



DOREL INDUSTRIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of financial conditions and results of operations ("MD&A") should be read in conjunction with the consolidated financial statements for Dorel Industries Inc. ("Dorel" or "the Company") for the fiscal years ended December 30, 2009 and 2008 ("the Consolidated Financial Statements"), as well as with the notes to the Consolidated Financial Statements. All financial information contained in this MD&A and in the Company's Consolidated Financial Statements are in US dollars, unless indicated otherwise, and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), using the US dollar as the reporting currency. This MD&A is current as of March 9th, 2010.

Forward-looking statements are included in this MD&A. See the "Caution Regarding Forward Looking Information" included at the end of this MD&A for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to the Company, see the "Market Risks and Uncertainties" section of this MD&A. Further information on Dorel's public disclosures, including the Company's Annual Information Form ("AIF"), are to be available within the prescribed filing deadlines on-line at www.sedar.com and Dorel's website at www.dorel.com.

Corporate Overview

The Company's head office is based in Montreal, Quebec, Canada. In total, the Company operates in nineteen countries with sales made throughout the world and employs approximately 4,500 people. Dorel's ultimate goal is to produce innovative, quality products and satisfy consumer needs while achieving maximum financial results for its shareholders. The Company's growth has resulted from both increasing sales of existing businesses and by acquiring businesses that management believes add value to the Company.

Strategy

Dorel is a world class juvenile products and bicycle company. Established in 1962, Dorel creates style and excitement in equal measure to safety, quality and value. The Company's lifestyle leadership position is pronounced in both its juvenile and bicycle categories with an array of trend-setting products. In the Juvenile segment, Dorel's powerfully branded products such as Quinny, Maxi-Cosi, HOPPOP, Safety 1st and B  b   Confort have shown the way to safety, originality and fashion. Similarly, its highly popular brands such as Cannondale, Schwinn, GT, Mongoose and IronHorse as well SUGOI Apparel have made Dorel a principal player in the bicycle marketplace. Dorel's Home Furnishings segment markets a wide assortment of furniture products, both domestically produced and imported. The Company relies on innovation and marketing flair across all of its divisions.

Within each of the three segments, there are several operating divisions or subsidiaries. Each segment has its own President and is operated independently by a separate group of managers. Senior management of the Company coordinates the businesses of all segments and maximizes cross-selling, cross-marketing, procurement and other complementary business opportunities.

Dorel conducts its business through a variety of sales and distribution arrangements. These consist of salaried employees; individual agents who carry the Company's products on either an exclusive or non-exclusive basis; individual specialized agents who sell products, including Dorel's, exclusively to one customer such as a major discount chain; and sales agencies which themselves employ their own sales force. While retailers carry out the bulk of the advertising of Dorel's products, all of the segments

advertise and promote their products through the use of advertisements in specific magazines, multi-product brochures, on-line and other media outlets.

Dorel believes that its commitment to providing a high quality, industry-leading level of service has allowed it to develop successful and mutually beneficial relationships with major retailers. A high level of customer satisfaction has been achieved by fostering particularly close contacts between Dorel's sales representatives and clients. Permanent, full-service agency account teams have been established in close proximity to certain major accounts. These dedicated account teams provide these customers with the assurance that inventory and supply requirements will be met and that issues will be immediately addressed.

Dorel is a manufacturer as well as an importer of finished goods, the majority of the latter from overseas suppliers. As such, the Company relies on its suppliers for both finished goods and raw materials and has always prided itself on establishing successful long-term relationships both domestically and overseas. The Company has established a workforce of over 200 people in mainland China and Taiwan whose role is to ensure the highest standard of quality of its products and to ensure that the flow of product is not interrupted. The recent economic downturn has illustrated the quality of these supplier relationships in that Dorel has not been adversely affected by its supplier base and their continuing ability to service Dorel.

In addition to its solid supply chain, quality products and dedicated customer service, strong recognized consumer brands are an important element of Dorel's strategy. As examples, in North America, Dorel's Schwinn and Cannondale product lines are among the most recognized brand names in the sporting goods industry. Safety 1st is a highly regarded Dorel brand in the North American juvenile products market. Throughout Europe the Maxi-Cosi brand has become synonymous with quality car seats and in France, Béb  Confort is universally recognized and has superior brand awareness. These brands, and the fact that Dorel has a wide range of other brand names, allows for product and price differentiation within the same product categories. Product development is a significant element of Dorel's past and future growth. Dorel has invested heavily in this area, focusing on innovation, quality, safety and speed to market with several design and product development centres. Over the past two years, Dorel has spent over \$60 million on new product development.

Operating Segments

Juvenile

The Juvenile segment manufactures and imports products such as infant car seats, strollers, high chairs, toddler beds, cribs, playpens, swings and infant health and safety aids. Globally, within its principal categories, Dorel's combined juvenile operations make it the largest juvenile products company in the world. The segment operates in North America, Europe, Australia and Brazil and exports product to almost 100 countries around the world. Dorel Juvenile Group ("DJG") USA's operations in the United States are headquartered in Columbus, Indiana, where North American manufacturing and car seat engineering is based, with facilities in Foxboro, Massachusetts and Ontario, California. The majority of products are conceived, designed and developed at the Foxboro location. Car seat development is in the process of being centralized at the Company's new state-of-the-art car seat Design and Development Competency Centre in Columbus. Dorel Distribution Canada ("DDC") is located in Montreal, Quebec with a sales force and showroom in Toronto, Ontario and sells to customers throughout Canada. The principal brand names in North America are Cosco, Safety 1st Maxi Cosi and Quinny. In addition, several brand names are used under license, the most significant being the well-recognized Eddie Bauer brand.

In North America, the majority of juvenile sales are made to mass merchants, department stores and hardware/home centres, where consumers' priorities are design oriented, with a focus on safety and quality at reasonable prices. Therefore sales to these channels are principally entry level to mid-price point products. Using innovative product designs, higher-end price points are also being serviced by these customers, representing additional sales opportunities for the segment. There are several juvenile

products companies servicing the North American market with Dorel being among the three largest along with Graco (a part of the Newell Group of companies) and Evenflo Company Inc.

Dorel Europe is headquartered in Paris, France with major product design facilities located in Cholet, France and Helmond, Holland. Sales operations along with manufacturing and assembly facilities are located in France, Holland and Portugal. In addition, sales and/or distribution subsidiaries are located in Italy, Spain, the United Kingdom, Germany, Belgium and Switzerland. In Europe, products are principally marketed under the brand names Béb  Confort, Maxi-Cosi, Quinny, Baby Relax, Safety 1st, HOPPOP and BABY ART. In Europe, Dorel sells juvenile products primarily across the mid-level to high-end price points. With its well recognized brand names and superior designs and product quality, the majority of European sales are made to large European juvenile product chains along with independent boutiques and specialty stores. Dorel is one of the largest juvenile products companies in Europe, competing with others such as Britax, Peg Perego, Chicco, Jane and Graco, as well as several smaller companies.

In Australia, Dorel is the majority shareholder in IGC Dorel ("IGC") which manufactures and distributes its products under several local brands, the most prominent of which are Bertini and Mother's Choice. IGC has done an exceptional job of introducing and integrating Dorel's North American and European brands in Australia and New Zealand, broadening their sales range. Sales are made to both large retailers and specialty stores. In January 2009 the Company established Dorel Brazil, a new operating division with a local partner. Dorel Brazil began manufacturing car seats locally in 2009, as well as importing existing Dorel products that meet local safety standards. Dorel Asia sells cribs and other juvenile furniture to various major retailers. Over and above its branded sales, many of Dorel's juvenile divisions also sell products to customers which are marketed under various house brand names. In 2009, the Juvenile segment accounted for 46% of Dorel's revenues.

