (1.26) | (1.13) | (0.64) | 7.03 | (0.60) |

For the fourth quarter of 2022, the decrease in revenue compared to the fourth quarter of 2021 is due to a decrease in revenue in both Dorel Home and Dorel Juvenile. The increase in the net loss from continuing operations compared to the fourth quarter of 2021 is mainly due to a decrease in the gross profit in both Dorel Home and Dorel Juvenile.

For the first quarter of 2023, the decrease in revenue compared to the first quarter of 2022 is due to a decrease in revenue in both Dorel Home and Dorel Juvenile. The decrease in the net income compared to the first quarter of 2022 is mainly due to the income from discontinued operation, net of tax recorded in the first quarter of 2022.

For the second quarter of 2023, the decrease in revenue compared to the second quarter of 2022 is due to a decrease in revenue in both Dorel Home and Dorel Juvenile, with the Home segment experiencing the most significant decline.

For the third quarter of 2023, the decrease in revenue compared to the third quarter of 2022 is due to the decrease in revenue in Dorel Home, partially offset by improvements in Dorel Juvenile. The decrease in the net loss from continuing operations compared to the third quarter of 2022 is mainly due to an increase in the gross profit in both Dorel Juvenile and Dorel Home.

## f) Consolidated operating review - Continuing operations

Revenue, organic revenue and adjusted organic revenue (decline) growth:

|  | Third Quarters Ended September 30, |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Consolidated |  |  |  | Dorel Home |  |  |  | Dorel Juvenile |  |  |  |
|  | 2023 |  | 2022 |  | 2023 |  | 2022 |  | 2023 |  | 2022 |  |
|  | \$ | \% | \$ | \% | \$ | \% | \$ | \% | \$ | \% | \$ | \% |
| Revenue of the period | 359,661 |  | 374,143 |  | 153,704 |  | 187,448 |  | 205,957 |  | 186,695 |  |
| Revenue of the comparative period | $(374,143)$ |  | $(437,236)$ |  | $(187,448)$ |  | $(218,127)$ |  | $(186,695)$ |  | $(219,109)$ |  |
| Revenue (decline) growth | $(14,482)$ | (3.9) | $(63,093)$ | (14.4) | $(33,744)$ | (18.0) | $(30,679)$ | (14.1) | 19,262 | 10.3 | $(32,414)$ | (14.8) |
| Impact of varying foreign exchange rates | $(7,651)$ | (2.0) | 13,284 | 3.0 | (395) | (0.2) | 541 | 0.3 | $(7,256)$ | (3.9) | 12,743 | 5.8 |
| Organic revenue (decline) growth ${ }^{(1)}$ | $(22,133)$ | (5.9) | $(49,809)$ | (11.4) | $(34,139)$ | (18.2) | $(30,138)$ | (13.8) | 12,006 | 6.4 | $(19,671)$ | (9.0) |
| Impact of acquired businesses | - | - | $(5,634)$ | (1.3) | - | - | $(5,634)$ | (2.6) | - | - | - | - |
| Adjusted organic revenue (decline) growth ${ }^{(1)}$ | $(22,133)$ | (5.9) | $(55,443)$ | (12.7) | $(34,139)$ | (18.2) | $(35,772)$ | (16.4) | 12,006 | 6.4 | $(19,671)$ | (9.0) |

(1) This is a non-GAAP financial ratio or measure with no standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Refer to the section "Definition and reconciliation of non-GAAP financial ratios and measures" in this MD\&A.

(1) This is a non-GAAP financial ratio or measure with no standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Refer to the section "Definition and reconciliation of non-GAAP financial ratios and measures" in this MD\&A.

## Revenue

For the third quarter of 2023, Dorel's revenue decreased by $\$ 14.5$ million, or $3.9 \%$, to $\$ 359.7$ million compared to a year ago. Organic revenue declined by approximately $5.9 \%$, after removing the variation of foreign exchange rates year-overyear. The revenue and organic revenue decline was in Dorel Home, partly offset by improvements in Dorel Juvenile. In Dorel Home, the revenue and organic revenue decline is mainly explained by reduced online sales from the overall lower online consumer demand that continues to persist, partially offset by the increased sales in the brick-and -mortar channel. In Dorel Juvenile, the revenue and organic revenue improvements were mainly in the U.S. and European markets, offset in part by the revenue declines in the Brazilian and Chilean markets.

For the nine months, Dorel's revenue decreased by $\$ 191.9$ million, or $15.6 \%$, to $\$ 1,038.1$ million compared to $\$ 1,230.0$ million a year ago. Organic revenue declined by approximately $15.9 \%$, after removing the variation of foreign exchange rates year-over-year. The revenue and organic revenue decline was in Dorel Home as Dorel Juvenile's revenue was essentially flat year-to-date. In Dorel Home, the revenue and organic revenue decline was mainly explained by the reduced online sales from the overall lower online consumer demand throughout the year, as well as the reduced
sales in the brick-and-mortar channel, in the first half of this year only, as the brick-and-mortar channel experienced increased order replenishment in the third quarter.

## Gross profit and gross margin

Gross profit for the third quarter increased by $\$ 27.1$ million, or $69.7 \%$, compared to last year's third quarter. The gross margin in the third quarter was $18.3 \%$, representing an improvement of 790 basis points from $10.4 \%$ last year. The improvement in gross profit in the quarter was in both Dorel Juvenile and Dorel Home. In Dorel Juvenile, the marked improvement was due to a stronger U.S. dollar relative to almost all major currencies compared to last year, lower product costs and improved product mix and in Dorel Home, the improvement was also due to lower product costs as well as increased factory overhead absorption from the slightly improved domestic manufacturing activity.

The year-to-date gross profit decreased by $\$ 3.5$ million, or $2.0 \%$ compared to last year. However, the year-to-date gross margin at $16.7 \%$ increased by 240 basis points compared to $14.3 \%$ in 2022. The year-to-date decline in gross profit was in Dorel Home offset by the increase in Dorel Juvenile. In Dorel Juvenile, the increase was for the same reasons as in the quarter. In addition, the improvements in the second and third quarters more than offset the declines in the first quarter, which included sales of higher cost items included in opening inventories. In Dorel Home, the third quarter's increased gross profit was not sufficient to offset the marked declines in the first half of the year from the reduced sales volume and reduced online business that generates higher margins.

## Selling expenses

Selling expenses for the third quarter increased by $\$ 1.8$ million, or $5.9 \%$, to $\$ 32.2$ million and increased by 90 basis points as a percentage of revenue. The increase in the quarter was mainly due to overall higher marketing and promotional spend from the new product launches in Dorel Juvenile, offset in part by decreased commissions from lower sales in Dorel Home.

For the nine months, selling expenses increased by $\$ 0.8$ million, or $0.9 \%$, to $\$ 95.8$ million, representing an increase of 150 basis points as a percentage of revenue. The year-to-date increase is explained by the same reasons as in the quarter for Dorel Juvenile but to a lesser extent as there were declines in marketing and promotional expenses in the first quarter this year, offset in part by the decreases in Dorel Home for the same reasons as in the quarter.

## General and administrative expenses

General and administrative expenses in the third quarter declined by $\$ 2.2$ million, or $6.5 \%$, to $\$ 31.4$ million and declined by 30 basis points as a percentage of revenue. The decrease in the quarter was mainly driven by decreased product liability insurance costs in Dorel Home, as well as decreased corporate expenses due to foreign exchange gains, offset in part by increases in product liability insurance costs and legal costs, and management incentive accruals in Dorel Juvenile.

For the nine months, these expenses decreased by $\$ 9.9$ million, or $8.7 \%$, to $\$ 103.1$ million compared to last year. The year-to-date decrease was for the same reasons as in the quarter for Dorel Home and for corporate expenses, offset in part by increases in Dorel Juvenile for the same reasons as in the quarter, but to a lesser extent as there were declines in product liability insurance costs in the first quarter of this year.

## Research and development expenses

Research and development expenses remained comparable to last year's third quarter and year-to-date periods in both Dorel Juvenile and Dorel Home.

## Impairment (reversal) loss on trade accounts receivable

Impairment (reversal) loss on trade accounts receivable remained comparable to last year's third quarter in both Dorel Juvenile and Dorel Home.

For the nine months, impairment loss decreased by $\$ 0.8$ million and is mainly due to a positive recovery of bad debt accrued in the prior year recorded in the second quarter this year in Dorel Juvenile. Dorel Home's impairment loss on trade accounts receivable remained comparable to last year's year-to-date period.

For the third quarter, Dorel reported an operating loss of $\$ 3.7$ million compared to $\$ 33.7$ million in 2022. Excluding restructuring costs, adjusted operating loss for the quarter decreased by $\$ 27.8$ million to an adjusted operating loss of $\$ 3.7$ million from $\$ 31.5$ million last year. The decreases in operating loss and adjusted operating loss for the quarter are mainly due to the increase in gross profit from the increase in gross margin in percentage of revenue.

Year-to-date, Dorel reported an operating loss of $\$ 44.8$ million compared to $\$ 58.2$ million in 2022. Excluding restructuring costs, adjusted operating loss for the nine months decreased by $\$ 6.7$ million to an adjusted operating loss of $\$ 44.8$ million. The decreases in operating loss and adjusted operating loss for the nine months were mainly due to the overall lower operating expenses offset by the decrease in gross profit.

## Finance expenses

Details of finance expenses are summarized below:

|  | Third Quarters Ended |  |  |  | Nine Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{array}{r} \text { Sep 30, } \\ 2023 \\ \hline \end{array}$ | $\begin{array}{r} \hline \text { Sep 30, } \\ 2022 \\ \hline \end{array}$ | Variation \$ $\qquad$ |  | $\begin{array}{r} \hline \text { Sep 30, } \\ 2023 \\ \hline \end{array}$ | $\begin{array}{r} \hline \text { Sep } 30, \\ 2022 \\ \hline \end{array}$ | Variation <br> \$ |  |
| 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 | 4,272 | 2,927 | 1,345 | 46.0\% | 11,203 | 9,882 | 1,321 | 13.4\% |
| Interest on lease liabilities | 1,856 | 1,717 | 139 | 8.1\% | 5,041 | 4,249 | 792 | 18.6\% |
| Prepayment fee on reimbursement of the senior unsecured notes | - | - | - | n/a | - | 6,375 | $(6,375)$ | (100.0)\% |
| Other interest | 336 | 435 | (99) | (22.8)\% | 2,519 | 1,722 | 797 | 46.3\% |
| Finance expenses | 6,464 | 5,079 | 1,385 | 27.3\% | 18,763 | 22,228 | $(3,465)$ | (15.6)\% |
| $\mathrm{n} / \mathrm{a}=$ not applicable |  |  |  |  |  |  |  |  |

Finance expenses increased by $\$ 1.4$ million to $\$ 6.5$ million during the third quarter compared to last year. The increase is mainly explained by the higher average interest rates compared to last year.

Year-to-date, finance expenses decreased by $\$ 3.5$ million to $\$ 18.8$ million compared to last year. The decrease in finance expenses is mainly explained by the prepayment fee of the senior unsecured notes in the amount of $\$ 6.4$ million following the sale of Dorel Sports in the first quarter of 2022, offset in part by the increase in the interest on long-term debt due to the higher average interest rates compared to last year.

## Income taxes expense (recovery)

For the third quarter and nine months ended September 30, 2023, the Company's effective tax rates were (1.8\%) and $7.8 \%$, respectively, compared to $5.3 \%$ and $3.6 \%$ for the same periods in the prior year. 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.

The effective tax rates for the quarters and nine months ended September 30, 2023 and 2022 were primarily impacted by the non-recognition of tax benefits related to tax losses and temporary differences.

## Net loss from continuing operations

During the third quarter of 2023, the net loss from continuing operations was $\$ 10.4$ million, or $\$ 0.32$ per diluted share compared with $\$ 36.7$ million, or $\$ 1.13$ per diluted share in 2022. Excluding restructuring costs, adjusted net loss from continuing operations for the quarter was $\$ 10.4$ million, or $\$ 0.32$ per diluted share compared with $\$ 34.7$ million, or $\$ 1.07$ per diluted share a year ago.

