

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

For the quarter and six months ended June 30, 2009
All figures in US dollars

This Management's Discussion and Analysis of Financial Conditions and Results of Operations (« MD & A ») should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended June 30, 2009 and the audited consolidated financial statements and MD & A for the year ended December 30, 2008. This MD & A is based on reported earnings in accordance with Canadian generally accepted accounting principles (GAAP), using the US dollar as the reporting currency.

The Company's interim consolidated financial statements have been prepared using the same accounting policies as described in Note 2 of the Company's audited consolidated financial statements for the year ended December 30, 2008, except for new accounting standards noted within this MD & A. The Company regularly monitors new accounting standards and reports on those adopted subsequent to the end of the most recently completed financial year. Please refer to Note 1 of the interim consolidated financial statements for the six months ended June 30, 2009 for further information.

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

Note that there have been no significant changes with regards to the "Corporate Overview", "Operating Segments", "Contractual Obligations", "Off-Balance Sheet Arrangements", "Derivative Financial Instruments", "Critical Accounting Estimates" or, "Market Risks and Uncertainties" to those outlined in the Company's 2008 annual MD & A. As such, they are not repeated herein. The information in this MD & A is current as of August 11, 2009.

SIGNIFICANT EVENTS IN 2009

On January 6, 2009 the Company announced the establishment of *Companhia Dorel Brasil Produtos Infantis* (Dorel Brazil), a new operating division of the Company's Juvenile segment. A local partner with established relations in Brazil's retail channels and with solid experience in the juvenile sector will act as President of the new company. With the 7th ranked population in the world with over 196 million residents, Brazil is characterized by a young population with a high birth rate of 18.7 per 1000 inhabitants, compared to the US rate of 14.2. Additionally, car seats became mandatory in Brazil in June 2008 and demand has escalated. The Company intends to establish the local manufacture of car seats as well as import existing Dorel products that meet local safety standards. The total investment is expected to be less than \$4 million which will consist mostly in moulds and capital assets. There are no significant operating results included in the six months of 2009 related to Dorel Brazil.

On January 27, 2009 Dorel announced a further strengthening of its successful high-end European juvenile lines with the purchase of all of the outstanding shares of Belgium-based *BABY ART bvba*. Created in 2006, the Company markets its products under the BABY ART and HOPPOP brands. The innovative baby products and accessories, feature outstanding modern designs, are highly popular with consumers and received rave reviews at Europe's prestigious 2008 Cologne, Germany juvenile trade fair. The BABY ART and HOPPOP lines are being integrated into Dorel Europe's existing marketing plans and Dorel's relationships with customers should result in meaningful synergies throughout the Company's distribution networks. The purchase price was 4.1 million Euros, or \$5.4 million and was financed through debt.

On March 17, 2009, the Company announced a normal course issuer bid (NCIB). Under the NCIB, Dorel is entitled to repurchase for cancellation up to 1,458,624 Class B Subordinate Voting Shares over a twelve-month period commencing March 20, 2009 and ending March 19, 2010, representing 5% of Dorel's issued and outstanding Class B Subordinate Voting Shares. The purchases by Dorel are effected through the facilities of the Toronto Stock Exchange and are made at the market price of the Class B Subordinate Voting Shares at the time of the purchase.

The Board of Directors of Dorel considers that the underlying value of Dorel may not be reflected in the market price of its Class B Subordinate Voting Shares at certain times during the term of the NCIB. The Board has therefore concluded that the repurchase of shares at certain market prices may constitute an appropriate use of financial resources and be beneficial to Dorel and its shareholders.

On April 2, 2009, the Company announced that within its Recreational / Leisure segment, it was establishing five Centers of Excellence around the world, with each location focused on market leadership in a specific market segment or expertise. These centers will be located in Bethel, Connecticut, Basel, Switzerland, Madison, Wisconsin, Vancouver, British Columbia and Taichung, Taiwan. Key to the Centers of Excellence strategy in North America are plans to consolidate all North American product development, marketing and business management functions for all four cycling brands, Cannondale, Schwinn, GT and Mongoose, to Bethel, within the newly named Cycling Sports Group (CSG), formerly the Cannondale Sports Group. In addition the Company's five North American CSG operations are being reduced from five locations to two.