Recreational/Leisure

The Recreational / Leisure segment's businesses participate in a marketplace that totals approximately \$55 billion in retail sales annually. This includes bicycles, bicycling and running footwear and apparel, jogging strollers and bicycles trailers, as well as related parts and accessories. The breakdown of bicycle industry sales around the world is approximately 50% in the Asia-Pacific region, 22% in Europe, 12% in North America, with the balance in the rest of the world. Bicycles are sold in the mass merchant channel, at sporting goods chains and in the independent bicycle dealer ("IBD") distribution channel.

In the US, mass merchants have captured a greater share of the market over the past 15 years and today account for over 70% of unit sales. Despite the growth of the mass merchant channel, the IBD channel remains an important retail outlet in North America, Europe and other parts of the world. IBD retailers specialize in higher-end bicycles and deliver a level of service to their customers that the mass merchants cannot. Retail prices in the IBD's are much higher, reaching up to over \$10,000. This compares to the mass merchant channel where the average retail price is less than \$100. The sporting goods chains sell bicycles in the mid-price range and in the US this channel accounts for less than 10% of total industry retail sales.

Brand differentiation is an important part of the bicycle industry with different brands being found in the different distribution channels. High-end bicycles and brands would be found in IBD's and some sporting goods chains, whereas the other brands can be purchased at mass market retailers. Consumer purchasing patterns are generally influenced by economic conditions, weather and seasonality. Principal competitors include Huffy, Dynacraft, Trek, Giant, Specialized, Scott and Raleigh. In Europe, the market is much more fragmented as there is additional competition from much smaller companies that are popular in different regions.

The segment's worldwide headquarters is based in Bethel, Connecticut. There are also significant operations in Madison, Wisconsin, Vancouver, British Columbia and Bedford, Pennsylvania. In addition, distribution centres are located in California and Illinois. European operations are headquartered in Oldenzaal, Holland with operations in Basel, Switzerland. Globally there are sales and distribution companies based in Australia, the United Kingdom and Japan. There is a sourcing operation based in

Taiwan established to oversee the segment's Far East supplier base and logistics chain, ensuring that the Company's products are produced to meet the exacting quality standards that are required.

The IBD retail channel is serviced by the Cycling Sports Group ("CSG") which focuses exclusively on this category principally with the premium-oriented Cannondale, SUGOI and GT brands. Pacific Cycle has an exclusive focus on mass merchant and sporting goods chain customers. The mass merchant product line is sold mainly under the Schwinn and Mongoose brands which are used on bicycles, parts and accessories. The main brand sold to the sporting goods chain is the newly acquired IronHorse brand. In Europe and elsewhere around the world, certain brands are sold across these distribution channels and as an example, in the UK, Mongoose is a very successful IBD brand. Sales of sports apparel and related products are made by the Apparel and Footwear Group ("AFG") through the IBDs, various sporting good chains and specialty running stores. AFG competes with such brands as Nike, Pearl Izumi, Adidas, among others, as well as some of the bicycle brands. In 2009, the Recreational/Leisure segment accounted for 32% of Dorel's revenues.

Home Furnishings

Dorel's Home Furnishings segment participates in the \$80 billion North American furniture industry. Dorel ranks in the top ten of North American furniture manufacturers and marketers and has a strong foothold in both North American manufacturing and importation of furniture, with a significant portion of its supply coming from its own manufacturing facilities and the balance through sourcing efforts in Asia. Dorel is also the number two manufacturer of Ready-to-Assemble ("RTA") furniture in North America. Products are distributed from our North American manufacturing locations as well as from several distribution facilities.

Dorel's Home Furnishings segment consists of five operating divisions. They are Ameriwood Industries ("Ameriwood"), Altra Furniture ("Altra"), Cosco Home & Office ("Cosco"), Dorel Home Products ("DHP") and Dorel Asia. Ameriwood specializes in domestically manufactured RTA furniture and is headquartered in Wright City, Missouri. Ameriwood's manufacturing and distribution facilities are located in Tiffin, Ohio, Dowagiac, Michigan, and Cornwall, Ontario. Altra Furniture is also located in Wright City, Missouri and designs and imports furniture mainly within the home entertainment and home office categories. Cosco is located in Columbus, Indiana and the majority of its sales are of metal folding furniture, step stools and specialty ladders. DHP, located in Montreal, Quebec, manufactures futons and baby mattresses and imports futons, bunk beds and other accent furniture. Major distribution facilities are also located in California and Georgia. Dorel Asia specializes in sourcing upholstery and a full range of finished goods from Asia for distribution throughout North America.

While industry furniture sales declined in 2009 due to the significant drop in new housing, Dorel's sales in home furnishings increased. Dorel has significant market share within its product categories and has a strong presence with its customer base. Sales are concentrated with mass merchants, warehouse clubs, home centres, and office and electronic superstores. Dorel markets its products under generic retail house brands as well as under a range of branded product including; Ameriwood, Altra, System Build, Ridgewood, Dorel Fine Furniture, and Cosco. The Dorel Home Furnishings segment has many competitors including Sauder Manufacturing in the RTA category, Meco in the folding furniture category, and Werner in ladders. In 2009, this segment accounted for 22% of Dorel's revenues.

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 is serving as President of the new company. With the 7th highest 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. Dorel Brazil has established the local manufacture of car seats as well as importing existing Dorel products that meet local safety standards. During 2009, the Company invested

\$2.4 million with the total investment expected to be less than \$4 million, consisting mostly of moulds and cash. The operating results included in the 2009 results related to Dorel Brazil were not significant.

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 have received rave reviews. 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 of Directors 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 Centres of Excellence around the world, with each location focused on market leadership in a specific market segment or expertise. These centres will be located in Bethel, Connecticut; Basel, Switzerland; Madison, Wisconsin; Vancouver, British Columbia and Taichung, Taiwan. Key to the Centres of Excellence strategy in North America are plans to consolidate all North American product development, marketing and business management functions for all four high-end cycling brands, Cannondale, Schwinn, GT and Mongoose, to Bethel, within the CSG. In addition, the Company's North American CSG operations are being reduced from five locations to two.

In addition, CSG is creating 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 centre on-site. In shifting Bedford's operations away from bicycle frame manufacturing, CSG will be able to take full advantage of the strengths and capabilities of the new Taichung, Taiwan-based Centre of Excellence in manufacturing oversight, sourcing, testing and quality control. 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 are being incurred over the course of 2009 and 2010. Once completed, the Company expects to realize annualized cost savings of up to \$4 million.

During the year the Company announced three asset acquisitions in the Recreational / Leisure segment. On July 15, 2009, the Company acquired certain assets of IronHorse Bicycles, including inventory, various trademarks and trade names, including the IronHorse brand, in a transaction valued at \$5.6 million. Founded in 1987 in New York, IronHorse is marketed throughout North America and internationally and is best known for its downhill and extreme trail bicycles. On August 4, 2009 the Company acquired the assets of Sydney, Australia-based Gemini Bicycles for \$2.0 million and the acquired assets are being integrated with the Company's existing Australian bicycle operations under the new 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 IBD channel.

On October 1, 2009 Dorel acquired certain assets of UK-based Hot Wheels and Circle Bikes, the UK's preeminent distributors of the Mongoose and GT brands. Hot Wheels has a portfolio of top selling, innovative bicycle products and components which are marketed to retail and leisure outlets throughout

the UK. Circle Bikes also owns the popular Charge brand. Sales for the most recent fiscal year were approximately £14 million (\$22 million), the majority of the revenue from Hot Wheels. The acquisition price was £6.7 million or \$10.6 million, including possible additional consideration contingent upon a formulaic variable price based mainly on the future earnings of the acquired business. In parallel a new subsidiary, CSG UK, based in Poole, Dorset, was created to drive the future growth of the Mongoose, GT and Cannondale brands. CSG UK will be dedicated to the IBD channel and will coordinate all sales, marketing, distribution and customer service to better support its growing network of dealers in the UK.