For the nine months, the net loss from continuing operations was $\$ 58.6$ million, or $\$ 1.80$ per diluted share compared with $\$ 77.6$ million, or $\$ 2.38$ per diluted share in 2022. Excluding restructuring costs, adjusted net loss from continuing operations for the nine months was $\$ 58.6$ million, or $\$ 1.80$ per diluted share compared to $\$ 71.2$ million, or $\$ 2.19$ per diluted share a year ago.

## g) Segmented operating review

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

## Dorel Juvenile

|  | Third Quarters Ended |  |  |  | Nine Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Sep 30, 2023 | Sep 30, 2022 | Variation |  | Sep 30, 2023 | Sep 30, 2022 | Variation |  |
| Revenue | 205,957 | 186,695 | 19,262 | 10.3\% | 617,743 | 621,268 | $(3,525)$ | (0.6)\% |
| Cost of sales | 150,933 | 156,717 | $(5,784)$ | (3.7)\% | 462,990 | 495,887 | $(32,897)$ | (6.6)\% |
| Gross profit | 55,024 | 29,978 | 25,046 | 83.5\% | 154,753 | 125,381 | 29,372 | 23.4\% |
| Selling expenses | 26,008 | 23,541 | 2,467 | 10.5\% | 76,897 | 73,795 | 3,102 | 4.2\% |
| General and administrative expenses | 21,095 | 17,574 | 3,521 | 20.0\% | 67,830 | 64,348 | 3,482 | 5.4\% |
| Research and development expenses | 4,835 | 4,744 | 91 | 1.9\% | 14,656 | 15,002 | (346) | (2.3)\% |
| Impairment (reversal) loss on trade accounts receivable | (100) | 314 | (414) | n.m. | 258 | 1,036 | (778) | (75.1)\% |
| Restructuring costs | - | 2,251 | $(2,251)$ | (100.0)\% | - | 6,809 | $(6,809)$ | (100.0)\% |
| Operating profit (loss) | 3,186 | $(18,446)$ | $(21,632)$ | n.m. | $(4,888)$ | $(35,609)$ | $(30,721)$ | (86.3)\% |
| Adjusted operating profit (loss) ${ }^{(1)}$ | 3,186 | $(16,195)$ | $(19,381)$ | n.m. | $(4,888)$ | $(28,800)$ | $(23,912)$ | (83.0)\% |
| Gross margin ${ }^{(2)}$ | 26.7\% | 16.1\% | n/a | 1060 bp | 25.1\% | 20.2\% | n/a | 490 bp |
| Selling expenses as a percentage of revenue ${ }^{(3)}$ | 12.6\% | 12.6\% | n/a | -bp | 12.4\% | 11.9\% | n/a | 50 bp |
| General and administrative expenses as a percentage of revenue ${ }^{(4)}$ | 10.2\% | 9.4\% | n/a | 80 bp | 11.0\% | 10.4\% | n/a | 60 bp |

n.m. $=$ not meaningful
n/a $=$ not applicable
$\mathrm{bp}=$ basis point
(1) This is a non-GAAP financial ratio or measure with no standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Refer to the section "Definition and reconciliation of non-GAAP financial ratios and measures" in this MD\&A.
(2) Gross margin is defined as gross profit divided by revenue.
(3) Selling expenses as a percentage of revenue is defined as selling expenses divided by revenue.
(4) General and administrative expenses as a percentage of revenue is defined as general and administrative expenses divided by revenue.

Dorel Juvenile's third quarter revenue increased by $\$ 19.3$ million, or $10.3 \%$, to $\$ 206.0$ million from $\$ 186.7$ million last year. Organic revenue improved by approximately $6.4 \%$, after removing the impact of varying foreign exchange rates year-over-year. The improvement in revenue and organic revenue in the third quarter was mainly in the U.S. and European markets. In the U.S., the increase was across all brands and all product categories. Europe experienced double-digit revenue growth for the second sequential quarter from new product launches that continue to gain momentum and was in both the specialist and e-commerce channels. These improvements were partially offset by the revenue declines in the Brazilian and Chilean markets. In Brazil, the shortfall was mainly due to key customers' overstock positions from the orders placed in the first half of the year. In Chile, revenues were lower across all channels, attributable to lower consumer demand that continues to persist in that market.

The segment's revenue for the nine months decreased by $\$ 3.5$ million, or $0.6 \%$, to $\$ 617.7$ million. Organic revenue declined by approximately $1.3 \%$, after removing the impact of varying foreign exchange rates year-over-year. Year-todate, revenue and organic revenue declines were mainly in the U.S. and Chilean markets. In the U.S., the improvement in the third quarter was not enough to offset the revenue declines in the first half of the year which included revenue declines from the network security incident that prevented shipping in the first two weeks of April. In Chile, the decline is mainly for the same reasons as in the quarter. These declines were partially offset by the revenue and organic revenue improvements in Europe and are for the same reasons as in the quarter described above.

Gross profit for the third quarter increased by $\$ 25.0$ million, or $83.5 \%$, compared to last year's third quarter. The gross margin in the third quarter was $26.7 \%$, representing an improvement of 1060 basis points from $16.1 \%$ last year. The increase in gross profit and gross margin in the third quarter was due to a stronger U.S. dollar relative to almost all major currencies compared to last year and lower product costs as the prior year third quarter included much higher container freight costs. In addition, better overhead absorption and improved margins from the sale of new products contributed to the increased margins. For the nine months, gross profit increased by $\$ 29.4$ million, or $23.4 \%$ compared to last year and gross margin improved by 490 basis points to $25.1 \%$. The year-to-date improvement was for the same reasons as in the quarter. The improvements in the second and third quarters more than offset the declines in the first quarter, which included sales of higher cost items included in opening inventories.

Selling expenses in the third quarter increased by $\$ 2.5$ million, or $10.5 \%$, to $\$ 26.0$ million, however, were flat as a percentage of revenue, due to the increased sales volume. The increase in selling expenses in the third quarter is mainly due to overall higher marketing and promotional expenses related to the new product launches and increased people costs. For the nine months, selling expenses increased by $\$ 3.1$ million, or $4.2 \%$, to $\$ 76.9$ million, representing an increase of 50 basis points as a percentage of revenue. The year-to-date increase in selling expenses is for the same reasons as in the quarter but to a lesser extent as there were declines in marketing and promotional expenses in the first quarter this year.

General and administrative expenses for the third quarter increased by $\$ 3.5$ million, or $20.0 \%$, to $\$ 21.1$ million, representing an increase of 80 basis points as a percentage of revenue. The increase is mainly due to higher product liability insurance costs and legal costs as well as increased management incentive accruals. For the nine months, general and administrative expenses also increased by $\$ 3.5$ million, or $5.4 \%$, to $\$ 67.8$ million, representing an increase of 60 basis points as a percentage of revenue. The year-to-date increase in general and administrative expenses is for the same reasons as in the quarter but to a lesser extent as there were declines in product liability insurance costs in the first quarter this year.

Research and development expenses remained comparable to last year's third quarter and year-to-date periods.
Impairment loss on trade accounts receivable in the third quarter decreased by $\$ 0.4$ million. For the nine months, impairment loss decreased by $\$ 0.8$ million and is mainly due to a positive recovery of bad debt accrued in the prior year recorded in the second quarter this year.

Restructuring costs were nil in 2023, as the restructuring plan that was initiated in a prior year was completed in 2022.This meant that restructuring costs decreased by $\$ 2.3$ million compared to last year for the third quarter and $\$ 6.8$ million year-to-date. Refer to "Restructuring costs" within the operating results section for further details.

Operating profit was $\$ 3.2$ million during the third quarter compared to an operating loss of $\$ 18.4$ million in 2022. Excluding restructuring costs, adjusted operating loss declined by $\$ 19.4$ million to an adjusted operating profit of $\$ 3.2$ million from an adjusted operating loss of $\$ 16.2$ million in 2022. The decrease in operating loss in the third quarter is mainly explained by the increase in gross profit dollars from the increased sales volume and higher gross margin offset in part by the overall higher expenses as detailed above. The year-to-date operating loss was $\$ 4.9$ million compared to $\$ 35.6$ million during the prior year. Excluding restructuring costs, the adjusted operating loss declined by $\$ 23.9$ million to an adjusted operating loss of $\$ 4.9$ million from $\$ 28.8$ million during the prior year. Year-to-date, the decrease in operating loss is mainly explained by the increase in gross profit dollars from the higher gross margin.

|  | Third Quarters Ended |  |  |  | Nine Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{array}{r} \text { Sep } 30, \\ 2023 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2022 \end{array}$ | Variation <br> \$ |  | $\begin{array}{r} \text { Sep 30, } \\ 2023 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2022 \end{array}$ | Varia \$ | \% |
| Revenue | 153,704 | 187,448 | $(33,744)$ | (18.0)\% | 420,326 | 608,745 | $(188,419)$ | (31.0)\% |
| Cost of sales | 142,733 | 178,530 | $(35,797)$ | (20.1)\% | 402,136 | 557,714 | $(155,578)$ | (27.9)\% |
| Gross profit | 10,971 | 8,918 | 2,053 | 23.0\% | 18,190 | 51,031 | $(32,841)$ | (64.4)\% |
| Selling expenses | 6,214 | 6,706 | (492) | (7.3)\% | 18,941 | 20,684 | $(1,743)$ | (8.4)\% |
| General and administrative expenses | 6,994 | 8,922 | $(1,928)$ | (21.6)\% | 22,757 | 26,686 | $(3,929)$ | (14.7)\% |
| Research and development expenses | 1,278 | 1,297 | (19) | (1.5)\% | 3,901 | 3,899 | 2 | 0.1\% |
| Impairment loss (reversal) on trade accounts receivable | 47 | (11) | 58 | n.m. | 22 | (2) | 24 | n.m. |
| Operating loss | $(3,562)$ | $(7,996)$ | $(4,434)$ | (55.5)\% | $(27,431)$ | (236) | 27,195 | n.m. |
| Gross margin ${ }^{(1)}$ | 7.1\% | 4.8\% | n/a | 230 bp | 4.3\% | 8.4\% | n/a | (410) bp |
| Selling expenses as a percentage of revenue ${ }^{(2)}$ | 4.0\% | 3.6\% | n/a | 40 bp | 4.5\% | 3.4\% | n/a | 110 bp |
| General and administrative expenses as a percentage of revenue ${ }^{(3)}$ | 4.6\% | 4.8\% | n/a | (20) bp | 5.4\% | 4.4\% | n/a | 100 bp |

n.m. = not meaningful
n/a = not applicable
bp = basis point
(1) Gross margin is defined as gross profit divided by revenue.
(2) Selling expenses as a percentage of revenue is defined as selling expenses divided by revenue.
(3) General and administrative expenses as a percentage of revenue is defined as general and administrative expenses divided by revenue.

Dorel Home's third quarter revenue declined by $\$ 33.7$ million, or $18.0 \%$, to $\$ 153.7$ million from $\$ 187.4$ million last year. The decline in revenue in the third quarter is mainly explained by reduced online sales from the overall lower online consumer demand that continues to persist, partially offset by the increased sales in the brick-and-mortar channel. The increased sales in the brick-and-mortar channel were due to increased order replenishment as POS sales have far exceeded replenishment orders in the last several months. Although US inflation in September increased slightly from June, which was the lowest level in over two years, prices for everyday consumer goods remain quite high, and this continues to affect consumers' spending habits related to furniture items. However, on a sequential basis, third-quarter revenue increased by approximately $15 \%$ over both the first quarter and second quarter of this year.