In addition, CSG will create a bicycle testing laboratory at its facilities in Bedford, Pennsylvania. This facility will focus its existing operations on bicycle assembly, machining, testing and quality control, warranty repair, inside sales and service, distribution and customer support, including a new call center on-site. In shifting Bedford's operations away from bicycle frame manufacturing by 2010, CSG will be able to take full advantage of the strengths and capabilities of the new Taichung, Taiwan-based Center of Excellence in manufacturing oversight, sourcing, testing and quality control. Therefore headcount at Bedford will be reduced from the current 300 employees to approximately 100 by the end of 2010.

The total cost of the overall re-organization plan is expected to be no more than \$4.5 million, the majority of which will be related to employee re-location and severance. These costs will be incurred over the course of 2009 and 2010. Once completed, the Company expects to realize annualized cost savings of up to \$4 million.

Subsequent to quarter end the Company announced two asset acquisitions in the Recreational / Leisure segment. On July 15, 2009, the Company announced it had acquired certain assets of Iron Horse Bicycles, including inventory, various trademarks and trade names, as well as the "Iron Horse" brand, in a transaction valued at \$5.2 million. Founded in 1987 in New York, Iron Horse is marketed throughout North America and internationally and is best known for its downhill and extreme trail bikes. Sales in 2008 were \$25 million globally.

On August 4, 2009 the Company announced it had acquired the assets of Sydney, Australia-based Gemini Bicycles for US\$2.2 million and the acquired assets will be integrated with Cannondale's existing Australian operations under the new Cycling Sports Group (CSG) Australia division. The new division will combine the Company's major Recreational / Leisure brands; Schwinn, Mongoose, Cannondale, GT and SUGOI under one operation which will be dedicated to the Independent Bike Dealer (IBD) channel.

RESULTS OF OPERATIONS

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

Reclassifications

Effective the first quarter of 2009, the Company has adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, *Inventories*, and as a result of changes in presentation requirements, depreciation expense related to manufacturing activities is now included in Cost of sales. Therefore, \$5.4 million and \$10.5 million of depreciation expense has been reclassified for the quarter and year-to-date respectively. Also, effective January 2009, the Company has re-classified certain figures within its segments to more accurately reflect the way in which segmented results are reported internally.

To allow for better year-over-year comparability of both of these changes, prior year comparative figures have been reclassified as follows:

Second quarter ended June 30, 2008

	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations / Corporate
Sales to customers	\$ —	(\$9,283)	\$3,358	\$5,925	\$ —
Inter-segment sales	—	—	(1,728)	(2,084)	3,812
Total Revenue	—	(9,283)	1,630	3,841	3,812
Cost of sales	5,429	(5,278)	2,176	4,719	3,812
Selling, general and administrative	—	(46)	533	629	(1,116)
Depreciation and amortization	(5,429)	(3,685)	(645)	(1,099)	—
Earnings from Operations	\$ —	(\$274)	(\$434)	(\$408)	\$1,116

Six months ended June 30, 2008

	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations / Corporate
Sales to customers	\$ —	(\$18,178)	\$7,673	\$10,505	\$ —
Inter-segment sales	—	—	(4,445)	(4,395)	8,840
Total Revenue	—	(18,178)	3,228	6,110	8,840
Cost of sales	10,497	(10,212)	3,902	7,967	8,840
Selling, general and administrative	—	87	952	1,319	(2,358)
Depreciation and amortization	(10,497)	(7,282)	(1,093)	(2,122)	—
Earnings from Operations	\$ —	(\$771)	(\$533)	(\$1,054)	\$2,358

Overview

In the Company's 2008 year-end MD & A, it outlined how it believed the current economic conditions would impact 2009 results. It was stated that conditions of higher unemployment and worsening consumer sentiment would likely decrease available discretionary income and reduce consumer spending at the retail level. However, it was also stated that while not immune to these conditions, Dorel's customer profile and the nature of the great majority of the Company's products would protect the Company to a certain extent from dramatic sales reductions versus 2008. First half results have proven that this is true with organic sales declines of only 5.5%. For the first half of 2009, revenues have decreased by \$73.4 million, or 6.4%, to \$1,076.4 million. This compares to \$1,149.8 million posted a year ago.