Operating Results

Note: all tabular figures are in thousands of US dollars 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 for the 2008 comparative figures, \$3.7 million and \$19.3 million of depreciation expense have been reclassified for the quarter and full year respectively. Also, effective January 2009, the Company has reclassified 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:

Fourth Quarter Ended December 30, 2008					
	Total	Juvenile	Recreational/ Leisure	Home Furnishings	Eliminations
Sales to Customers	\$ -	\$ (9,014)	\$ 4,060	\$ 4,954	\$ -
Inter-Segment Sales	-	-	(2,010)	(2,492)	4,502
Total Revenue	-	(9,014)	2,050	2,462	4,502
Cost of sales	3,695	(6,370)	2,243	3,320	4,502
Selling, general and administrative expenses	300	(44)	(177)	521	-
Depreciation & amortization	(3,695)	(2,155)	(542)	(998)	-
Research and development costs	678		678		
Earnings from Operations	(978)	\$ (445)	\$ (152)	\$ (381)	\$ -
Corporate expenses	(978)				
Net income	\$ -				

Year Ended December 30, 2008					
	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations
Sales to Customers	\$ -	\$ (35,452)	\$ 12,628	\$ 22,824	\$ -
Inter-Segment Sales	-	-	(6,670)	(10,150)	16,820
Total Revenue	-	(35,452)	5,958	12,674	16,820
Cost of sales	19,344	(21,231)	7,656	16,099	16,820
Selling, general and administrative expenses	2,111	24	(340)	2,427	-
Depreciation & amortization	(19,344)	(12,859)	(2,256)	(4,229)	-
Research and development costs	2,336		2,336		-
Earnings from Operations	(4,447)	\$ (1,386)	\$ (1,438)	\$ (1,623)	\$ -
Corporate expenses	(4,447)				
Net income	\$ -				

Following is a selected summary of Dorel's operating results on an annual and quarterly basis.

Selected Financial Information

	Operating Results for the Years ended December 30:					
	2009		2008		2007	
	\$	% of revenues	\$	% of revenues	\$	% of revenues
Revenues	\$ 2,140,114	100.0%	\$2,181,880	100.0%	\$1,813,672	100.0%
Net income	\$ 107,234	5.0%	\$ 112,855	5.2%	\$ 87,492	4.8%
Cash dividends declared per share	\$0.50		\$ 0.50		\$ 0.375	
Earnings per share:						
Basic	\$3.23		\$ 3.38		\$ 2.63	
Diluted	\$3.21		\$ 3.38		\$ 2.63	
Amount of restructuring costs included in the year based on diluted earnings per share	\$ -		\$ 0.02		\$ 0.38	

	Operating Results for the Quarters Ended			
	31-Mar-09	30-Jun-09	30-Sep-09	30-Dec-09
Revenues	\$525,230	\$551,123	\$518,458	\$545,303
Net income	\$28,029	\$24,764	\$30,230	\$24,211
Earnings per share:				
Basic	\$0.84	\$ 0.74	\$ 0.91	\$0.73
Diluted	\$0.84	\$ 0.74	\$ 0.91	\$0.73

	Operating Results for the Quarters Ended			
	31-Mar-08	30-Jun-08	30-Sep-08	30-Dec-08
Revenues	\$556,034	\$593,724	\$552,242	\$479,880
Net income	\$35,133	\$31,347	\$27,208	\$19,167
Earnings per share:				
Basic	\$1.05	\$0.94	\$0.82	\$0.57
Diluted	\$1.05	\$0.94	\$0.82	\$0.57

Income Statement - Overview

2009 versus 2008

Tabular Summaries

Variations in revenue across the Company segments:

	Fourth Quarter				Year			
	<u>2009</u>	<u>2008</u>	<u>Increase</u>		<u>2009</u>	<u>2008</u>	<u>Increase (decrease)</u>	
			<u>\$</u>	<u>%</u>			<u>\$</u>	<u>%</u>
Juvenile	\$ 248,521	\$ 219,680	\$ 28,841	13.1%	\$ 995,014	\$1,073,722	\$ (78,708)	(7.3%)
Recreational / Leisure	175,670	157,894	17,776	11.3%	681,366	656,613	24,753	3.8%
Home Furnishings	<u>121,112</u>	<u>102,306</u>	<u>18,806</u>	<u>18.4%</u>	<u>463,734</u>	<u>451,545</u>	<u>12,189</u>	<u>2.7%</u>
Total Revenues	<u>\$ 545,303</u>	<u>\$ 479,880</u>	<u>\$ 65,423</u>	<u>13.6%</u>	<u>\$2,140,114</u>	<u>\$2,181,880</u>	<u>\$ (41,766)</u>	<u>(1.9%)</u>

Principal changes in earnings:

	<u>4th Qtr</u>	<u>Year-to-Date</u>
<u>Earnings from operations by segment:</u>		
Juvenile decrease	(\$4,860)	(\$34,303)
Recreational / Leisure increase (decrease)	5,817	(2,037)
Home Furnishings increase	<u>10,551</u>	<u>28,732</u>
Total earnings from operations increase (decrease)	11,508	(7,608)
Decrease in interest costs	2,151	5,748
Increase in income taxes	(6,401)	(1,955)
Other	<u>(2,214)</u>	<u>(1,806)</u>
Total increase (decrease) in net income	<u>\$5,044</u>	<u>(\$5,621)</u>

Note that detailed analyses of segmented annual results are presented within the discussions that follow this overview.

The Company's 2008 year-end MD & A outlined how 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 in the opening to mid-price point categories would protect the Company to a certain extent from dramatic sales reductions versus 2008. The results for the year have proven this to be true with revenues declining by \$41.8 million, or 1.9%, to \$2,140 million. This compares to \$2,182 million posted a year ago. The organic sales decline, removing the impacts of business acquisitions and foreign exchange variations, was less than 3%.

One of Dorel's strengths lies in its multi-national operations, diverse operating segments and broad product lines. Over its history this has meant that earnings variations within the Company's various operating divisions are often compensated by one another. This was the case in 2009 where strong performances within North America in the Juvenile and Home Furnishings segments offset less profitable results elsewhere. Given the economic environment, the higher end products within the European Juvenile segment and Recreational / Leisure segment did experience some sales declines. Fortunately, Dorel's product line is broad enough to have captured some of these lost sales, though at lower price points. This is particularly true of the Company's high-end bicycles sold to the IBD distribution channel where sales of lower priced models increased. The other variable that adversely affected earnings in 2009 as compared to 2008 is the timing of foreign exchange gains and losses on hedging instruments. As described in more detail below, this severely dampened earnings within the Juvenile segment at the Company's European operations.

For fiscal 2009, Dorel recorded revenues of \$2,140 million a decrease of 1.9% from 2008. Sales declined by 7.3% in the Juvenile segment, partially offset by a 3.8% increase in Recreational / Leisure and 2.7% in Home Furnishings. Gross margins for the year were 23.6%, consistent with the 23.4% recorded last year. The three most significant variations year over year in the gross margin was lower commodity pricing in 2009, offset by a greater proportion of lower margin product sold in 2009 and the negative impact on the Company of foreign exchange rates in 2009 versus 2008. Specifically, in 2008 the Company recognized unrealized gains of \$10.5 million on foreign exchange hedging instruments, principally in the juvenile segment, which reversed in 2009, creating losses in the current year. This had a year over year impact of increasing 2008 margins by 50 basis points and decreasing 2009 margins by the same amount. Excluding this factor, margins improved by 120 basis points as opposed to the 20 basis points as reported. This

improvement therefore consists of the benefit of lower input costs, partially offset by a less profitable product mix.