Revenue for the nine months declined by $\$ 188.4$ million, or $31.0 \%$, to $\$ 420.3$ million from $\$ 608.7$ million last year. The year-to-date decline is mainly explained by the reduced online sales from the overall lower online consumer demand throughout the year, as well as the reduced sales in the brick-and-mortar channel, in the first half of this year only, as the brick-and-mortar channel experienced increased order replenishment in the third quarter, as described above.

Gross profit for the third quarter increased by $\$ 2.1$ million, or $23.0 \%$, compared to last year's third quarter. Gross margin in the third quarter was $7.1 \%$, representing an improvement of 230 basis points from $4.8 \%$ last year. The increase in gross profit and gross margin in the third quarter was mainly due to lower product costs from reduced raw material costs and freight, and sales of a smaller proportion of older higher cost items included in opening inventories. The level of older higher cost inventories has been reduced significantly from the beginning of the year, which should benefit margins going forward. Also, margins were positively impacted by slightly better domestic manufacturing activity that led to higher factory overhead absorption. On a sequential basis, gross margins improved by 570 and 310 basis points compared to the first quarter and second quarter of this year respectively. The margins should continue to improve as freight costs, board and overseas finished goods costs have all decreased significantly from the start of the year and as the remaining older higher cost inventory is sold.

For the nine months, gross profit decreased by $\$ 32.8$ million, or $64.4 \%$ compared to last year and gross margin declined by 410 basis points to $4.3 \%$. The year-to-date decline in gross profit and gross margin was mainly due to the reduced sales volume and reduced online business that generates higher margins. And although domestic manufacturing was slightly better in the third quarter, it was not enough to offset the lower domestic manufacturing activity in the first half of this year and its negative impact on margins.

Selling expenses in the third quarter decreased by $\$ 0.5$ million, or $7.3 \%$, to $\$ 6.2$ million from $\$ 6.7$ million last year. For the nine months, selling expenses decreased by $\$ 1.7$ million, or $8.4 \%$, to $\$ 18.9$ million. The decline in selling expenses in the quarter and year-to-date periods is mainly explained by decreased commissions from lower sales. Additionally, the year-to-date selling expenses have declined due to reductions in headcount.

General and administrative expenses in the third quarter decreased by $\$ 1.9$ million, or $21.6 \%$, to $\$ 7.0$ million from $\$ 8.9$ million last year. For the nine months, general and administrative expenses decreased by $\$ 3.9$ million, or $14.7 \%$, to $\$ 22.8$ million from $\$ 26.7$ million in 2022. The decline in general and administrative expenses in the quarter and year-to-date periods is mainly explained by decreased product liability insurance costs. Additionally, the year-to-date general and administrative expenses have declined due to reductions in headcount.

Research and development expenses remained comparable to last year's third quarter and year-to-date periods.
Similarly, the impairment loss (reversal) on trade accounts receivable also remained comparable to last year's third quarter and year-to-date periods.

Dorel Home's operating loss declined by $\$ 4.4$ million for the quarter to an operating loss of $\$ 3.6$ million from $\$ 8.0$ million in 2022. For the nine months, operating loss increased by $\$ 27.2$ million to an operating loss of $\$ 27.4$ million from $\$ 0.2$ million in the previous year. The decrease in operating loss in the quarter is due to the increased gross profit as well as the overall lower operating expenses as detailed above. Year-to-date, the increase in operating loss is mainly explained by the decline in revenue and lower gross profit offset in part by the overall lower operating expenses.

## 2. FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

## a) Selected information from the consolidated statements of financial position

|  | September 30, 2023 | $\begin{array}{r} \text { December 30, } \\ 2022 \end{array}$ |
| :---: | :---: | :---: |
| Assets |  |  |
| Current assets | 615,577 | 679,161 |
| Assets held for sale | - | 2,676 |
|  | 615,577 | 681,837 |
| Non-current assets | 369,334 | 378,611 |
|  | 984,911 | 1,060,448 |
| Liabilities |  |  |
| Current liabilities | 404,174 | 375,084 |
| Non-current liabilities | 355,124 | 404,220 |
| Equity | 225,613 | 281,144 |
|  | 984,911 | 1,060,448 |

Compared to December 30, 2022, Dorel's total current assets decreased mainly as a result of:

- a decrease in inventories of $\$ 66.1$ million of which $\$ 27.8$ million was in Dorel Juvenile and $\$ 38.3$ million was in Dorel Home mainly from the continuing efforts to further reduce inventories and move out existing high-cost items.

Compared to December 30, 2022, Dorel's total current liabilities increased mainly as a result of:

- an increase in trade and other payables in the amount of $\$ 29.0$ million due to the timing of payments to suppliers.

Compared to December 30, 2022, Dorel's total non-current liabilities decreased mainly as a result of:

- a decrease in long-term debt in the amount of $\$ 32.7$ million; and
- a decrease in lease liabilities in the amount of $\$ 12.1$ million due to the payment of lease liabilities, net of the increase from the additions, lease modifications and lease reassessments.


## b) Debt-to-equity ratio

|  | September 30, | December 30, |
| :--- | ---: | ---: |
| Long-term debt | $\mathbf{2 0 2 3}$ | $\mathbf{2 0 2 2}$ |
| Bank indebtedness | $\mathbf{2 2 9 , 7 5 8}$ | $256, \mathbf{7 3 0}$ |
| Total debt | $\mathbf{7 , 9 1 4}$ | 11,946 |
| Equity | $\mathbf{2 3 7 , 6 7 2}$ | $\mathbf{2 6 8 , 6 7 6}$ |
| Debt-to-equity ratio $^{(1)}$ | $\mathbf{2 2 5 , 6 1 3}$ | $\mathbf{2 8 1 , 1 4 4}$ |

(1) This is a non-GAAP financial ratio with no standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Refer to the section "Definition and reconciliation of non-GAAP financial ratios and measures" in this MD\&A.

The debt-to-equity ratios as at September 30, 2023 and December 30, 2022 are comparable.

## c) Cash flow

|  | Third Quarters Ended |  |  | Nine Months Ended |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{array}{r} \text { Sep 30, } \\ 2023 \end{array}$ | Sep 30, 2022 | Variation \$ | Sep 30, 2023 | Sep 30, 2022 | Variation \$ |
| Cash flow provided by (used in): |  |  |  |  |  |  |
| Operating activities | 12,590 | $(18,365)$ | 30,955 | 62,110 | $(166,598)$ | 228,708 |
| Financing activities | $(8,903)$ | 13,245 | $(22,148)$ | $(58,197)$ | $(599,030)$ | 540,833 |
| Investing activities | $(3,356)$ | $(7,740)$ | 4,384 | $(11,234)$ | 742,248 | $(753,482)$ |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | 124 | 3,211 | $(3,087)$ | (532) | $(5,829)$ | 5,297 |
| Net increase (decrease) in cash and cash equivalents | 455 | $(9,649)$ | 10,104 | $(7,853)$ | $(29,209)$ | 21,356 |

## Cash flow provided by (used in) operating activities

For the third quarter of 2023, cash flow provided by operating activities was $\$ 12.6$ million compared to cash flow used in operating activities of $\$ 18.4$ million last year. This represented a year-over-year increase in cash flow provided by operating activities of $\$ 31.0$ million. The increase in the cash flow provided by operating activities compared to 2022 is mainly explained by the overall higher contribution from earnings from continuing operations in 2023 and by a net positive change in balances related to operations due to the net positive change in trade and other payables offset in part by the net negative change in trade accounts receivable. The net positive change in trade and other payables is due to the timing of payments to suppliers. The net negative change in trade accounts receivable is mainly due to the timing of the collection of accounts receivable from customers.

For the nine months, cash flow provided by operating activities was $\$ 62.1$ million compared to cash flow used in operating activities of $\$ 166.6$ million last year. This represented a year-over-year increase in cash flow provided by operating activities of $\$ 228.7$ million. The increase in the cash flow provided by operating activities compared to 2022 is mainly explained by a net positive change in balances related to operations due to the net positive change in inventories. The net positive change in inventories is due to the lower inventory levels overall. In addition, last year's first quarter cash flow used in operations included the payment of the income taxes, following the tax judgment in 2021.

|  | Third Quarters Ended |  |  | Nine Months Ended |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{array}{r} \text { Sep 30, } \\ 2023 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2022 \end{array}$ | Variation \$ | $\begin{array}{r} \text { Sep } 30, \\ 2023 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2022 \end{array}$ | Variation $\qquad$ |
| Cash provided by (used in) operating activities | 12,590 | $(18,365)$ | 30,955 | 62,110 | $(166,598)$ | 228,708 |
| Less: |  |  |  |  |  |  |
| Dividends paid | - | - | - | - | $(390,642)$ | 390,642 |
| Shares repurchased | - | - | - | - | (499) | 499 |
| Additions to property, plant and equipment | $(2,201)$ | $(5,631)$ | 3,430 | $(9,787)$ | $(14,356)$ | 4,569 |
| Disposals of property, plant and equipment | 6 | 44 | (38) | 31 | 84 | (53) |
| Additions to intangible assets | $(1,161)$ | $(2,153)$ | 992 | $(4,440)$ | $(5,517)$ | 1,077 |
| Net proceeds on sale of assets held for sale | - | - | - | 2,962 | - | 2,962 |
| Net proceeds on sale of the Sports segment | - | - | - | - | 788,182 | $(788,182)$ |
| Free cash flow ${ }^{(1)}$ | 9,234 | $(26,105)$ | 35,339 | 50,876 | 210,654 | $(159,778)$ |

(1) This is a non-GAAP financial ratio or measure with no standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Refer to the section "Definition and reconciliation of non-GAAP financial ratios and measures" in this MD\&A.

## Cash flow (used in) provided by financing activities

When compared to 2022, cash flow used in financing activities increased by $\$ 22.1$ million to $\$ 8.9$ million for the third quarter of 2023 and is explained by the decrease in long-term debt. For the nine months, cash flow used in financing activities decreased by $\$ 540.8$ million to $\$ 58.2$ million. Last year's cash flow used in financing activities included the repayment of long-term debt in the amount of $\$ 184.3$ million and the payment of the special dividend in the amount of $\$ 390.6$ million from the proceeds of the sale of Dorel Sports that was completed in the first quarter last year.

## Cash flow (used in) provided by investing activities

Cash flow used in investing activities decreased by $\$ 4.4$ million to $\$ 3.4$ million for the third quarter of 2023. For the nine months, cash flow used in investing activities increased by $\$ 753.5$ million to $\$ 11.2$ million and is mainly explained by the net proceeds from the sale of Dorel Sports in the amount of $\$ 788.2$ million received in the first quarter last year.

## 3. CRITICAL ACCOUNTING ESTIMATES

While preparing the condensed consolidated interim financial statements for the third quarter and nine months ended September 30, 2023, management exercised judgment in connection with the uncertainty in the macro-economic environment, including inflationary pressures, changes in consumer spending, exchange rate fluctuations and increases in interest rates on the Company's reported assets, liabilities, revenue and expenses, and on the related disclosures, using estimates and assumptions which are subject to significant uncertainties. The extent to which the uncertainty in the macro-economic environment will impact the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. Accordingly, actual results could differ materially from the uncertainty in the macro-economic environment-related estimates and assumptions made by management in the preparation of the condensed consolidated interim financial statements.

## 4. FUTURE ACCOUNTING CHANGES

New standards and amendments to existing standards have been issued by the IASB, which are mandatory but not yet effective for the nine months ended September 30, 2023. The new standards and amendments have not been applied in preparing the condensed consolidated interim financial statements. The Company is currently evaluating the impact of adopting the new standards and amendments on the Company's consolidated financial statements. Refer to Note 3 - Future Accounting Changes in our condensed consolidated interim financial statements for more details.

## 5. OTHER INFORMATION

The designation, number and amount of each class and series of Dorel's shares outstanding as of November $1^{\text {st }}, 2023$ 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 | $\$(' 000)$ | $\$(' 000)$ |
| $4,136,753$ | 1,742 | $28,415,677$ | 204,220 | 205,962 |

Outstanding Deferred Share Units and cash-settled Restricted Share Units are disclosed in Note 10 of Dorel's condensed consolidated interim financial statements. There were no significant changes to these values in the period between the quarter-end and the date of the preparation of this MD\&A.