Revenues for the second quarter ended June 30, 2009 decreased by \$42.6 million, or 7.2%, to \$551.1 million. This compares to \$593.7 million posted a year ago. After-tax earnings decreased by \$6.5 million to \$24.8 million from \$31.3 million in 2008. Diluted earnings per share (EPS) were \$0.74 in 2009 compared to \$0.94 in 2008. For the six months ended June 30, 2009 revenues decreased by \$73.4 million, or 6.4%, to \$1.076 billion from \$1.150 billion the year before. Year-to-date, after-tax earnings decreased by 20.6% to \$52.8 million from \$66.5 million in 2008. Diluted earnings per share (EPS) were \$1.58 in 2009 compared to \$1.99 in 2008.

To protect itself from variations in foreign exchange rates and their impact on the Company's cash flow, it enters into foreign exchange forward contracts and other types of derivative financial instruments, the great majority of which are at Dorel Europe within the Juvenile segment. As the Company does not follow the accounting practice of "hedge accounting", non-cash "mark-to-market" gains and losses are recognized, representing the difference between the contracted exchange rate and the market rate on these instruments at the end of a given accounting period. Therefore, the gains and losses on these instruments are recognized relative to fluctuations in current exchange rates as opposed to the date of maturity of the contracts, when the cash flow impact is recorded.

These "mark-to-market" gains and losses are a significant factor in assessing the Company's 2009 results in that there is a non-cash expense in the pre-tax amount of \$12.6 million in the quarter and \$12.1 million year-to-date. The majority of the losses booked in 2009 thus far pertain to contracts that were in place as of December 30, 2008 on which the related gains were recorded in 2008. After tax these losses represent approximately \$8.9 million and \$8.5 million respectively, or the equivalent of \$0.27 per diluted share for the quarter and \$0.25 per diluted share year-to-date. If the

impact of these losses is excluded from the Company results in 2009, diluted earnings per share would have been \$1.01 in the quarter and \$1.83 year-to-date.

Currency variations versus the U.S. dollar are also a significant factor in the quarter when comparing revenues to the prior year. Revenues were reduced versus last year due to the higher value of the U.S. dollar versus all currencies in 2009 as compared to 2008. Another variable in the revenue variation is new businesses that have been acquired. Excluding these two variables, the organic revenue decline in both the quarter and year-to-date is approximately 5.5%.

In the quarter, gross margins were lower than the prior year levels at 22.0%, as compared to the 23.1% recorded in the prior year. Year-to-date gross margins have also decreased by 120 basis points to 22.7%. However if the previously discussed mark-to-market impacts are excluded from the results for both years, the margins in 2009 were 24.3% in the quarter and 23.8% year-to-date compared to 23.0% and 24.0% respectively. This brings the year-to-date margin in line with 2008 and represents an improvement over the previous year's quarter. This improvement is mainly due to a more stable cost environment in 2009. Versus the prior year, the Company's selling, general and administrative costs have decreased by \$3.7 million in the second quarter of 2009 and \$6.9 million year-to-date. The principal causes of the decline were lower spending due to lower sales volumes and the lower rate of exchange on non-US denominated expenses which more than offset higher costs due to businesses acquired during the course of 2008 and 2009.

Restructuring costs were not significant in 2009, but totaled \$1.7 million before income taxes in the first half of 2008 and consisted principally of employee severance costs at Dorel Europe. The after tax impact of these costs in 2008 were \$1.2 million or \$0.04 per diluted share. Interest on long term debt in the second quarter of 2009 was \$4.1 million, compared to \$5.3 million in 2008. Year-to-date these figures are \$8.2 million and \$10.0 million respectively. The Company's year-to-date interest rate on its long-term borrowings was approximately 3.1% compared to 4.7% in 2008, accounting for the 2009 decrease in interest expense. The reduced expense was achieved despite the higher average borrowings required to acquire various companies throughout 2008 and 2009. Note that included in the interest expense category in the second quarter of 2009 is an amount of \$0.2 million in connection with the Company's use of interest rate swaps used to reduce its exposure to the variability of interest rates.

The Company's tax rate is governed by current domestic tax laws in which the Company operates and by the application of income tax treaties between various countries. The tax rate in the quarter was 16.9% and year-to-date is 16.7%, in line with expectations. The decline from the second quarter 2008 tax of 20.2% is attributable to variations in the jurisdictions in which the Company generated its income year over year.