Selling, general and administrative (“S,G & A”) expenses were consistent with 2008 levels at \$316.2 million versus \$316.8 million the year before. The major changes in the year were a positive impact of foreign exchange rates which lowered the US dollar expense, offset by higher costs due to the various business acquisitions throughout 2008 and 2009. Research and development costs that were expensed in the year increased by \$3.9 million, or 29.7%, from the prior year. Note that the amount expensed in the year for research and development is not reflective of the true costs incurred by the Company as a portion of these amounts are capitalized. Combined the amounts capitalized and expensed were consistent year over year at approximately \$33 million.

Total interest costs in 2009 were \$16.4 million versus \$22.1 million in the prior year due to a combination of lower average borrowings and a lower average interest rate on the long-term borrowings and revolving facilities at 3.1%, versus 4.6% in 2008. Note that included in the interest expense category in the year-to-date 2009 figures is an amount of \$0.7 million in connection with the Company’s interest rate swap used to reduce its exposure to the variability of interest rates. Income before income taxes was \$128.3 million in 2009 versus \$132.0 million in 2008, a decrease of \$3.7 million or 2.8%. 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 these tax laws, as well as the application of income tax treaties between various countries. As such, significant variations from year to year in the Company’s combined tax rate can occur. In 2009 the Company’s effective tax rate was 16.4% as compared to 14.5% in 2008. The principal reason was greater earnings in higher tax rate jurisdictions.

The Parent Company’s statutory tax rate is 30.8%. The variation from 30.8% to 16.4% can be explained as follows:

	\$	%
PROVISION FOR INCOME TAXES	\$39,531	30.8%
ADD (DEDUCT) EFFECT OF:		
Difference in effective tax rates of foreign subsidiaries	(13,591)	(10.6)
Recovery of income taxes arising from the use of unrecorded tax benefits	(5,415)	(4.2)
Change in valuation allowance	(2,599)	(2.0)
Non-deductible stock options	1,071	0.8
Other non-deductible items	(36)	-
Change in future income taxes resulting from changes in tax rates	1,023	0.8
Effect of foreign exchange	672	0.5
Other - Net	458	0.3
PROVISION FOR INCOME TAXES	\$21,113	16.4%

Net income for the full year amounted to \$107.2 million or \$3.21 per share fully diluted, compared to 2008 net income of \$112.9 million or \$3.38 per diluted share. The foreign exchange gains in 2008 of \$10.5 million referred to above equates to \$7.4 million after-tax, or the equivalent of \$0.22 per diluted share.

Fourth quarter 2009 versus 2008

Overview

Revenues for the fourth quarter were \$545.3 million compared to \$479.9 million a year ago, an increase across all three segments of a total of 13.6%. This increase included the benefits of a weaker US dollar as compared to the prior year's fourth quarter in that non-US denominated revenues were translated at a higher rate of exchange. The fourth quarter also included the incremental sales from the Company's acquisitions in 2009. As such of the 13.6% increase, the organic sales increase in the quarter was approximately 7%.

The prior year's fourth quarter was characterized by a struggling banking industry and major turmoil at the major car manufacturers in the United States. The unemployment rate in the United States was rising and consumer confidence fell to record lows. Retailers around the world reacted by halting orders from suppliers almost across the board to reduce their in-stock levels. Though in some market segments this reaction may have been warranted, in the case of many of Dorel's product lines, the level of orders did not represent what sales levels were at retail. For this reason, the Company's fourth quarter revenues in 2008 were significantly affected.

Gross margins in the fourth quarter of 2009 improved to 24.3% from 21.9% in the prior year. In 2008, the lower sales volumes and a slightly less favourable product mix had caused gross margins to decrease. In 2009, the margins improved in all three segments, but most significantly in Home Furnishings. As in the full year results, lower input costs were a major contributor to the improvement. Another significant part of the increase in margins was due to the successful resolution of a pending claim against a major international law firm in regards to a breach of professional duty. This claim was made against the firm for its failure to timely file a request for an administrative review by the United States Department of Commerce ("DOC") of anti-dumping duties. These duties pertained to certain metal furniture imported from China into the United States during the period of December 3, 2001 through May 31, 2003. An agreement was reached with this firm that resulted in a gain of \$6.4 million being recorded in cost of sales. The impact of this on gross margins was an increase of 120 basis points. Note that after related legal and other costs, the net after tax gain in the quarter was \$2.9 million or \$0.09 per diluted share.

S, G & A costs increased in the quarter to \$83.2 million from \$70.0 million in 2008, an increase of 18.8%. Foreign exchange variations accounted for approximately 40% of the increase with the balance due to new businesses acquired over the course of 2009 and increased spending across several divisions. During the fourth quarter of 2008 all Dorel divisions drastically reduced spending, making the 2008 comparative the lowest quarter of S, G & A expense since the Cannondale acquisition in February of 2008. Product liability costs in the quarter were not materially different from the prior year. Research and development ("R & D") costs increased by \$3.4 million due to heavier spending in the Juvenile segment and the write-off of previously capitalized research and development costs incurred for certain projects. This write-off in the fourth quarter was \$2.8 million.

In the fourth quarter, interest costs were lower by \$2.2 million as a result of lower borrowings and a lower average borrowing rate in 2009. Income before income taxes was \$31.0 million in 2009 versus \$19.6 million in 2008, an increase of \$11.4 million or 58.5%. The Company's income tax expense was \$6.8 million in the fourth quarter of 2009 as compared to \$0.4 million in 2008. The tax rate in the 2009 quarter was 21.9% as compared to 2.0% in 2008. The causes of the unusually low tax rate in the 2008 quarter were that the quarter's earnings were generated in certain lower tax rate jurisdictions. Additionally, the Company recognized a tax benefit of \$1.8 million in 2008 pertaining to a prior year's estimated tax position. Excluding this out-of-period benefit, the Company's tax rate for the prior year's quarter would have been 11.2%. As a result, net income for the fourth quarter was \$24.2 million, an increase from \$19.2 million in 2008. Earnings per share for the quarter were \$0.73 fully diluted, compared to \$0.57 per share in the fourth quarter the previous year.

Segment Results

	Fourth Quarters Ended December 30				
	2009		2008		Change %
	\$	% of rev.	\$	% of rev.	
<u>Juvenile</u>					
Revenues	248,521		219,680		13.1%
Gross Profit	69,860	28.1%	59,828	27.2%	16.8%
Earnings from operations	20,963	8.4%	25,823	11.8%	(18.8%)
<u>Recreational / Leisure</u>					
Revenues	175,670		157,894		11.3%
Gross Profit	38,688	22.0%	33,691	21.3%	14.8%
Earnings from operations	8,989	5.1%	3,172	2.0%	183.4%
<u>Home Furnishings</u>					
Revenues	121,112		102,306		18.4%
Gross Profit	23,931	19.8%	11,522	11.3%	107.7%
Earnings from operations	12,090	10.0%	1,539	1.5%	685.6%

The Juvenile segment revenue increase in the fourth quarter was 13.1% and occurred in almost all markets. However the increase in Europe was due to exchange rates as sales in local currencies were flat with the prior year. Australia and Canada also benefited from stronger currencies in the fourth quarter of 2009 and after factoring in the currency impact and the BABY ART acquisition in 2009, organic sales growth for the segment as a whole in the quarter was approximately 5%. Juvenile gross margins were higher in 2009 by 90 basis points and along with higher revenues generated an additional \$10.0 million in margin dollars. The margin increase was comprised of the benefits of lower input costs and improved overhead absorption, offset by higher recall costs. The comparative quarter also included mark-to-market gains which positively impacted prior year margins, an event that did not re-occur in 2009.