## 6. DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the third quarter ended September 30, 2023, Dorel has made no change that has materially affected or is likely to materially affect Dorel's internal controls over financial reporting.

## 7. 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, including statements regarding the impact of the macro-economic environment, including inflationary pressures, changes in consumer spending, exchange rate fluctuations and increases in interest rates on the Company's business, financial position and operations, 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 and financial conditions, including those resulting from the current high inflationary environment;
- changes in applicable laws or regulations;
- changes in product costs and supply channels, including disruption of the Company's supply chain resulting from the macro-economic environment;
- foreign currency fluctuations, including high levels of volatility in foreign currencies with respect to the US dollar reflecting uncertainties related to the macro-economic environment;
- customer and credit risk, including 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;
- outbreak of public health crises, such as the COVID-19 pandemic, that could adversely affect global economies and financial markets, resulting in an economic downturn which could be for a prolonged period of time and have a material adverse effect on the demand for the Company's products and on its business, financial condition and results of operations;
- the effect of international conflicts on the Company's sales, including the ongoing Russia-Ukraine war and the Israeli-Hamas war;
- continued access to capital resources, including compliance by the Company with all of the terms and conditions under its ABL facility, and the related costs of borrowing, all of which may be adversely impacted by the macroeconomic environment;
- failures related to information technology systems;
- changes in assumptions in the valuation of goodwill and other intangible assets and any future decline in market capitalization;
- there being no certainty that the Company will declare any dividend in the future;
- increased exposure to cybersecurity risks as a result of remote work by the Company's employees;
- the Company's ability to protect its current and future technologies and products and to defend its intellectual property rights;
- potential damage to the Company's reputation; and
- the effect of climate change on the Company.

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 set out in the previously mentioned documents are expressly incorporated by reference herein in their entirety.

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.

## 8. DEFINITION AND RECONCILIATION OF NON-GAAP FINANCIAL RATIOS AND MEASURES

Dorel presents in this MD\&A certain non-GAAP financial ratios and measures, as described below. These non-GAAP financial ratios and measures do not have a standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. These non-GAAP financial ratios and measures should not be considered in isolation or as a substitute for a measure prepared in accordance with IFRS. Contained within this MD\&A are reconciliations of the non-GAAP financial ratios and measures to the most directly comparable financial measures calculated in accordance with IFRS.

Dorel believes that the non-GAAP financial ratios and measures used in this MD\&A provide investors with additional information to analyze its results and to measure its financial performance by excluding the variation caused by certain items that Dorel believes do not reflect its core business performance and provides better comparability between the periods presented. Excluding these items does not imply they are necessarily non-recurring. The non-GAAP financial measures are also used by management to assess Dorel's financial performance and to make operating and strategic decisions.

## Adjustments to non-GAAP financial ratios and measures

As noted above, certain of our non-GAAP financial measures and ratios exclude the variation caused by certain adjustments that affect the comparability of Dorel's financial results and could potentially distort the analysis of trends in its business performance. Adjustments which impact more than one non-GAAP financial ratio and measure are explained below.

## Restructuring costs

Restructuring costs are comprised of costs directly related to significant exit activities, including the sale of manufacturing facilities, closure of businesses, reorganization, optimization, transformation, and consolidation to improve the competitive position of the Company in the marketplace and to reduce costs and bring efficiencies, and acquisitionrelated costs in connection with business acquisitions. Restructuring costs are included as an adjustment of adjusted gross profit, adjusted gross margin, adjusted operating profit (loss) from continuing operations, adjusted net income (loss) from continuing operations and adjusted diluted earnings (loss) per share from continuing operations. Restructuring costs were respectively $\$ 2.3$ million and $\$ 6.8$ million for the third quarter and nine months ended September 30, 2022 (none in 2023). Refer to the section "Restructuring costs - Continuing operations" in this MD\&A for more details.

## Impact of acquired businesses

The impact of acquired businesses is included as an adjustment of adjusted organic revenue growth (decline). Revenue from acquired businesses is adjusted during the first year of operation in order to get a better comparison of revenue from year-to-year. Revenue from acquired businesses were respectively $\$ 5.6$ million and $\$ 18.8$ million for the third quarter and nine months ended September 30, 2022 and were all related to the acquisition of Notio Living by Dorel Home.

## Impact of the sale of divisions

The impact of the sale of divisions is included as an adjustment of adjusted organic revenue growth (decline). Revenue from the sale of divisions is adjusted during the year after the disposal in order to get a better comparison of revenue from year-to-year. Revenue from the sale of divisions was $\$ 5.4$ million for the nine months ended September 30, 2021 (none for the third quarter ended September 30, 2021) and was all related to the disposal of the manufacturing facility in Zhongshan, China by Dorel Juvenile.

## Adjusted gross profit and adjusted gross margin

Adjusted gross profit is calculated as gross profit excluding the impact of restructuring costs. Adjusted gross margin is a non-GAAP ratio and is calculated as adjusted gross profit divided by revenue. Dorel uses adjusted gross profit and adjusted gross margin to measure its performance from one period to the next, without the variation caused by the impacts of the items described above. Dorel also uses adjusted gross profit and adjusted gross margin on a segment basis to measure its performance at the segment level. Dorel excludes this item because it affects the comparability of its financial results and could potentially distort the analysis of trends in its business performance. Certain investors and analysts use the adjusted gross profit and adjusted gross margin to measure the business performance of the Company as a whole and at the segment level from one period to the next, without the variation caused by the impact of the restructuring costs. Excluding this item does not imply it is necessarily non-recurring. These ratios and measures do not have any standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to a similar measure presented by other companies.

There are no adjusted gross profit and adjusted gross margin for the third quarters and nine months ended September 30, 2023 and 2022.

## Adjusted operating profit (loss) from continuing operations

Adjusted operating profit (loss) from continuing operations is calculated as operating profit (loss) from continuing operations excluding the impact of restructuring costs. Adjusted operating profit (loss) from continuing operations also excludes impairment loss on goodwill. Management uses adjusted operating profit (loss) from continuing operations to measure its performance from one period to the next, without the variation caused by the impacts of the items described above. Dorel also uses adjusted operating profit (loss) on a segment basis to measure its performance at the segment level. Dorel excludes these items because they affect the comparability of its financial results and could potentially distort the analysis of trends in its business performance. Certain investors and analysts use the adjusted operating profit (loss) from continuing operations to measure the business performance of the Company as a whole and at the segment level from one period to the next, without the variation caused by the impact of the restructuring costs and impairment loss on goodwill. Excluding these items does not imply they are necessarily non-recurring. This measure does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to a similar measure presented by other companies.

|  | Third Quarters Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
| From continuing operations | Sep 30, 2023 | Sep 30, 2022 | Sep 30, 2023 | Sep 30, 2022 |
| Operating loss from continuing operations | $(3,711)$ | $(33,716)$ | $(44,783)$ | $(58,248)$ |
| Adjustment for: |  |  |  |  |
| Total restructuring costs | - | 2,251 | - | 6,809 |
| Adjusted operating loss from continuing operations | $(3,711)$ | $(31,465)$ | $(44,783)$ | $(51,439)$ |


| Dorel Juvenile | Third Quarters Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Sep 30, 2023 | Sep 30, 2022 | Sep 30, 2023 | Sep 30, 2022 |
| Operating profit (loss) | 3,186 | $(18,446)$ | $(4,888)$ | $(35,609)$ |
| Adjustment for: |  |  |  |  |
| Restructuring costs | - | 2,251 | - | 6,809 |
| Adjusted operating profit (loss) | 3,186 | $(16,195)$ | $(4,888)$ | $(28,800)$ |

## Adjusted net income (loss) from continuing operations and adjusted diluted earnings (loss) per share from continuing operations

Adjusted net income (loss) from continuing operations is calculated as net income (loss) from continuing operations excluding the impact of restructuring costs and impairment loss on goodwill, as well as income taxes expense (recovery) relating to the adjustments above. Adjusted diluted earnings (loss) per share from continuing operations is a non-GAAP ratio and is calculated as adjusted net income (loss) from continuing operations divided by the weighted average number of diluted shares. Management uses adjusted net income (loss) from continuing operations and adjusted diluted earnings (loss) per share from continuing operations to measure its performance from one period to the next, without the variation caused by the impacts of the items described above. Dorel excludes these items because they affect the comparability of its financial results and could potentially distort the analysis of trends in its business performance. Certain investors and analysts use the adjusted net income (loss) from continuing operations and adjusted diluted earnings (loss) per share from continuing operations to measure the business performance of the Company from one period to the next. Excluding these items does not imply they are necessarily non-recurring. These measures do not have any standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to a similar measure presented by other companies.

|  | Third Quarters Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $\begin{array}{r} \text { Sep 30, } \\ 2023 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2022 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2023 \end{array}$ | $\begin{array}{r} \text { Sep 30, } \\ 2022 \end{array}$ |
| Net loss from continuing operations | $(10,360)$ | $(36,747)$ | $(58,593)$ | $(77,561)$ |
| Adjustment for: |  |  |  |  |
| Total restructuring costs | - | 2,251 | - | 6,809 |
| Income taxes recovery relating to the above-noted adjustments | - | (195) | - | (414) |
| Adjusted net loss from continuing operations | $(10,360)$ | $(34,691)$ | $(58,593)$ | $(71,166)$ |
| Basic loss per share from continuing operations | (0.32) | (1.13) | (1.80) | (2.38) |
| Diluted loss per share from continuing operations | (0.32) | (1.13) | (1.80) | (2.38) |
| Adjusted diluted loss per share from continuing operations ${ }^{(1)}$ | (0.32) | (1.07) | (1.80) | (2.19) |

(1) This is a non-GAAP financial ratio and it is calculated as adjusted net income (loss) from continuing operations divided by weighted average number of diluted shares.

## Organic revenue growth (decline) and adjusted organic revenue growth (decline)

Organic revenue growth (decline) is calculated as revenue growth (decline) compared to the previous period, excluding the impact of varying foreign exchange rates. Adjusted organic revenue growth (decline) is calculated as revenue growth (decline) compared to the previous period, excluding the impact of varying foreign exchange rates and the impact of the acquired businesses for the first year of operation and the sale of divisions. Management modified the calculation of the adjusted organic revenue growth (decline) to remove revenue from acquired businesses for the first year of operation in order to get a better comparison of revenue from year-to-year. Management uses organic revenue growth (decline) and adjusted organic revenue growth (decline) to measure its performance from one period to the next, without the variation caused by the impacts of the items described above. Dorel excludes these items because they affect the comparability of its financial results and could potentially distort the analysis of trends in its business performance. Certain investors and analysts use organic revenue growth (decline) and adjusted organic revenue growth (decline) to measure the business performance of the Company as a whole and at the segment level from one period to the next. Excluding these items does not imply they are necessarily non-recurring. These measures do not have any standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to a similar measure presented by other companies.

Refer to the reconciliation of organic revenue growth (decline) and adjusted organic revenue growth (decline) in section 1.f) Consolidated operating review - Continuing operations of this MD\&A.

## Total debt and debt-to-equity ratio

Total debt is defined as long-term debt (including any current portion) and bank indebtedness. Dorel uses total debt to calculate the debt-to-equity ratio. Management and certain investors and analysts use total debt and the debt-to-equity ratio to measure the financial leverage of Dorel. These measures do not have any standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to a similar measure presented by other companies.

Refer to the reconciliation of total debt and debt to equity ratio in section 2.b) Debt-to-equity ratio of this MD\&A.