The principal changes in earnings from 2008 to 2009 are summarized as follows:

<u>Earnings from operations by Segment:</u>	<u>Quarter</u>	<u>Year-to- Date</u>
Juvenile decrease, excluding restructuring costs	(\$13,644)	(\$22,420)
Recreational/Leisure decrease	(1,243)	(6,076)
Home Furnishings increase	4,152	7,597
Restructuring costs in Juvenile in 2008	798	1,562
Total earnings from operations decrease	(9,937)	(19,337)
Lower interest costs	1,546	1,902
Decrease in income taxes	2,919	4,699
Other	(1,111)	(951)
Total decrease in after-tax earnings	(\$6,583)	(\$13,687)

The causes of these variations versus last year are discussed in more detail below.

Selected Financial Information

The tables below show selected financial information for the eight most recently completed quarters.

Operating Results for the Quarters Ended				
	Sept. 30, 2008	Dec. 30, 2008	Mar. 31, 2009	June 30, 2009
Revenues	\$552,242	\$479,880	\$525,230	\$ 551,123
Net income	\$27,208	\$19,167	\$28,029	\$ 24,764
Earnings per share				
Basic	\$0.82	\$0.57	\$0.84	\$ 0.74
Diluted	\$0.82	\$0.57	\$0.84	\$ 0.74
	Sept. 30, 2007	Dec. 30, 2007	Mar. 31, 2008	June 30, 2008
Revenues	\$440,115	\$458,853	\$556,034	\$593,724
Net income	\$26,360	\$22,348	\$35,133	\$31,347
Earnings per share				
Basic	\$0.79	\$0.67	\$1.05	\$0.94
Diluted	\$0.79	\$0.67	\$1.05	\$0.94

Segmented Results

Segmented figures are presented in Note 12 to these interim financial statements. Further industry segment detail is presented below:

Juvenile

Expenses as a percentage of revenues	Second quarter ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	75.6%	72.5%	73.5%	71.5%
Gross Margin	24.4%	27.5%	26.5%	28.5%
Selling, general and administrative expenses	14.8%	14.3%	14.9%	14.8%
Depreciation and amortization	1.9%	1.8%	1.8%	1.6%
Research and development costs	0.8%	0.6%	0.8%	0.6%
Restructuring costs	0.0%	0.3%	0.0%	0.3%
Earnings from operations	6.8%	10.5%	9.1%	11.2%

Second quarter Juvenile revenue declined 13.3%, or \$37.5 million, to \$244.7 million compared to \$282.2 million during the same period a year ago. Earnings from operations in 2009 were \$16.7 million, a decrease of 43.4% from \$29.6 million in 2008. Year-to-date revenues in 2009 are \$498.6 million, a decrease of \$92.3 million, or 15.6%. Earnings from operations for the first half were \$45.4 million in 2009 versus \$66.3 million in 2008. However, included in the 2009 figures are mark-to-market losses on foreign exchange contracts of \$12.7 million in the quarter and \$13.4 million year-to-date. In 2008, these figures were a gain of \$1.1 million and a loss of \$1.8 million respectively. If these losses are excluded from both years' results, earnings from operations in the quarter were improved from the prior year at \$29.4 million versus \$28.5 million in 2008, despite the lower revenues in 2009. Year-to-date earnings figures excluding mark-to-market impacts for both years were \$58.8 million in 2009 versus \$68.1 million in 2008.

The revenue decrease was in both North America and Europe, but was most acute in Europe. Sales outside of the US make up more than half of the segment's total; therefore the strength of the US dollar has a significant effect on both revenues and earnings. For the quarter, European sales declined by 22% from last year, but more than half of that decline was due to the impact of foreign exchange. Excluding this factor, the true organic revenue decline in Europe was approximately 9%. For the segment as a whole, the revenue decline was approximately 6%, if the impact of

foreign exchange is excluded. As in the quarter, year-to-date more than half of the sales decline was due the impact of foreign exchange. European sales decreased by 24% but organically the decline was approximately 11%. For the segment as a whole, the year-to-date organic decline was approximately 8%.