The additional margin dollars were more than offset by higher S,G & A costs, depreciation and amortization levels and an increase in research and development costs. The S,G & A increase was due to foreign exchange on non-US expenses, higher selling costs as a function of greater sales levels and higher administrative costs mainly attributable to personnel costs. The economic events of the fourth quarter of 2008 entailed dramatic cuts in operating costs in that year and in 2009 spending levels were higher as a result as they returned to more normal levels. Note that S,G & A costs in the fourth quarter of 2009 were consistent with third quarter levels. As described above research and developments costs increased by \$3.3 million due to heavier spending and capitalized R & D write-offs. As a result, earnings from operations declined by \$4.9 million or 18.8% from the prior year.

Recreational / Leisure segment revenues in the fourth quarter of 2009 increased by \$17.8 million, or 11.3%. Of this increase, approximately 2/3rds was from new businesses acquired with the balance of the increase coming from the segment's IBD business serviced by CSG. Gross margins improved in 2009 to 22.0% from 21.3% the year before. The main reason for this was improved margins at Pacific Cycle. Note that sales to the IBD channel included a greater volume of less expensive, lower margin bicycles which dampened margins within the CSG division. S, G & A costs were \$27.8 million in the quarter, consistent with \$28.0 million the year before. Both the Pacific Cycle business and CSG division posted improved earnings for the quarter.

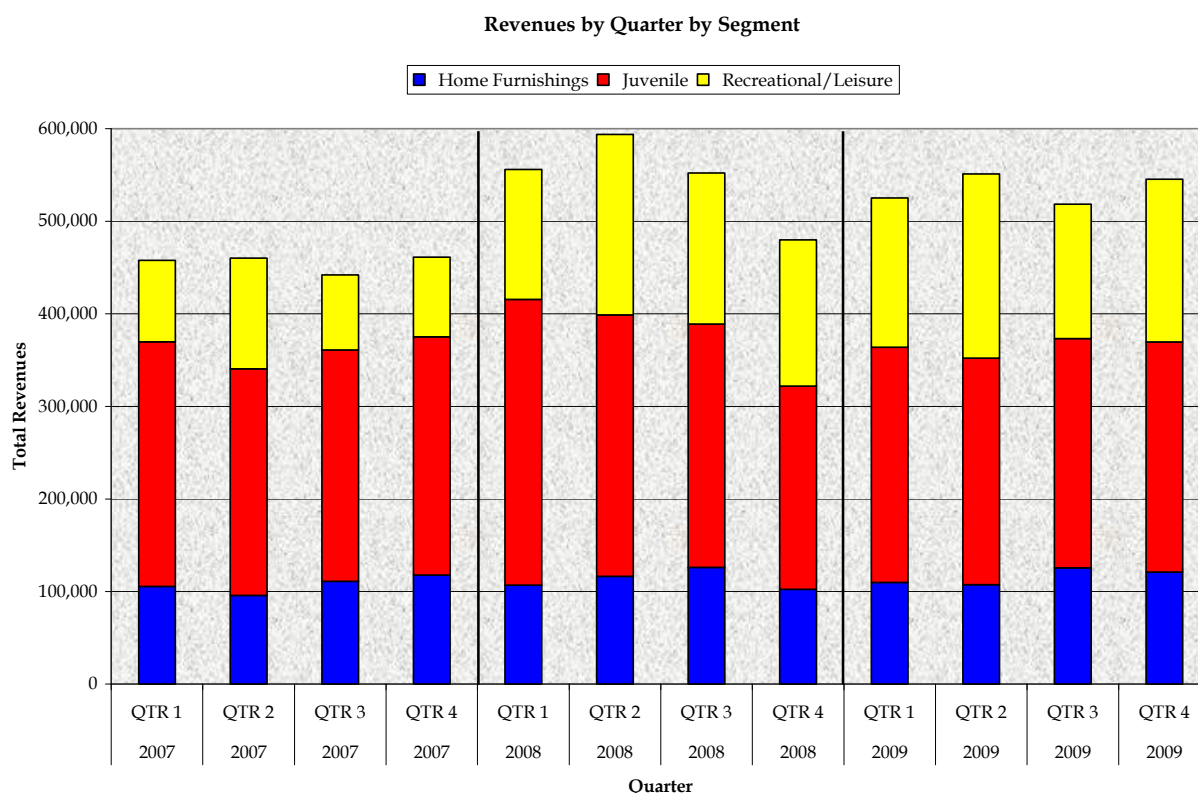
The Home Furnishing segment continued its strong year with a revenue increase of 18.4% over the fourth quarter of 2008. These increases were at Cosco, Ameriwood and DHP. Gross margins also improved to 19.8% from 11.3% the prior year. However included in the 2009 quarter is the settlement amount referred to above of \$6.4 million. Excluding this gain, gross margins would have been 14.5%, a 320 basis point

improvement as the segment has improved its operations versus last year. S, G & A costs increased by \$1.7 million, but as a percentage of revenues were consistent at 9.0%. Included in these costs for the quarter were higher legal costs in connection with the \$6.4 million settlement that was reached. These higher costs amounted to \$1.4 million reducing the positive impact on earnings from operations to \$5.0 million. As previously noted, the after-tax impact of this amount was \$2.9 million.

Segment Results

Seasonality

Though revenues at the operating segments within Dorel may vary in their seasonality, for the Company as a whole, variations between quarters are not significant as illustrated below. The fourth quarter of 2008 was negatively impacted by a severe cutback in retailer's new orders as opposed to a function of seasonality. This can be seen in the results of the fourth quarters of both 2007 and 2009 which are more consistent with the other quarters in the year.



Juvenile

	<u>2009</u>		<u>2008</u>		<u>Change</u>	
	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>%</u>
Revenues	<u>\$ 995,014</u>	<u>100.0%</u>	<u>\$1,073,722</u>	<u>100.0%</u>	<u>(\$78,708)</u>	<u>(7.3%)</u>
Gross profit	274,497	27.6%	309,680	28.8%	(35,183)	(11.4%)
Selling, general and administrative expenses	149,135	15.0%	154,164	14.4%	(5,029)	(3.3%)
Depreciation and amortization	20,776	2.1%	20,041	1.9%	735	3.7%
Research and development	11,948	1.2%	7,928	0.7%	4,020	50.7%
Restructuring costs	<u>104</u>	<u>0.0%</u>	<u>710</u>	<u>0.1%</u>	<u>(606)</u>	<u>(85.4%)</u>
Earnings from operations	<u>\$ 92,534</u>	<u>9.3%</u>	<u>\$ 126,837</u>	<u>11.8%</u>	<u>(\$34,303)</u>	<u>(27.0%)</u>

Revenues in 2009 declined from their record 2008 levels by \$78.7 million or 7.3%. For the segment as a whole, the organic revenue decline was approximately 4%, if the impact of foreign exchange and acquisitions is excluded. The revenue decline was principally in Europe and was due to both variations in foreign exchange rates and organic sales declines. European revenues declined by 7% after removing the impact of exchange and the BABY ART acquisition earlier in the year. The decline was as a result of the difficult retail environment, the impact of which was more acute in Europe where the Company's product line is focused on mid to higher priced products. This meant that consumers in many cases elected to purchase less expensive products from both Dorel, but also from competitors who specialize in lower price points.