## Free cash flow

Free cash flow is defined as cash provided by (used in) operating activities less dividends paid, shares repurchased, acquisition of businesses, additions to property, plant and equipment, additions to intangible assets, including disposals of property, plant and equipment, net proceeds on sale of assets held for sale and gross proceeds on sale of subsidiaries. Dorel considers free cash flow to be an important indicator of the financial strength and performance of its business because it shows how much cash is available after capital expenditures to repay debt and to reinvest in its business, to pursue business acquisitions, and/or to redistribute to its shareholders. Certain investors and analysts use the free cash flow measure to value a business and its underlying assets. This measure does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to a similar measure presented by other companies.

Refer to the reconciliation of free cash flow in section 2.c) Cash flow of this MD\&A.

|  | As at <br> September 30, 2023 | As at December 30, 2022 |
| :---: | :---: | :---: |
| ASSETS |  |  |
| Current assets |  |  |
| Cash and cash equivalents (Note 13 b )) | \$ 24,556 | \$ 32,409 |
| Trade accounts receivable | 201,337 | 193,030 |
| Inventories (Note 6) | 355,428 | 421,478 |
| Income taxes receivable | 3,356 | 4,638 |
| Other assets | 30,900 | 27,606 |
|  | 615,577 | 679,161 |
| Assets held for sale (Note 4 d )) | - | 2,676 |
|  | 615,577 | 681,837 |
| Non-current assets |  |  |
| Property, plant and equipment | 81,043 | 87,350 |
| Right-of-use assets | 132,278 | 142,427 |
| Intangible assets | 61,606 | 67,087 |
| Goodwill | 45,175 | 45,205 |
| Deferred tax assets (Note 12 c )) | 34,886 | 28,536 |
| Other assets | 14,346 | 8,006 |
|  | 369,334 | 378,611 |
|  | \$ 984,911 | \$ 1,060,448 |
| LIABILITIES |  |  |
| Current liabilities |  |  |
| Bank indebtedness | \$ 7,914 | \$ 11,946 |
| Trade and other payables | 308,610 | 279,620 |
| Lease liabilities | 36,044 | 33,293 |
| Income taxes payable (Note 12 c )) | 1,674 | 1,849 |
| Long-term debt (Note 7) | 12,290 | 6,591 |
| Provisions | 31,508 | 36,613 |
| Other liabilities | 6,134 | 5,172 |
|  | 404,174 | 375,084 |
| Non-current liabilities |  |  |
| Lease liabilities | 117,470 | 129,601 |
| Long-term debt (Note 7) | 217,468 | 250,139 |
| Net pension and post-retirement defined benefit |  |  |
| Deferred tax liabilities (Note 12 c )) | 7,477 | 7,773 |
| Provisions | 2,134 | 2,234 |
| Other liabilities | 3,822 | 3,607 |
|  | 355,124 | 404,220 |
| EQUITY |  |  |
| Share capital (Note 9) | 205,766 | 205,613 |
| Contributed surplus | 36,242 | 36,395 |
| Accumulated other comprehensive loss | $(44,195)$ | $(47,257)$ |
| Other equity | 27,759 | 27,759 |
| Retained earnings | 41 | 58,634 |
|  | 225,613 | 281,144 |
|  | \$ 984,911 | \$ 1,060,448 |

See accompanying notes to the condensed consolidated interim financial statements.

| Third Quarters Ended |  | Nine Months Ended |  |
| ---: | ---: | ---: | ---: | ---: |
| September 30, | September 30, | September 30, | September 30, |
| 2023 | 2022 | 2023 | 2022 |

## CONTINUING OPERATIONS

REVENUE (Note 14)
Cost of sales (Note 6)
GROSS PROFIT
Selling expenses
General and administrative expe
Research and development expe
Impairment (reversal) loss on tra
accounts receivable
Restructuring costs (Note 5)
OPERATING LOSS
Finance expenses (Note 12 a))
LOSS BEFORE INCOME TAXES

Income taxes expense (recovery)
(Note 12 c ))
Current
Deferred

NET LOSS FROM CONTINUING OPERATIONS

## DISCONTINUED OPERATION

Income from discontinued operation, net of tax (Note 4 b))

NET (LOSS) INCOME
(LOSS) EARNINGS PER SHARE
(Note 11)
Basic
Diluted

LOSS PER SHARE - CONTINUING
OPERATIONS (Note 11)
Basic
Diluted

| \$ 359,661 | \$ | 374,143 | \$ | 1,038,069 | \$ | 1,230,013 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 293,666 |  | 335,247 |  | 865,126 |  | 1,053,601 |
| 65,995 |  | 38,896 |  | 172,943 |  | 176,412 |
| 32,222 |  | 30,422 |  | 95,838 |  | 95,013 |
| 31,424 |  | 33,595 |  | 103,051 |  | 112,903 |
| 6,113 |  | 6,041 |  | 18,557 |  | 18,901 |
| (53) |  | 303 |  | 280 |  | 1,034 |
| - |  | 2,251 |  | - |  | 6,809 |
| $(3,711)$ |  | $(33,716)$ |  | $(44,783)$ |  | $(58,248)$ |
| 6,464 |  | 5,079 |  | 18,763 |  | 22,228 |
| $(10,175)$ |  | $(38,795)$ |  | $(63,546)$ |  | $(80,476)$ |


|  | $\begin{gathered} 790 \\ (605) \end{gathered}$ |  | $\begin{gathered} (5,161) \\ 3,113 \end{gathered}$ |  | $\begin{gathered} 1,743 \\ (6,696) \end{gathered}$ |  | $\begin{gathered} 1,857 \\ (4,772) \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 185 |  | $(2,048)$ |  | $(4,953)$ |  | $(2,915)$ |
| \$ | $(10,360)$ | \$ | $(36,747)$ | \$ | $(58,593)$ | \$ | $(77,561)$ |


| \$ | $(10,360)$ | \$ | $(36,747)$ | \$ | $(58,593)$ | \$ | 176,917 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | (0.32) | \$ | (1.13) | \$ | (1.80) | \$ | 5.44 |
| \$ | (0.32) | \$ | (1.13) | \$ | (1.80) | \$ | 5.30 |


| \$ | (0.32) | \$ | (1.13) | \$ | (1.80) | \$ | (2.38) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | (0.32) | \$ | (1.13) | \$ | (1.80) | \$ | (2.38) |

See accompanying notes to the condensed consolidated interim financial statements.

|  | Third Quarters Ended |  |  |  | Nine Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2023 |  | September 30, 2022 |  | September 30, 2023 |  | September 30, 2022 |  |
| NET (LOSS) INCOME | \$ | $(10,360)$ | \$ | $(36,747)$ | \$ | $(58,593)$ | \$ | 176,917 |
| OTHER COMPREHENSIVE (LOSS) INCOME: |  |  |  |  |  |  |  |  |
| Items that are or may be reclassified subsequently to net income: |  |  |  |  |  |  |  |  |
| Cumulative translation account: |  |  |  |  |  |  |  |  |
| Net change in unrealized foreign currency (losses) gains on translation of net investments in foreign operations, net of tax of nil |  | $(2,818)$ |  | $(4,606)$ |  | 2,076 |  | 944 |
| Net (losses) gains on hedge of net investments in foreign operations, net of tax of nil |  | (157) |  | 4,303 |  | (945) |  | 8,898 |
| Reclassification of CTA upon the sale of the Sports segment (Note 4 a)) |  | - |  | - |  | - |  | 51,657 |
|  |  | $(2,975)$ |  | (303) |  | 1,131 |  | 61,499 |
| Net changes in cash flow hedges: |  |  |  |  |  |  |  |  |
| Net change in unrealized gains on derivatives designated as cash flow hedges |  | 1,685 |  | 825 |  | 1,477 |  | 5,192 |
| Reclassification to net (loss) income |  | (370) |  | 68 |  | (959) |  | 554 |
| Reclassification to the related nonfinancial asset |  | (379) |  | $(1,115)$ |  | 92 |  | $(1,535)$ |
| Deferred income taxes |  | (185) |  | 104 |  | (115) |  | $(1,114)$ |
|  |  | 751 |  | (118) |  | 495 |  | 3,097 |
| Items that will not be reclassified to net income: |  |  |  |  |  |  |  |  |
| Defined benefit plans: |  |  |  |  |  |  |  |  |
| Remeasurements of the net pension and post-retirement defined benefit liabilities <br> 380 <br> 1,329 <br> 1,406 <br> 9,124 |  |  |  |  |  |  |  |  |
| Deferred income taxes |  | 78 |  | (250) |  | 30 |  | $(2,271)$ |
|  |  | 458 |  | 1,079 |  | 1,436 |  | 6,853 |
| TOTAL OTHER COMPREHENSIVE (LOSS) INCOME |  | $(1,766)$ |  | 658 |  | 3,062 |  | 71,449 |
| TOTAL COMPREHENSIVE (LOSS) INCOME | \$ | $(12,126)$ | \$ | $(36,089)$ | \$ | $(55,531)$ | \$ | 248,366 |

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
ALL FIGURES IN THOUSANDS OF US \$ (UNAUDITED)


Reclassification from
contributed surplus due to
settlement of deferred share


See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
ALL FIGURES IN THOUSANDS OF US \$ (UNAUDITED)

|  | Third Quarters Ended |  |  |  |  |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2023 |  | September 30, 2022 |  | September 30, 2023 |  |  | September 30, 2022 |
| CASH PROVIDED BY (USED IN): |  |  |  |  |  |  |  |  |
| OPERATING ACTIVITIES |  |  |  |  |  |  |  |  |
| Net (loss) income | \$ | $(10,360)$ | \$ | $(36,747)$ | \$ | $(58,593)$ | \$ | 176,917 |
| Items not involving cash: |  |  |  |  |  |  |  |  |
| Depreciation and amortization (Note 12 b )) |  | 17,445 |  | 16,996 |  | 52,760 |  | 49,943 |
| Unrealized (gains) losses arising on financial assets and financial liabilities classified at fair value through profit or loss |  | (31) |  | (5) |  | 11 |  | 512 |
| Share-based payments (Note 10) |  | - |  | 69 |  | - |  | 378 |
| Defined benefit pension and post-retirement costs |  | $(2,380)$ |  | 736 |  | $(1,206)$ |  | 3,014 |
| Net (gain) loss on disposal of property, plant and equipment and on lease modifications |  | (652) |  | 55 |  | $(1,161)$ |  | 116 |
| Gain on sale of the Sports segment (Note 4 a)) |  | - |  | - |  | - |  | $(260,334)$ |
| Restructuring costs (Note 5) |  | - |  | 29 |  | - |  | (133) |
| Finance expenses (Note 12 a )) |  | 6,464 |  | 5,079 |  | 18,763 |  | 22,505 |
| Income taxes expense (recovery) |  | 185 |  | $(2,048)$ |  | $(4,953)$ |  | 775 |
| Net changes in balances related to operations (Note 13) |  | 10,143 |  | 3,058 |  | 77,398 |  | $(100,036)$ |
| Income taxes paid |  | (896) |  | (946) |  | $(2,462)$ |  | $(47,560)$ |
| Income taxes received |  | 229 |  | 13 |  | 1,771 |  | 352 |
| Interest paid |  | $(7,866)$ |  | $(4,696)$ |  | $(21,097)$ |  | $(13,221)$ |
| Interest received |  | 309 |  | 42 |  | 879 |  | 174 |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES |  | 12,590 |  | $(18,365)$ |  | 62,110 |  | $(166,598)$ |
| FINANCING ACTIVITIES |  |  |  |  |  |  |  |  |
| Net (decrease) increase of bank indebtedness |  | $(1,137)$ |  | 2,124 |  | $(3,825)$ |  | 7,964 |
| Increase (repayments) of long-term debt (Note 7) |  | 1,312 |  | 18,548 |  | $(26,053)$ |  | $(184,329)$ |
| Financing costs |  | - |  | (84) |  | (391) |  | (978) |
| Prepayment fee (Note 12 a )) |  | - |  | - |  | - |  | $(6,375)$ |
| Net proceeds (payments) from settlement of interest rate swaps |  | 390 |  | (59) |  | 1,000 |  | (560) |
| Payments of lease liabilities |  | $(9,468)$ |  | $(7,284)$ |  | $(28,928)$ |  | $(23,611)$ |
| Shares repurchased (Note 9) |  | - |  | - |  | - |  | (499) |
| Dividends on common shares (Note 9) |  | - |  | - |  | - |  | $(390,642)$ |
| CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES |  | $(8,903)$ |  | 13,245 |  | $(58,197)$ |  | $(599,030)$ |
| INVESTING ACTIVITIES |  |  |  |  |  |  |  |  |
| Additions to property, plant and equipment |  | $(2,201)$ |  | $(5,631)$ |  | $(9,787)$ |  | $(14,356)$ |
| Disposals of property, plant and equipment |  | 6 |  | 44 |  | 31 |  | 84 |
| Additions to intangible assets |  | $(1,161)$ |  | $(2,153)$ |  | $(4,440)$ |  | $(5,517)$ |
| Net proceeds on sale of assets held for sale |  | - |  | - |  | 2,962 |  | - |
| Net proceeds on sale of the Sports segment (Notes 4 a) and c)) |  | - |  | - |  | - |  | 788,182 |
| Deconsolidation of cash and cash equivalents related to the Sports segment (Notes 4 a) and c)) |  | - |  | - |  | - |  | $(26,145)$ |
| CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES |  | $(3,356)$ |  | $(7,740)$ |  | $(11,234)$ |  | 742,248 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents |  | 124 |  | 3,211 |  | (532) |  | $(5,829)$ |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS |  | 455 |  | $(9,649)$ |  | $(7,853)$ |  | $(29,209)$ |
| Cash and cash equivalents, beginning of period |  | 24,101 |  | 32,606 |  | 32,409 |  | 52,166 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 13) | \$ | 24,556 | \$ | 22,957 | \$ | 24,556 | \$ | 22,957 |