Gross margins have declined from 2008 levels both year-to-date and for the quarter. However, included in the cost of sales figures are the mark-to-market impacts on foreign exchange contracts. If these impacts are excluded from both years, margins are 29.5% for the quarter and 29.2% year-to-date which is an improvement over the prior year's 27.1% and 28.8% respectively. This improvement was due to a more stable input cost environment in 2009 versus 2008 and a more favourable product mix in North America. For the segment as a whole, selling, general and administrative (SG & A) costs have decreased in dollar terms, but as a percentage of revenues, have increased slightly due to lower sales volumes. Note that total product liability costs in the quarter were \$2.7 million in 2009 as compared to \$2.9 million in the prior year. Year-to-date these costs are \$7.8 million in 2009 as compared to \$12.6 million in 2008.

Recreational / Leisure

Expenses as a percentage of revenues	Second quarter ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	<u>77.8%</u>	<u>76.6%</u>	<u>77.5%</u>	<u>76.1%</u>
Gross Margin	22.2%	23.4%	22.5%	23.9%
Selling, general and administrative expenses	13.6%	13.8%	14.6%	13.5%
Depreciation and amortization	<u>0.6%</u>	<u>0.8%</u>	<u>0.7%</u>	<u>0.8%</u>
Earnings from operations	<u><u>8.0%</u></u>	<u><u>8.8%</u></u>	<u><u>7.2%</u></u>	<u><u>9.6%</u></u>

Second quarter Recreational / Leisure revenue increased by \$4.0 million, or 2.1%, to \$199.1 million compared to last year's \$195.1 million. Year-to-date revenues are up \$25.0 million, or 7.4% to \$360.5 million from \$335.5 million in the prior year. Excluding the impact of new business acquisitions and foreign exchange variations on the segment's non-US based businesses, the segment's organic revenue decline was approximately 5% for the quarter and 4% year-to-date. Revenues within the segment's core bicycle business at the mass merchant level are down from the prior year, but these declines were offset by the contribution of the parts and accessories business that was acquired late in June of 2008. Bicycle sales by the Cycling Sports Group to the Company's Independent Bike Dealers (IBD) and sporting goods customers were also down as consumers are purchasing less of the Company's high end product or trading down to lower priced items. The Company believes that the poor weather that was experienced in most of North America throughout May and June also had a negative impact on sales.

Earnings from operations for the quarter declined by \$1.3 million, or 7.2%, to \$16.0 million, compared to \$17.3 million in 2008. For the first six months of the year, earnings from operations were \$26.0 million, down \$6.1 million or 19.0% from \$32.1 million in the prior year. Gross margin declines for quarter and year-to-date respectively were 120 basis points and 140 basis points, due principally to a less profitable product mix as consumers shifted to lower price point products. Gross margins in the quarter were further negatively impacted by foreign exchange variations including a mark-to-market loss of \$1.1 million on foreign exchange contacts. S,G & A expenses for the quarter were relative flat with the prior year at \$27.0 million of 13.6% of revenues. For the six months ending June 30, the increase of \$7.4 million from \$45.4 million to \$52.8 million is due mainly to costs associated with new business acquisitions and foreign exchange variations on the segments non-US based businesses as well as an increase in organic expenses as the company continued to invest in the segment's infrastructure and product innovation. Note that costs associated with the previously announced re-organization of the segment in the quarter totaled approximately \$0.3 million.

Home Furnishings

Expenses as a percentage of revenues	Second quarter ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	83.9%	87.7%	85.8%	88.4%
Gross Margin	16.1%	12.3%	14.2%	11.6%
Selling, general and administrative expenses	8.0%	8.0%	7.7%	8.4%
Depreciation and amortization	0.3%	0.5%	0.3%	0.5%
Research and development costs	0.6%	0.7%	0.6%	0.7%
Earnings from operations	7.2%	3.1%	5.6%	2.0%

For the quarter, Home Furnishings revenues decreased by 7.8%, to \$107.4 million down from \$116.4 million in the prior year. For the first half, revenues declined by 2.7% to \$217.2 million from \$223.3 million the year before. All of the segment's divisions posted sales that were flat or down from last year. Despite the sales declines, earnings for the quarter more than doubled at \$7.7 million an increase from \$3.6 million the year before and year-to-date earnings have increased 169% to \$12.1 million from \$4.5 million in the prior year. The earnings improvement was driven by Ameriwood as that division continued to show consistent sales and earnings of domestically produced furniture, helping factory efficiencies and resultant earnings. Also, earnings were aided by the more favourable rate of exchange of the Canadian dollar versus the US dollar as two of the Segment's plants are located in Canada and sell the majority of their product to US based customers. Included in the 2009 cost of sales figures are mark-to-market gains on foreign exchange contracts of \$1.1 million in the second quarter and \$2.2 million year-to-date.