In North America, sales declined, but by less than 2%. The decline was due to a conscious effort to eliminate less profitable items as part of a minimum margin requirement program as opposed to the loss of listings with retailers. In Europe, sales were lower in almost all markets, but especially so in the emerging eastern European countries, which were affected the most by the economic recession. In local currency, sales in Australia increased by 13% over last year and even with a lower average rate of exchange to the US dollar, sales improved by almost 5%. This improvement was principally in car seats, but also across several other product lines.

North American gross margins improved due to a lower input cost environment, especially for resin costs and a better product mix. Europe also benefited from lower costs, but as consumers favoured lower cost items, the sales mix had the impact of lowering margins. Also, included in both years are mark-to-market foreign exchange figures which have the impact of creating income and losses based on current exchange rates as opposed to the period when foreign exchange contracts mature. In 2008 gains totaling \$8.9 million were recorded on contracts that matured in 2009. The reversal of these gains in 2009 totaled \$8.4 million. This had the impact of shifting income from 2009 to 2008 and the year over year impact therefore is \$17.3 million pertaining to these contracts. Over and above these amounts, in 2009 the Company recorded an additional loss of \$4.2 million on contracts that were intended for use in 2010. The majority of this \$4.2 million was recorded in the Company's third quarter. If gross margins are adjusted for the \$12.6 million loss in 2009 and \$8.9 million gain in 2008, they become 28.9% for 2009 and 28.0% for 2008.

S,G & A costs for the segment as a whole decreased by \$5.0 million from last year, a large part due to the average rate of exchange being lower in 2009. Note that total product liability costs for the Juvenile segment in 2009 were \$10.4 million as compared to \$13.0 million in 2008. Earnings from operations for the year were \$92.5 million in 2009 versus \$126.8 million in 2008. If the mark-to-market amounts above are excluded, earnings from operations in 2009 and 2008 would have been \$105.1 and \$117.9 million respectively.

Recreational / Leisure

	<u>2009</u>		<u>2008</u>		<u>Change</u>	
	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>%</u>
Revenues	<u>\$681,366</u>	<u>100.0%</u>	<u>\$656,613</u>	<u>100.0%</u>	<u>\$24,753</u>	<u>3.8%</u>
Gross profit	153,739	22.6%	150,804	23.0%	2,935	1.9%
Selling, general and administrative expenses	106,209	15.6%	101,886	15.5%	4,323	4.2%
Depreciation and amortization	5,009	0.7%	4,708	0.7%	301	6.4%
Research and development	<u>2,684</u>	<u>0.4%</u>	<u>2,336</u>	<u>0.4%</u>	<u>348</u>	<u>14.9%</u>
Earnings from operations	<u>\$ 39,837</u>	<u>5.8%</u>	<u>\$ 41,874</u>	<u>6.4%</u>	<u>(\$ 2,037)</u>	<u>(4.9%)</u>

Recreational / Leisure revenues increased 3.8% to \$681.4 million in 2009 compared to \$656.6 million a year ago. This increase was due to sales growth within CSG as well as incremental revenues acquired through the small business acquisitions made in the year. Partially offsetting these increases was a sales decrease to the segment's mass merchant customers. As a result for the segment as a whole the organic sales decline for the year was 3.4%. Gross margins declined to 22.6% from 23.0% in the prior year despite a greater proportion of sales by CSG to the Company's IBD customers. This was due to consumers purchasing less of the Company's high end product and trading down to lower priced IBD items, which carry lower margins. Also, expenses included in cost of sales related to the previously announced re-organization of the segment totaled approximately \$1.6 million.

S,G & A costs increased over last year by \$4.3 million or 4.2%. The increase was due mainly to costs associated with new business acquisitions as well as an increase in expenses as the Company invested in the segment's infrastructure in categories such as talent, information technology and other administrative areas. These higher costs were partially offset by reductions in discretionary spending in the selling and marketing areas. Note that S,G & A costs associated with the previously announced re-organization of the segment totaled approximately \$1.3 million. This is in addition to the amounts included in cost of sales. All of these investments that were made in 2009 are expected to provide benefits going forward. Depreciation and amortization as well as research and development costs rose by a combined \$0.6 million in the year. These are the principal factors for the decrease in earnings from operations from \$41.9 million in 2008 to \$39.8 million in 2009, a decrease of \$2.0 million or 4.9%.

Home Furnishings

	<u>2009</u>		<u>2008</u>		<u>Change</u>	
	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>%</u>
Revenues	<u>\$ 463,734</u>	<u>100.0%</u>	<u>\$451,545</u>	<u>100.0%</u>	<u>\$12,189</u>	<u>2.7%</u>
Gross profit	77,308	16.7%	50,915	11.3%	26,393	51.8%
Selling, general and administrative expenses	36,618	7.9%	38,288	8.5%	(1,670)	(4.4%)
Depreciation and amortization	1,442	0.3%	1,666	0.4%	(224)	(13.4%)
Research and development	2,552	0.6%	2,981	0.7%	(429)	(14.4%)
Restructuring costs	<u>-</u>	<u>-</u>	<u>16</u>	<u>0.0%</u>	<u>(16)</u>	<u>(100.0%)</u>
Earnings from operations	<u>\$ 36,696</u>	<u>7.9%</u>	<u>\$ 7,964</u>	<u>1.8%</u>	<u>\$28,732</u>	<u>360.8%</u>

For the year, Home Furnishings revenues increased by 2.7%, reaching \$463.7 million up from \$451.5 million in the prior year. The fact that sales increased in a difficult economic environment is due to Dorel's focus on reasonably priced furniture sold primarily to mass merchants. Gross margins in 2009 were 16.7% versus 11.3% recorded in the prior year. This segment was helped by a more favourable exchange rate in 2009 as two of the plants are located in Canada and ship to mainly US based customers. It should be noted that as of the fourth quarter of 2009, foreign exchange rates have returned to 2008 levels meaning that margins have moderated. As described in the fourth quarter analysis above, included in the 2009 quarter is an out of period settlement amount of \$6.4 million. This had the effect of increasing margins by 140 basis points for the year. Excluding this gain, gross margins would have been 15.3%, a 400 basis point improvement. Along with foreign exchange and lower input costs, versus last year, the segment improved its manufacturing operations efficiency and overhead absorption.

S, G & A costs decreased by \$1.7 million to \$36.6 million in 2009. As a percentage of revenues these costs decreased from 8.5% to 7.9%. The principal reason for the decrease was the successful business rationalization at Cosco Home & Office. This business is re-focused on its core competency of metal folding furniture and step stools and as a result was able to cut costs considerably. As such earnings from operations for the year were \$36.7 million compared to \$8.0 million in 2008.

Balance Sheet

	<u>Selected Balance Sheet Data as at December 30:</u>		
	2009	2008	2007
Total assets	\$2,002,180	\$2,030,473	\$1,657,904
<u>Long-term Financial Liabilities, excluding current portion:</u>			
Long-term debt	\$ 27,075	\$ 450,704	\$ 192,385
Other long-term liabilities	\$ 25,139	\$ 6,010	\$ 6,848
<u>Other:</u>			
Current portion of long-term debt	\$322,508	\$ 8,879	\$62,906

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. In 2009 as retailers began to replenish their stock levels, the Company's inventories declined accordingly throughout the year and, as was expected, inventories declined from \$509.5 million as at December 30, 2008 to \$399.9 million as at December 30, 2009.

Over and above debt reductions in 2009 as a result of a strong cash flow year, the long-term debt decrease as at December 30, 2009, is due to the re-classification from long-term to current of certain of the Company's borrowings. Firstly, the Company's operating line of credit is due for renewal in July 2010. Second, the Company's \$55.0 million Series "B" Senior Guaranteed Notes matured in February, 2010 and was repaid using existing facilities.