See accompanying notes to the condensed consolidated interim financial statements.

## 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 through its Dorel Home and Dorel Juvenile segments. The principal geographic markets for the Company's products are the United States, Europe, Latin America, Canada and Asia. The Company, whose shares are traded on the Toronto Stock Exchange ("TSX"), is incorporated and domiciled in Canada. The registered office is in Westmount, Québec.

The Company's reporting segments are based on two distinctive lines of activities which include:

| Reporting segment | Principal revenue generating activities |
| :--- | :--- |
| Dorel Home | From the sale of ready-to-assemble furniture and home furnishings which include <br> metal folding furniture, futons, children's furniture, step stools, hand trucks, <br> ladders, outdoor furniture and other imported furniture items. |
| Dorel Juvenile | From the sale of children's accessories which include infant car seats, strollers, <br> high-chairs and infant health and safety aids. |

## 2. STATEMENT OF COMPLIANCE, 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, 2022. 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 2022 audited consolidated annual financial statements.

While preparing these condensed consolidated interim financial statements, management exercised judgment in connection with the uncertainty in the macro-economic environment, including inflationary pressures, changes in consumer spending, exchange rate fluctuations and increases in interest rates on the Company's reported assets, liabilities, revenue and expenses, and on the related disclosures, using estimates and assumptions which are subject to significant uncertainties. The extent to which the uncertainty in the macro-economic environment will impact the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. Accordingly, actual results could differ materially from the uncertainty in the macro-economic environment-related estimates and assumptions made by management in the preparation of these condensed consolidated interim financial statements.

## 2. STATEMENT OF COMPLIANCE, BASIS OF PREPARATION AND MEASUREMENT (continued)

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

|  | Measurement basis |
| :--- | ---: |
| Derivative financial instruments | Fair value |
| Share-based payment arrangements | In accordance with IFRS 2, Share-Based Payment |
| Assets held for sale | At the lower of the carrying amount and fair value less costs to sell |
| Business combinations: identifiable assets | At fair value at acquisition date |
| acquired and liabilities assumed |  |
| Net pension and post-retirement defined | Net total of plan assets measured at fair value less the discounted |
| benefit liabilities | present value of the defined benefit obligations |
| Lease liabilities | Present value of future lease payments |
| Debt | Present value of future debt payments |
| Product liability |  |
|  |  |

These condensed consolidated interim financial statements were authorized by the Company's Board of Directors for issue on November 2, 2023.

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

## 3. FUTURE ACCOUNTING CHANGES

New standards and amendments to existing standards have been issued by the IASB, which are mandatory but not yet effective for the nine months ended September 30, 2023. The new standards and amendments have not been applied in preparing these condensed consolidated interim financial statements.

## Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences - e.g. leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. The Company is currently evaluating the impact of adopting the amendment on the Company's consolidated financial statements.

## Definition of Accounting Estimates (Amendments to IAS 8)

The amendments introduce a new definition for accounting estimates, clarifying that there are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. The Company is currently evaluating the impact of adopting the amendment on the Company's consolidated financial statements.

## Accounting Policy Disclosures (Amendments to IAS 1)

The amendments change the requirements with regards to disclosure of accounting policies. The amendments require companies to disclose the material accounting policies rather than the significant accounting policies and also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. The adoption of the amendments is not expected to have a material impact on the Company's consolidated financial statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The amendments apply for annual reporting periods beginning on or after January 1, 2024. Early adoption is permitted. The adoption of the amendments is not expected to have a material impact on the Company's consolidated financial statements.

## 4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

On October 11, 2021, the Company entered into a definitive agreement to sell its Sports segment to Pon Holdings B.V. for total consideration of $\$ 810,000$ in cash, payable to Dorel at closing. The sale was subject to customary closing conditions, including receipt of applicable regulatory approvals and the absence of any material adverse changes with respect to Dorel Sports until closing. The sale was not subject to any financing conditions. The transaction consisted of the sale by Dorel of $100 \%$ of the shares of its indirect wholly owned subsidiary companies comprising its Sports segment as well as certain related assets.

On January 4, 2022, the Company completed the sale of the Sports segment for $\$ 810,000$ (subject to post-closing adjustments). Dorel used part of the proceeds for payment of a special dividend of $\$ 12.00$ per share (refer to Note 9) and to repay long-term debt (refer to Note 7).

The transaction resulted in a gain of $\$ 260,334$ reflected in income from discontinued operation, net of tax for the nine months ended September 30, 2022.
a) Details of the impact of the transaction

|  | January 4, 2022 |
| :---: | :---: |
| Proceeds | \$ 810,000 |
| Post-closing adjustments | $(21,818)$ |
| Net proceeds (1) | \$ 788,182 |
| Derecognition of assets, liabilities and CTA: |  |
| Deconsolidation of cash and cash equivalents related to the Sports segment | \$ $(26,145)$ |
| Trade accounts receivable | $(176,769)$ |
| Inventories | $(303,823)$ |
| Property, plant and equipment | $(29,961)$ |
| Right-of-use assets | $(65,578)$ |
| Intangible assets | $(204,505)$ |
| Other | $(43,677)$ |
| Total assets previously classified as assets held for sale | $(824,313)$ |
| Trade and other payables | 236,406 |
| Lease liabilities | 71,544 |
| Non-convertible debenture | 19,307 |
| Other | 47,010 |
| Total liabilities previously classified as liabilities directly associated with the assets held for sale | 374,267 |
| Reclassification of CTA upon the sale of the Sports segment | $(51,657)$ |
| Gain on sale of the Sports segment (2) | \$ 260,334 |

(1) All the proceeds were received before September 30, 2022.
(2) During the year ended December 30, 2022, post-closing adjustments were recorded, which resulted in a gain of \$260,732 in income from discontinued operation, net of tax for the year ended December 30, 2022.
4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (continued)
b) Results of discontinued operation

The Sports segment was classified as held for sale and as a discontinued operation in the comparative quarter and nine-months periods. Income from discontinued operation, net of tax reported in the condensed consolidated interim income statements for the three and nine months ended September 30, 2022 was as follows:

|  | Third Quarter Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2022 |  | September 30, 2022 |  |
| Revenue | \$ | - | \$ | 602 |
| Cost of sales |  | - |  | (648) |
| Gross profit |  | - |  | (46) |
| Selling expenses |  | - |  | 369 |
| General and administrative expenses |  | - |  | 1,472 |
| Research and development expenses |  | - |  | 10 |
| Impairment reversal on trade accounts receivable |  | - |  | (8) |
| Operating loss from operating activities |  | - |  | $(1,889)$ |
| Finance expenses |  | - |  | 277 |
| Loss from operating activities before income taxes |  | - |  | $(2,166)$ |
| Income taxes expense |  | - |  | 3,690 |
| Loss from operating activities, net of tax |  | - |  | $(5,856)$ |
| Gain on sale of the Sports segment |  | - |  | 260,334 |
| Income from discontinued operation, net of tax | \$ | - | \$ | 254,478 |
| Earnings per share (Note 11) |  |  |  |  |
| Basic | \$ | - | \$ | 7.82 |
| Diluted | \$ | - | \$ | 7.63 |

## c) Cash flows provided by discontinued operation

Cash flows from discontinued operation reported in the condensed consolidated interim statements of cash flows for the three and nine months ended September 30, 2022 were as follows:

|  | Third Quarter <br> Ended | Nine Months <br> Ended |  |  |
| :--- | ---: | ---: | ---: | ---: |
|  | September 30, <br> $\mathbf{2 0 2 2}$ | September 30, <br> $\mathbf{2 0 2 2}$ |  |  |
| Net cash provided by operating activities | $\$$ | - | $\$$ | 7,404 |
| Net cash provided by investing activities (1) | - | - | 761,966 |  |
| Net cash flows for the periods | $\$$ | - | $\$$ | 769,370 |

(1) Includes the net proceeds on sale of the Sports segment of $\$ 788,182$ and the deconsolidation of cash and cash equivalents related to the Sports segment of $\$(26,145)$ in the nine months ended September 30, 2022.
4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (continued)
d) Assets held for sale

| Assets held for sale | Total |
| :--- | :---: |
| Balance, December 30, 2022 | 2,676 |
| Reallocation to property, plant and equipment | $(667)$ |
| Effect of foreign currency exchange rate changes | 58 |
| Disposal | $(2,067)$ |
| Balance, September 30, 2023 | $\$$ |

## 5. RESTRUCTURING COSTS

For the three and nine months ended September 30, 2022, the Company recorded total restructuring costs from continuing operations of $\$ 2,251$ and $\$ 6,809$, respectively, which were recorded as restructuring costs as a separate line within the condensed consolidated interim income statements and all pertained to the Dorel Juvenile segment. The restructuring costs from continuing operations recorded in the condensed consolidated interim income statements consisted of the following:

|  | Third Quarter Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2022 |  | September 30, 2022 |  |
| Employee severance and termination benefits | \$ | 1,361 | \$ | 4,142 |
| Curtailment gain on net pension defined benefit liabilities (1) |  | (42) |  | (204) |
| Write-down of long-lived assets (1) |  | 71 |  | 71 |
| Other associated costs |  | 861 |  | 2,800 |
| Total restructuring costs - recorded within a separate line in the condensed consolidated interim income statements | \$ | 2,251 | \$ | 6,809 |

(1) Non-cash expenses for a total amount of $\$ 29$ and (\$133), respectively for the third quarter and nine months ended September 30, 2022.

## Dorel Juvenile Segment

## 2021 Restructuring Plan

In the fourth quarter of 2021, a new restructuring program was approved for the Dorel Juvenile United States and European markets. In the United States, several operating divisions were combined into one organization. The expected principal benefits of this change were in the sales and marketing area where process harmonization and the creation of a more nimble organization was expected to reduce costs and bring efficiencies. In Europe, with the successful conclusion of the first phase of restructuring that was initiated in 2019, further cost saving opportunities were identified enabled by the supplier new product co-development program and the consolidation of manufacturing into one European factory. This restructuring program was pursued in 2022, for which additional restructuring costs were recorded, and was completed in 2022.