For principally the same reasons as the earnings improvements, gross margins in the second quarter of 2009 also improved to 16.1%, an increase of 380 basis points from the 12.3% recorded in the prior year. Selling, general and administrative (SG & A) costs were down year over year for the quarter, and year-to-date, as costs continue to be scrutinized as much as possible in an effort to streamline the Segment's operations.

LIQUIDITY AND CAPITAL RESOURCES

Balance Sheet

As at the 2008 year-end the Company had experienced a significant increase in inventory levels as retailers attempted to reduce their in-stock levels on-hand. As a result, sales in the fourth quarter of last year were lower than was anticipated at that time and inventory levels rose. Therefore, as was expected, in the first quarter of 2009 inventories declined from \$509.5 million as at December 30, 2008 to \$419.7 million as at March 31 as retailers began to replenish their stock levels. Inventory levels at June 30, 2009 remained consistent with first quarter levels at \$423.0 million. The current portion of long-term debt increase as at June 30, 2009, is due to the re-classification from long-term to current of the Company's \$55.0 million Series "B" Senior Guaranteed Notes which are coming due in February, 2010.

Certain of the Company's working capital ratios are as follows:

	As at:	
	June 30, 2009	Dec. 30, 2008
Quick ratio	0.91	0.78
Current ratio	2.01	2.15
# of days in receivables	65	55
# of days in inventory	95	107

The higher number of days in receivables and lower number of days in inventory figures are attributable to the conversion of inventory into accounts receivable as the Company reduced its high year-end levels of inventory. This also explains the improved quick ratio figure as at June 30, 2009. As of June 30, 2009, Dorel was compliant with all of

its borrowing covenant requirements and expects to be so going forward. The Company continuously reviews its cash management and financing strategy to optimize the use of funds and minimize its cost of borrowing.

Cash Flow

During the first half of 2009, cash flow from operating activities before changes in non-cash balances related to operations was \$71.5 million compared to \$92.2 million in 2008. However, the year over year change in variations of working capital balances was an additional source of funds of \$31.9 million. After these changes in non-cash balances related to operations, cash flow provided by operations was \$75.0 million compared to \$63.9 million that was provided by operations in 2008. In 2009 inventories declined from year-end levels as excess inventories on hand were sold to customers. As a result, there was a shift in working capital from inventories to accounts receivable.

In 2009, dividends of \$8.4 million were paid, consistent with the prior year. In relation to its NCIB, the Company disbursed \$3.5 million to repurchase shares in the first half of 2009. Investing activities in 2009 includes \$5.4 million disbursed in connection with the business acquisitions in the year as well as \$1.1 million paid on a balance of sale related to the PTI acquisition in 2008. In 2009, excluding disbursements related to business acquisitions, the Company spent \$17.2 million on capital additions, comprising property, plant and equipment and intangible assets, a decrease from the 2008 amount of \$22.2 million. This decreased spending was the result of a concerted effort to limit capital expenditures to those projects deemed as most important to continued growth and new product development. As a result, the Company's net debt position, defined as long-term debt and bank indebtedness, less cash on hand improved from December 2008 with a reduction of \$38.8 million from year-end levels.

New Accounting Standards

Inventories

In the first quarter of 2009, the Company adopted the CICA Handbook Section 3031, *Inventories*, which replaces Section 3030, *Inventories*, and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). This Section provides changes to the measurement and more extensive guidance on the determination of the cost, including allocation of overheads and other costs to inventories; prohibits the use of the last-in, first-out (LIFO) method; requires the reversal of previous write-downs when there is a subsequent increase in the value of inventories; and expands the disclosure requirements regarding inventories and cost of sales to increase transparency. This Section applies to interim and annual financial statements beginning on or after January 1, 2008.