In 2009, the Company made several small business and asset acquisitions, the impact of which was not material to the balance sheet when comparing to the prior year. The total net assets acquired are as below:

Assets	
Accounts receivable	\$ 2,990
Other current assets	376
Inventories	5,569
Intangible assets	4,037
Deferred development costs	947
Property, plant and equipment	155
Goodwill	12,515
	26,589
Liabilities	
Bank indebtedness	446
Accounts payable and accrued liabilities	1,726
Current portion of long-term debt	55
Long-term debt and other long term liabilities	316
Long-term future income taxes	403
	2,946
Net assets acquired	\$ 23,643

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

	As at December 30,	
	2009	2008
Debt to equity	0.32	0.46
# of Days in receivables	59	55
# of Days in inventory	91	107

The higher number of days in receivables is because the December 30, 2008 year end levels were lower than usual due to a sharp sales reduction near the end of the year. The improved number of days in inventory figure reflects the lower inventory levels throughout 2009 versus 2008. Other than the items described above, there were no significant variations year over year in the Company's balance sheet.

Liquidity and Capital Resources

Cash Flow

Free cash flow, a non-GAAP financial measure, was \$136.8 million in 2009 versus \$15.7 million in 2008, detailed as follows:

	2009	2008	Change
Cash flow from operations before changes in non-cash working capital:	\$ 156,857	\$ 158,390	(\$1,533)
Change in:			
Accounts receivable	(27,312)	28,223	(55,535)
Inventories	113,630	(121,027)	234,657
Prepaid expenses	(378)	677	(1,055)
Accounts payable and other liabilities	(39,437)	22,105	(61,542)
Income taxes	<u>1,156</u>	<u>(8,485)</u>	<u>9,641</u>
Cash provided by operating activities	204,516	79,883	124,633
Plus (less):			
Dividends paid	(16,614)	(16,707)	93
Share repurchase	(10,504)	-	(10,504)
Additions to property, plant & equipment - net	(21,893)	(26,518)	4,625
Intangible assets	<u>(18,753)</u>	<u>(20,929)</u>	<u>2,176</u>
FREE CASHFLOW (1)	<u>\$136,752</u>	<u>\$ 15,729</u>	<u>\$121,023</u>

(1) "Free cash flow" is a non-GAAP financial measure and is defined as cash provided by operating activities less dividends paid, shares repurchased, additions to property, plant & equipment, and intangibles.

During 2009, cash flow from operations, before changes in working capital, decreased by \$1.5 million. After changes in non-cash working capital items, cash flow provided by operating activities increased by \$124.6 million. As described above, the majority of this increase was due to a decrease in inventory levels, partially offset by increases in accounts receivable and decreases in accounts payable. These other variations in working capital balances were a function of timing as opposed to significant changes in trends. Capital expenditures on property, plant and equipment and intangible assets totalled \$40.6 million in 2009, compared to \$47.4 million in 2008.

As of December 30, 2009, Dorel was compliant with all covenant requirements and expects to be so going forward. The Company's existing borrowing facility is in place until July 1, 2010. Under this facility, the credit agreement allows for borrowing availability of up to \$475 million, plus an additional \$50 million accordion feature, if required. The Company is currently renegotiating the terms of the revolving bank loans in order to extend this facility.

Contractual Obligations

The following is a table of a summary of the contractual obligations of the Company as of December 30, 2009:

<u>Contractual Obligations</u>	Total	less than 1 year	1 - 3 years	4 - 5 years	After 5 years
<u>Long-term debt repayments</u>	\$349,583	\$322,508	\$27,075	\$ -	\$ -
<u>Interest payments (1)</u>	6,478	5,356	1,122	-	-
<u>Net operating lease commitments</u>	123,317	28,675	47,768	24,398	22,476
<u>Capital addition purchase commitments</u>	4,662	4,662	-	-	-
<u>Minimum payments under licensing agreements</u>	9,746	6,199	3,547	-	-
<u>Balance of sale</u>	220	220	-	-	-
<u>Total contractual obligations</u>	\$494,006	\$367,620	\$79,512	\$24,398	\$22,476

(1) Interest payments on the Company's revolving bank loans are calculated using the interest rate in effect as at December 30, 2009 and assume no debt reduction until due date in July 2010, at which point it is assumed the loan would be paid in full. Interest payments on the Company's notes are as specified in the related note agreements.

The Company does not have significant contractual commitments beyond those reflected in the consolidated balance sheet, the commitments in Note 19 to the Consolidated Financial Statements or those listed in the table above.

For purposes of this table, contractual obligations for the purchases of goods or services are defined as agreements that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or variable price provisions; and the approximate timing of the transaction. With the exception of those listed above, the Company does not have significant agreements for the purchase of raw materials or finished goods specifying minimum quantities or set prices that exceed its short term expected requirements. Therefore, not included in the above table are Dorel's outstanding purchase orders for raw materials, finished goods or other goods and services which are based on current needs and are fulfilled by its vendors on relatively short timetables.

As new product development is vital to the continued success of Dorel, the Company must make capital investments in research and development, moulds and other machinery, equipment and technology. It is expected that the Company will invest at least \$35.0 million over the course of 2010 to meet its new product development and other growth objectives. The Company expects its existing operations to be able to generate sufficient cash flow to provide for this and other requirements as they arise throughout the year.

Over and above long-term debt in the contractual obligation table, included in the Company's long-term liabilities are the following amounts:

Pension and post-retirement benefit obligations: As detailed in Note 15 of the Consolidated Financial Statements, this amount of \$20.9 million pertains to the Company's pension and post-retirement benefit plans. In 2009, contributions expected to be made for funded plans and benefits expected to be paid for unfunded plans under these plans will amount to approximately \$2.0 million.

Other long-term liabilities consist of:

Government mandated employee savings plans in Europe, the majority of which are due after five years	\$ 4,725
Contingent considerations	18,895
Other liabilities due in more than one year	<u>1,519</u>
	<u>\$25,139</u>

The contingent considerations pertain to certain of the Company's recent business acquisitions. In the case of the Company's Australian and Brazilian subsidiaries where the Company holds less than 100% of the shares, the Company has entered into agreements with the minority interest holders for the purchase of the balance of the shares at some future point. Under the terms of these agreements, the purchase price of these shares is based on specified earnings objectives at the end of specific time periods. The acquisition agreement for Hot Wheels and Circle Bikes acquired in the year includes additional consideration contingent upon a formulaic variable price based mainly on future earnings results of the acquired business up to the year ended December 30, 2012. As at December 30, 2009 the total estimated liability is \$18.9 million and this amount will be paid no later than 2013.

Off-Balance Sheet Arrangements

In addition to the contractual obligations listed above, the Company has certain off-balance sheet arrangements and commitments that have financial implications, specifically contingent liabilities, guarantees, and commercial and standby letters of credit. The Company's off-balance sheet arrangements are described in Notes 19 and 20 to the Consolidated Financial Statements for the year ended December 30, 2009.

Requests for providing commitments to extend credit and financial guarantees are reviewed and approved by senior management. Management regularly reviews all outstanding commitments, letters of credit and financial guarantees and the result of these reviews are considered in assessing the adequacy of Dorel's reserve for possible credit and guarantee losses.

Derivative Financial Instruments

The Company is exposed to interest rate fluctuations, related primarily to its revolving long-term bank loans, for which amounts drawn are subject to LIBOR or U.S. base rates in effect at the time of borrowing, plus a margin. The Company manages its interest rate exposure and enters into swap agreements consisting in exchanging variable rates for fixed rates for an extended period of time. All other long-term debts have fixed interest rates and are therefore not exposed to cash flow interest rate risk.