## 6. INVENTORIES

|  | September 30, | December 30, <br> $\mathbf{2 0 2 2}$ |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Raw materials | $\$$ | 61,211 | $\$$ | 79,383 |
| Work in process | 3,072 | 3,167 |  |  |
| Finished goods | $\boxed{291,145}$ |  | 338,928 |  |
|  |  | 355,428 | $\$$ | 421,478 |

Amounts recognized as cost of sales in the condensed consolidated interim income statements include mainly the Company's cost of inventories recognized as an expense. Cost of sales also includes the following inventory related expenses:

|  | Third Quarters Ended |  |  |  | Nine Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2023 |  | September 30, 2022 |  | September 30, 2023 |  | September 30, 2022 |  |
| Write-downs of inventories as a result of net realizable value being lower than cost | \$ | 1,674 | \$ | 3,430 | \$ | 5,555 | \$ | 8,857 |
| Reversal of inventory write-downs recognized in previous periods | \$ | $(1,033)$ | \$ | $(1,713)$ | \$ | $(3,948)$ | \$ | $(5,151)$ |

## 7. LONG-TERM DEBT

The terms and conditions of outstanding loans are as follows:

|  |  |  |  | September 30, 2023 | December 30, 2022 |
| :--- | :---: | ---: | :--- | ---: | ---: | ---: | ---: | ---: |

## Senior secured asset based revolving credit facility ("ABL facility")

On June 11, 2021, the Company entered into an ABL facility with institutional lenders led by Bank of Montreal as lead arranger, administrative agent and sole bookrunner. The total availability of the ABL facility is $\$ 300,000$ with a maturity date of June 11, 2026, and is guaranteed by certain of Dorel's subsidiaries. On October 11, 2022, the Company further amended its ABL facility agreement to increase the total availability to $\$ 325,909$. The increased availability began on October 11, 2022 and ends on April 11, 2024.

## 7. LONG-TERM DEBT (continued)

The total amount accessible to the company is dependent upon the calculation of the borrowing base, which is based on accounts receivable and inventories. The amounts borrowed bear interest at variable rates based on the Eurodollar rate, the bankers' acceptance rate, the prime rate, the Federal funds effective rate, the US base rate, the Canadian prime rate, the Dutch tranche Euro offered rate and the Dutch tranche USD offered rate, plus a variable margin.

As at September 30, 2023, the Company was compliant with all of the terms and conditions of the ABL facility.

## Debt financing

In October 2022, Dorel concluded the sale of its building in Cornwall, Ontario, the location of a Dorel Home ready-to-assemble manufacturing facility for $\$ 33,872$ (CAD $\$ 46,137$ ) and subsequently entered into a 15-year lease with the new owner, starting November 1, 2022. The Company concluded that the transaction did not qualify as a sale under IFRS 15, Revenue from contracts with customers, and as a result, the Company initially recognized a debt financing of $\$ 33,872$ for the proceeds received. The monthly lease payments are allocated between interest expense and principal repayment of the debt financing during the contractual period of 15 years. Based on the expected future cash flows, the calculated effective interest rate was established at $2.75 \%$ and will be used to recognize interest expense during the lease agreement. The Company didn't derecognize the underlying asset and continued depreciating the asset as if it was the legal owner.

## Balance of sale on acquisition of Notio Living

On November 30, 2021, the Company acquired Notio Living, an ecommerce home furnishings firm based in Holstebro, Denmark, for an amount of $\$ 16,964$ (net of assumed debt of $\$ 1,488$ ), of which $\$ 10,893$ was paid at closing, $\$ 405$ in March 2022 and $\$ 2,833$ in February 2023. The remaining balance, which is non-interest bearing, is payable in February 2024.

## 8. FINANCIAL INSTRUMENTS

## Fair value disclosure

The Company has determined that the fair value of its current financial assets and liabilities approximates their respective carrying amounts as at the reporting dates because of their short-term nature. 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 long-term debt bearing interest at fixed rates approximates its carrying value as at September 30, 2023 and December 30, 2022.

## Fair value measurement

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 Company's financial assets and liabilities measured at fair value consist of derivative financial instruments. The balance of the Company's derivative financial assets and liabilities are not significant as at September 30, 2023 and December 30, 2022.

## Concentration of credit risk

During the nine months ended September 30, 2023, two customers accounted for respectively $27.0 \%$ and $17.7 \%$, for an aggregate of $44.7 \%$ of the Company's total revenue from continuing operations ( 2022 - two customers accounted for respectively $30.6 \%$ and $15.9 \%$, for an aggregate of $46.5 \%$ ). As at September 30, 2023, two customers accounted for respectively $26.8 \%$ and $18.2 \%$, for an aggregate of $45.0 \%$, of the Company's total trade accounts receivable balance (December 30, 2022 - two customers accounted for respectively $24.0 \%$ and $28.4 \%$, for an aggregate of $52.4 \%$ of the Company's total trade accounts receivable balance).

## 9. SHARE CAPITAL

Details of the issued and outstanding shares are as follows:

|  | September 30, 2023 |  | December 30, 2022 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Number | Amount | Number | Amount |
| Class "A" Multiple Voting Shares |  |  |  |  |
| Balance, beginning of period | 4,149,085 | \$ 1,748 | 4,149,440 | \$ 1,748 |
| Converted from Class "A" to Class "B" | $(12,332)$ | (6) | (355) | - |
| Balance, end of period | 4,136,753 | \$ 1,742 | 4,149,085 | \$ 1,748 |
| Class "B" Subordinate Voting Shares |  |  |  |  |
| Balance, beginning of period | 28,388,532 | \$ 203,865 | 28,359,191 | \$ 202,989 |
| Converted from Class " A " to Class "B" | 12,332 | 6 | 355 | - |
| Reclassification from contributed surplus due to settlement of deferred share units (Note 10) | 7,543 | 153 | 98,586 | 1,375 |
| Repurchase and cancellation of shares | - | - | $(69,600)$ | (499) |
| Balance, end of period | 28,408,407 | \$ 204,024 | 28,388,532 | \$ 203,865 |
| TOTAL SHARE CAPITAL |  | \$ 205,766 |  | \$ 205,613 |

## Special Dividend

On January 4, 2022, following the closing of the sale of its Sports segment, Dorel's Board of Directors declared a special dividend of $\$ 12.00$ per share on Dorel's outstanding Class " $B$ " Subordinate Voting Shares, Class "A" Multiple Voting Shares, DSUs, cash-settled RSUs and cash-settled PSUs representing an aggregate amount of $\$ 396,643$. The special dividend declared on the outstanding Class "B" Subordinate Voting Shares and Class "A" Multiple Voting Shares in the amount of $\$ 390,642$ was paid on February 1, 2022 to shareholders of record as at the close of business on January 18, 2022. A total of 193,259 DDSUs and 405,920 EDSUs were issued for dividend equivalents related to the special dividend declared on deferred share units, representing an aggregate amount of \$6,001 (Note 10).

## Normal Course Issuer Bid ("NCIB")

On January 4, 2022, the Toronto Stock Exchange ("TSX") approved the Company's NCIB. Under the NCIB, the Company may purchase for cancellation a maximum of $1,891,222$ Class "B" Subordinate Voting Shares, representing $10 \%$ of the $18,912,225$ Class "B" Subordinate Voting Shares forming the public float. The shares may be purchased through the facilities of the TSX and on alternative trading systems in Canada over the twelve-month period from January 6, 2022 to January 5, 2023, or until such earlier time as the bid is completed or terminated at the option of the Company. The Company did not renew the NCIB when it expired.

Any shares purchased by the Company under the NCIB were at the market price of the shares at the time of such purchases. The actual number of Class " $B$ " Subordinate Voting Shares that could be purchased and the timing of any such purchases was to be determined by the Company. Any purchases made by the Company pursuant to the NCIB was to be made in accordance with the rules and policies of the TSX. During the year ended December 30, 2022, the Company purchased a total of 69,600 Class "B" Subordinate Voting Shares for a cash consideration of $\$ 499$.

## 10. SHARE-BASED PAYMENTS

Directors' Deferred Share Unit Plan ("DDSU Plan") and Executives' Deferred Share Unit Plan ("EDSU Plan")
The changes in outstanding number of DSUs are as follows:

|  | Nine Months Ended <br> September 30, 2023 | Year Ended <br> December 30, 2022 |  |  |
| :--- | ---: | ---: | ---: | ---: |
|  | DSU - <br> Directors | DSU - <br> Executives | DSU - <br> Directors | DSU - <br> Executives |
| DSUs outstanding, beginning of period | 340,235 | 773,840 | 161,304 | 430,164 |
| Issued as payment for fees | - | - | 55,905 | - |
| Issued for salaries and bonuses paid | - | - | - | 29,118 |
| Issued for dividend equivalents (Note 9) | - | - | 193,259 | 405,920 |
| Settlement of deferred share units (1) | - | $(10,747)$ | $(70,233)$ | $(91,362)$ |
| DSUs outstanding, end of period | $\underline{340,235}$ | 763,093 |  | 340,235 |
| Total vested, end of period | $\underline{340,235}$ | 763,093 |  | 373,840 |

(1) During the nine months ended September 30, 2023, 10,747 DSUs were settled under the EDSU Plan, for which $\$ 153$ was debited to contributed surplus and $\$ 153$ credited to share capital. During the year ended December 30, 2022, 70,233 DSUs and 91,362 DSUs were settled under the DDSU Plan and EDSU Plan, respectively, for which \$1,163 and $\$ 1,176$ was debited to contributed surplus and $\$ 777$ and $\$ 598$ credited to share capital, respectively; the difference representing the withholding taxes the Company was required by law to withhold upon settlement.

## Long-term incentive plans (cash-settled)

The changes in outstanding number of Restricted Share Units ("RSU") and Performance Share Units ("PSU") are as follows:

|  | Nine Months Ended <br> September 30, 2023 | Year Ended <br> December 30, 2022 |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Outstanding, beginning of period | RSU | PSU | RSU | PSU |
| Granted for dividend equivalent | 96,605 | - | 79,440 | 147,547 |
| Performance adjustment | - | - | 51,182 | 112,161 |
| Settled | - | - | - | $(33,379)$ |
| Forfeited | $(58,455)$ | - | $(33,126)$ | $(226,258)$ |
| Outstanding, end of period | $(1,082)$ | - | $(891)$ | $(71)$ |

## 11. EARNINGS (LOSS) PER SHARE

The following table provides a reconciliation between the number of basic and fully diluted shares outstanding that were used in the computation of the basic and diluted earnings (loss) per share:

|  | Third Quarters Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| Net loss from continuing operations | \$ (10,360) | \$ $(36,747)$ | \$ $(58,593)$ | \$ $(77,561)$ |
| Income from discontinued operation, net of tax | - | - | - | 254,478 |
| Net (loss) income | \$ (10,360) | \$ $(36,747)$ | \$ (58,593) | \$ 176,917 |
| Weighted daily average number of Class " A " Multiple and Class "B" Subordinate Voting Shares | 32,540,167 | 32,536,472 | 32,538,473 | 32,536,782 |
| Dilutive effect of deferred share units | - | - | - | 837,091 |
| Weighted average number of diluted shares | 32,540,167 | 32,536,472 | 32,538,473 | 33,373,873 |
| Earnings (loss) per share (in dollars) |  |  |  |  |
| Continuing operations basic and diluted | \$ (0.32) | \$ (1.13) | \$ (1.80) | \$ (2.38) |
| Discontinued operation basic | \$ | \$ | \$ | \$ 7.82 |
| Discontinued operation diluted | \$ | \$ | \$ | \$ 7.63 |
| Total basic | \$ (0.32) | \$ (1.13) | \$ (1.80) | \$ 5.44 |
| Total diluted | \$ (0.32) | \$ (1.13) | \$ (1.80) | \$ 5.30 |

Excluded from the above calculation of the loss per share from continuing operations for the quarter and nine months ended September 30, 2023 are 1,108,702 DSUs (1,092,498 DSUs were excluded from the above calculation of the loss per share from continuing operations for the quarter ended September 30, 2022) which were deemed to be anti-dilutive.