As a result of the more restrictive guidance on the determination of costs, the Company changed some of its overhead allocation policy, whereby some overhead costs are expensed. In accordance with Section 3031, the Company applied these changes in accounting policies by adjusting the opening retained earnings as at December 31, 2008 (prior fiscal year periods were not restated). Accordingly, effective as of the beginning of our 2009 fiscal year, the impact of measuring the inventories under the new standard is a decrease of the carrying amount of inventories of \$3.5 million. Opening retained earnings at the beginning of the fiscal year 2009 were decreased by \$2.1 million, equal to the change in opening inventories net of tax of \$1.4 million.

Section 3031 requires depreciation expense related to manufacturing activities to be included in Cost of sales. As a result, effective in the first quarter of 2009, depreciation expense related to manufacturing activities has been reclassified to Cost of sales. The cost of inventories recognized as an expense and included in Cost of sales for the quarter and six months ended June 30, 2009 was \$411.7 million and \$788.3 million respectively. During the quarter and six months ended June 30, 2009, the Company recorded \$1.8 million and \$5.0 million respectively (in Cost of sales) of write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

Goodwill and Intangible Assets

In the first quarter of 2009, the Company adopted the CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and development costs*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

The Company has reviewed the new section and determined that there was no impact of its adoption on its financial statements except the deferred development costs are presented with the intangible assets as opposed to with other assets. As a result, \$26.9 million of deferred development costs as at December 30, 2008 have been reclassified from other assets to intangible assets.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee (EIC) issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties' credit risk for assets and the Company's credit risk for liabilities. EIC-173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The effective date of application for the Company is the first quarter of 2009. The application of EIC-173 did not have a significant impact on the financial results of the Company.

General Standards of Financial Statement Presentation

In June 2007, the CICA amended Section 1400, General Standards of Financial Statement Presentation, which is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and which includes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of the amended Section did not have any impact on the financial statements of the Company.

Future Accounting Changes

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures which must be addressed. In the period leading up to the changeover, the AcSB is expected to continue to issue accounting standards that are converged with IFRS, mitigating the impact of adopting IFRS at the changeover date. As a result, the Company is currently developing its detailed IFRS conversion plan and evaluating the effect of these new standards on its consolidated financial statements. Determination of the key differences between IFRS and the Company's accounting policies is in progress with an evaluation of the main potential impact on its business practices, systems, disclosure controls and procedures, and internal controls over financial reporting.

The Company has a dedicated project manager to lead the conversion to IFRS. Members of the finance team are working closely with senior management in a number of different business areas to ensure that the impact of the conversion throughout the business is managed in a timely and efficient manner. Training and additional resources will be engaged as required to ensure the timely conversion to IFRS.

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which will replace Section 1581, Business Combinations, and provides the equivalent to IFRS 3, Business Combinations. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100 percent of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the purchase price allocation. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. This new Section will only have an impact on our financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, which will replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, Consolidated and Separate Financial Statements. These Sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. The Company is currently assessing the future impact of these new Sections on its consolidated financial statements.

OTHER INFORMATION

The designation, number and amount of each class and series of its shares outstanding as of July 31, 2009 are as follows:

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

Details of the issued and outstanding shares are as follows:

Class A		Class B		Total
Number	\$(‘000)	Number	\$(‘000)	\$(‘000)
4,229,710	\$1,793	28,964,042	\$174,374	\$176,167

In accordance with its NCIB, the Company repurchased during the six months period ended June 30, 2009, a total of 178,440 Class "B" Subordinate Voting Shares for a cash consideration of \$3.5 million. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums. Outstanding stock options and Deferred Share Units values are disclosed in Note 6 to the financial statements. There were no significant changes to these values in the period between the quarter end and the date of the preparation of this MD & A.

Forward Looking Information

Certain statements included in this MD&A may constitute "forward looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward looking statements generally can be identified by the use of forward looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. We refer you to the Company's filings with the Canadian securities regulatory authorities for a discussion of the various factors that may affect the Company's future results.

Readers are cautioned, however, not to place undue reliance on forward looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward looking statements will not occur. This may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements.

We believe that the expectations represented by such forward looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The forward looking statements contained in this report reflect the Company's expectations as at the date of this MD & A and are subject to change after such date. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward looking statements contained in this report are expressly qualified by this cautionary statement.