## 12. FINANCE EXPENSES, DEPRECIATION AND AMORTIZATION, AND OTHER INFORMATION

a) Finance expenses

|  | Third Quarters Ended | Nine Months Ended |  |  |
| ---: | ---: | ---: | ---: | ---: |
|  | September 30, | September 30, | September 30, | September 30, |
| 2023 | 2022 | 2022 |  |  |

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
(1) On January 4, 2022, following the sale of its Sports segment, the Company used a portion of the proceeds received to completely reimburse the balance of the senior unsecured notes (refer to Note 4) including a prepayment fee of \$6,375.

## 12. FINANCE EXPENSES, DEPRECIATION AND AMORTIZATION, AND OTHER INFORMATION (continued)

b) Depreciation and amortization

Depreciation of property, plant and equipment and right-of-use assets, and amortization of intangible assets are included in the following condensed consolidated interim income statements captions:

| Third Quarters Ended |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2023 |  |  |  |  |  |  |  |  |  |  |  | September 30, 2022 |  |  |  |
|  | Property, plant and equipment |  | $\begin{array}{r} \text { Right-of- } \\ \text { use } \\ \text { assets } \\ \hline \end{array}$ |  | Intangible assets |  | Total |  | Property, plant and equipment |  | $\begin{array}{r} \text { Right-of- } \\ \text { use } \\ \text { assets } \\ \hline \end{array}$ |  | Intangible assets |  | Total |  |
| Included in cost of sales | \$ | 3,602 | \$ | 7,404 | \$ | - | \$ | 11,006 | \$ | 3,220 | \$ | 7,257 | \$ | - |  | 10,477 |
| Included in selling expenses |  | 27 |  | 1,861 |  | 876 |  | 2,764 |  | 21 |  | 1,659 |  | 827 |  | 2,507 |
| Included in general and administrative expenses |  | 812 |  | 625 |  | 567 |  | 2,004 |  | 812 |  | 646 |  | 464 |  | 1,922 |
| Included in research and development expenses |  | - |  | 4 |  | 1,667 |  | 1,671 |  | - |  | 4 |  | 2,086 |  | 2,090 |
|  | \$ | 4,441 | \$ | 9,894 | \$ | 3,110 | \$ | 17,445 | \$ | 4,053 | \$ | 9,566 | \$ | 3,377 |  | 16,996 |


|  |  |  |  |  |  |  |  |  |  | Nine Months Ended |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2023 |  |  |  |  |  |  |  |  | September 30, 2022 |  |  |
|  | Property, plant and equipment | $\begin{array}{r} \text { Right-of- } \\ \text { use } \\ \text { assets } \\ \hline \end{array}$ |  | ngible <br> assets |  | Total | $\begin{gathered} \text { Property, } \\ \text { plant and } \\ \text { equipment } \end{gathered}$ |  | ght-ofuse assets |  | ngible <br> assets | Total |
| Included in cost of sales | \$ 10,684 | \$ 22,249 | \$ | - | \$ | 32,933 | \$ 10,010 |  | 19,606 |  | - | \$ 29,616 |
| Included in selling expenses | 98 | 5,581 |  | 2,691 |  | 8,370 | 85 |  | 4,921 |  | 2,499 | 7,505 |
| Included in general and administrative expenses | 2,514 | 1,784 |  | 1,604 |  | 5,902 | 2,424 |  | 2,204 |  | 1,518 | 6,146 |
| Included in research and development expenses | - | 15 |  | 5,540 |  | 5,555 | - |  | 16 |  | 6,660 | 6,676 |
|  | \$ 13,296 | \$ 29,629 | \$ | 9,835 | \$ | 52,760 | \$ 12,519 |  | 26,747 |  | 10,677 | \$ 49,943 |

## 12. FINANCE EXPENSES, DEPRECIATION AND AMORTIZATION, AND OTHER INFORMATION (continued)

c) Income taxes

The effective tax rates from continuing operations for the third quarter and nine months ended September 30, 2023 were ( $1.8 \%$ ) and $7.8 \%$, respectively ( $2022-5.3 \%$ and $3.6 \%$, respectively).

The effective tax rates for the quarters and nine months ended September 30, 2023 and 2022 were primarily impacted by the non-recognition of tax benefits related to tax losses and temporary differences.

The variation year-over-year for the nine months ended September 30, 2023 and 2022 also resulted from changes in the jurisdictions in which the Company generated its income.

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net changes in balances related to operations

|  | Third Quarters Ended |  |  |  |  |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | September 30, 2023 |  | September 30, 2022 |  | September 30 2023 |  | September 30, 2022 |  |
| Trade accounts receivable | \$ | $(4,174)$ | \$ | 57,264 | \$ | $(7,788)$ | \$ | 42,262 |
| Inventories |  | 10,635 |  | 10,746 |  | 65,431 |  | $(115,472)$ |
| Other assets |  | $(1,634)$ |  | 1,155 |  | $(8,374)$ |  | 1,845 |
| Trade and other payables |  | 9,605 |  | $(63,114)$ |  | 33,539 |  | $(23,667)$ |
| Net pension and postretirement defined benefit liabilities |  | (495) |  | (114) |  | $(1,363)$ |  | $(1,766)$ |
| Provisions |  | $(3,649)$ |  | $(2,720)$ |  | $(5,367)$ |  | 2,058 |
| Other liabilities |  | (145) |  | (159) |  | 1,320 |  | $(5,296)$ |
|  | \$ | 10,143 | \$ | 3,058 | \$ | 77,398 | \$ | $(100,036)$ |

## b) Cash and cash equivalents

|  | September 30, <br> $\mathbf{2 0 2 3}$ | December 30, <br> $\mathbf{2 0 2 2}$ |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Cash | $\$$ | 24,402 | $\$$ | 32,051 |
| Short-term investments |  | 154 | 358 |  |
| Cash and cash equivalents | $\$$ | 24,556 | $\$$ | 32,409 |

c) Non-cash transactions

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

|  | September 30,2023 |  | September 30, 2022 |  |
| :---: | :---: | :---: | :---: | :---: |
| Acquisition of property, plant and equipment financed by trade and other payables | \$ | 1,086 | \$ | 2,850 |
| Additions, lease reassessments and modifications of right-of-use assets financed by lease liabilities | \$ | 20,148 | \$ | 95,859 |
| Acquisition of intangible assets financed by trade and other payables | \$ | 339 | \$ | 663 |

## 14. SEGMENTED INFORMATION

## Reporting Segments

| Third Quarters Ended September 30, |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Total |  |  |  | Dorel Home |  |  |  | Dorel Juvenile |  |  |
|  |  | 2023 |  | 2022 |  | 2023 | 2022 |  | 2023 |  | 2022 |  |
| Revenue | \$ | 359,661 | \$ | 374,143 | \$ | 153,704 | \$ | 187,448 | \$ | 205,957 | \$ | 186,695 |
| Cost of sales |  | 293,666 |  | 335,247 |  | 142,733 |  | 178,530 |  | 150,933 |  | 156,717 |
| Gross profit |  | 65,995 |  | 38,896 |  | 10,971 |  | 8,918 |  | 55,024 |  | 29,978 |
| Selling expenses |  | 32,222 |  | 30,247 |  | 6,214 |  | 6,706 |  | 26,008 |  | 23,541 |
| General and administrative expenses |  | 28,089 |  | 26,496 |  | 6,994 |  | 8,922 |  | 21,095 |  | 17,574 |
| Research and development expenses |  | 6,113 |  | 6,041 |  | 1,278 |  | 1,297 |  | 4,835 |  | 4,744 |
| Impairment (reversal) loss on trade accounts receivable |  | (53) |  | 303 |  | 47 |  | (11) |  | (100) |  | 314 |
| Restructuring costs (Note 5) |  | - |  | 2,251 |  | - |  | - |  | - |  | 2,251 |
| Operating (loss) profit | \$ | (376) | \$ | $(26,442)$ | \$ | $(3,562)$ | \$ | $(7,996)$ | \$ | 3,186 | \$ | $(18,446)$ |
| Finance expenses |  | 6,464 |  | 5,079 |  |  |  |  |  |  |  |  |
| Corporate expenses |  | 3,335 |  | 7,274 |  |  |  |  |  |  |  |  |
| Income taxes expense (recovery) |  | 185 |  | $(2,048)$ |  |  |  |  |  |  |  |  |
| Net loss from continuing operations | \$ | $(10,360)$ | \$ | $\underline{(36,747)}$ |  |  |  |  |  |  |  |  |
| Depreciation and amortization included in operating (loss) profit | \$ | 17,296 | \$ | 16,817 | \$ | 5,102 | \$ | 4,901 | \$ | 12,194 | \$ | 11,916 |

## 14. SEGMENTED INFORMATION (continued)

| Nine Months Ended September 30, |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Total |  |  |  | Dorel Home |  |  |  | Dorel Juvenile |  |  |
|  |  | 2023 | 2022 |  |  | 2023 | 2022 |  | 2023 |  | 2022 |  |
| Revenue | \$ | 1,038,069 | \$ | 1,230,013 | \$ | 420,326 | \$ | 608,745 | \$ | 617,743 | \$ | 621,268 |
| Cost of sales |  | 865,126 |  | 1,053,601 |  | 402,136 |  | 557,714 |  | 462,990 |  | 495,887 |
| Gross profit |  | 172,943 |  | 176,412 |  | 18,190 |  | 51,031 |  | 154,753 |  | 125,381 |
| Selling expenses |  | 95,838 |  | 94,479 |  | 18,941 |  | 20,684 |  | 76,897 |  | 73,795 |
| General and administrative expenses |  | 90,587 |  | 91,034 |  | 22,757 |  | 26,686 |  | 67,830 |  | 64,348 |
| Research and development expenses |  | 18,557 |  | 18,901 |  | 3,901 |  | 3,899 |  | 14,656 |  | 15,002 |
| Impairment loss (reversal) on trade accounts receivable |  | 280 |  | 1,034 |  | 22 |  | (2) |  | 258 |  | 1,036 |
| Restructuring costs (Note 5) |  | - |  | 6,809 |  | - |  | - |  | - |  | 6,809 |
| Operating loss | \$ | $(32,319)$ | \$ | $(35,845)$ | \$ | $(27,431)$ | \$ | (236) | \$ | $(4,888)$ | \$ | $(35,609)$ |
| Finance expenses |  | 18,763 |  | 22,228 |  |  |  |  |  |  |  |  |
| Corporate expenses |  | 12,464 |  | 22,403 |  |  |  |  |  |  |  |  |
| Income taxes recovery |  | $(4,953)$ |  | $(2,915)$ |  |  |  |  |  |  |  |  |
| Net loss from continuing operations | \$ | $(58,593)$ | \$ | $(77,561)$ |  |  |  |  |  |  |  |  |
| Depreciation and amortization included in operating loss | \$ | 52,281 | \$ | 49,369 | \$ | 15,199 | \$ | 13,855 | \$ | 37,082 | \$ | 35,514 |

## 14. SEGMENTED INFORMATION (continued)

## Disaggregation of Revenue

Revenue is composed mainly from revenue generated from sales of goods. 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 economic factors. The following table provides the disaggregation of the Company's revenue:



Channels of distribution

| Brick and mortar retailers | $\$$ | 586,435 | $\$$ | 657,576 | $\$$ | 182,630 | $\$$ | 238,427 | $\$$ | 403,805 | $\$$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Internet retailers |  | 446,147 |  | 567,289 |  | 237,696 |  | 370,318 |  | 208,451 | 196,971 |
| Other | 5,487 |  | 5,148 |  | - |  | - |  | 5,487 | 5,148 |  |
| Total | $\$$ | $1,038,069$ | $\$$ | $1,230,013$ | $\$$ | 420,326 | $\$$ | 608,745 | $\$$ | 617,743 | $\$$ |