During 2009, the Company decided to use interest rate swap agreements to lock-in a portion of its debt cost and reduce its exposure to the variability of interest rates by exchanging variable rate payments for fixed rate payments. The Company has designated its interest rate swaps as cash flow hedges for which it uses hedge accounting.

As a result of its global operating activities, Dorel is subject to various market risks relating primarily to foreign currency exchange rate risk. In order to reduce or eliminate the associated risks, the Company uses various derivative financial instruments such as options, futures and forward contracts to hedge against adverse fluctuations in currency. The Company's main source of foreign currency exchange rate risk resides in sales and purchases of goods denominated in currencies other than the functional currency of each of Dorel's subsidiaries. The Company's financial debt is mainly denominated in US dollars, for which no foreign currency hedging is required. Short-term credit lines and overdrafts commonly used by Dorel's subsidiaries are in the currency of the borrowing entity and therefore carry no exchange-rate risk. Inter-company loans/borrowings are economically hedged as appropriate, whenever they present a net exposure to exchange-rate risk.

As such, derivative financial instruments are used as a method for meeting the risk reduction objectives of the Company by generating offsetting cash flows related to the underlying position in respect of amount and timing of forecasted transactions. Dorel does not hold or use derivative financial instruments for trading or speculative purposes.

Prior to November 1, 2009 the Company did not apply hedge accounting to foreign exchange contracts. For any new foreign exchange contracts taken after that date, the Company has designated the new foreign exchange contracts as cash flow hedges for which it uses hedge accounting. For the foreign

exchange contracts taken prior to November 1, 2009, the Company elected not to apply hedge accounting for these derivatives; these foreign exchange contracts, classified as held for trading, are marked to market for which unrealized and realized gains and losses associated are recorded in cost of sales.

The fair values, average rates and notional amounts of derivatives and the fair values and carrying amounts of financial instruments are disclosed in Note 14 of the Consolidated Financial Statements.

Critical Accounting Estimates

The Consolidated Financial Statements have been prepared in accordance with Canadian GAAP. The preparation of these financial statements requires estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. A complete list of all relevant accounting policies is listed in Note 2 to the Consolidated Financial Statements.

The Company believes the following are the most critical accounting policies that affect Dorel's results as presented herein and that would have the most material effect on the financial statements should these policies change or be applied in a different manner:

- **Goodwill and certain other indefinite life intangible assets:** Goodwill and certain other intangible assets have indefinite useful lives and as such, are not amortized to income. Instead, the Company must determine at least once annually whether the fair values of these assets are less than their carrying value, thus indicating impairment. The Company uses the discounted cash flows valuation method and makes assumptions and estimates in a number of areas, including future earnings and cash flows, the cost of capital and discount rates.
- **Product liability:** The Company insures itself to mitigate its product liability exposure. The estimated product liability exposure is calculated by an independent actuarial firm based on historical sales volumes, past claims history and management and actuarial assumptions. The estimated exposure includes incidents that have occurred, as well as incidents anticipated to occur on units sold prior to December 30, 2009. Significant assumptions used in the actuarial model include management's estimates for pending claims, product life cycle, discount rates, and the frequency and severity of product incidents.
- **Pension plans and post retirement benefits:** The costs of pension and other post-retirement benefits are calculated based on assumptions determined by management, with the assistance of independent actuarial firms and consultants. These assumptions include the long-term rate of return on pension assets, discount rates for pension and other post-retirement benefit obligations, expected service period, salary increases, retirement ages of employees and health care cost trend rates.
- **Future income taxes:** The Company follows the asset and liability method of accounting for income taxes. Under this method, future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values using the substantively enacted income tax rate, which will be in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amount of future income tax assets to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income and tax planning strategies. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.

- **Product warranties:** A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty, the nature of product sold and in service, counter-warranty coverage available from the Company's suppliers and product recalls. The Company reviews its recorded product warranty provisions and any adjustment is recorded in cost of sales.
- **Allowances for sales returns and other customer programs:** At the time revenue is recognized certain provisions may also be recorded, including returns and allowances, which are based on agreements with applicable customers, historical experience with a particular customer and/or product, and other relevant factors. Historical sales returns, allowances, write-offs, changes in internal credit policies and customer concentrations are used when evaluating the adequacy of the allowance for sales returns. In addition, the Company records estimated reductions to revenue for customer programs and incentive offerings, including special pricing agreements, promotions, advertising allowances and other volume-based incentives. Historical sales data, agreements, customer vendor agreements, changes in internal credit policies and customer concentrations are analyzed when evaluating the adequacy of the allowances.

New Accounting Standards

Inventories

Effective the first day of fiscal year 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 the 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 on the first day of fiscal year 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 year ended December 30, 2009 was \$1.545 billion.. During the year ended December 30, 2009, the Company recorded \$13.2 million (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

Effective the first day of fiscal year 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 upon 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 day of fiscal year 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.

Financial Instruments

In June 2009, the CICA amended Section 3862, *Financial Instruments - Disclosures*, which is effective for annual financial statements relating to fiscal years ending after September 30, 2009. The amendments are intended to enhance disclosure regarding fair value measurements of financial instruments and liquidity risk exposures. These amendments resulted in enhanced disclosures regarding fair value measurement of interest rate swaps and foreign exchange contracts. The amended Section relates to disclosure only and did not impact the financial results of the Company.

Future Accounting Changes

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board of Canada confirmed the date of the changeover from Canadian GAAP to International Financial Reporting Standards. Canadian publicly accountable enterprises must adapt IFRS to their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption allowed. Subject to securities regulatory approval, the Company has chosen to early adopt IFRS and it will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Effective the first day of fiscal year 2011, the

Company's financial statements will be prepared in accordance with IFRS, with comparative figures and an opening balance sheet restated to conform to IFRS, along with a reconciliation from Canadian GAAP to IFRS, as per guidance provided in IFRS 1, *First-Time Adoption of International Reporting Standards*.

A core project team has been established to achieve the changeover of the Company's financial statements. The team's mandate is to oversee the transition process, including any impacts on financial reporting, business processes, internal controls and information systems. The external auditors are notified and consulted on Company accounting policy choices. Regular reporting is provided by the project team to senior management and the Audit Committee of the Board of Directors.

In preparation for the changeover to IFRS, the Company has developed an IFRS transition plan consisting of five phases: 1) Diagnostic Phase, 2) Design and Planning Phase, 3) Solution Development Phase, 4) Implementation Phase and, 5) Post Implementation Phase.

Phase 1: Diagnostic

Actions	<p>Determine key accounting differences</p> <p>Assessment of where the Company's current financial reporting will be impacted by IFRS</p> <p>Provide base information to facilitate the structuring of the IFRS conversion project</p> <p>Prioritize conversion activities and make recommendations</p> <p>Provide a high level assessment of the potential for impacts of adopting IFRS on information systems and business processes, including internal controls over financial reporting and disclosure controls and procedures</p> <p>Provide a high level assessment of the potential effort and resources required to implement IFRS</p> <p>Diagnostic report completed and approved in July 2008</p>
Timetable	2008
Progress	Completed

Phase 2: Design and Planning

Actions	<p>Project launch, project management, infrastructure and planning</p> <p>Train core team. Global training sessions held for key financial executives through November 2008.</p> <p>Develop communication plan including the establishment of communication protocol for the core team. Monthly communication updates with key Corporate and Divisional financial executives. Quarterly communication updates to the Audit Committee of the Board of Directors.</p> <p>Adapt conversion roadmap to project structure and allocate resources. Company Finance Director nominated as project sponsor along with project manager, key Divisional personnel and third party technical experts.</p> <p>Detailed scoping exercise of the key accounting differences between IFRS and Canadian GAAP; completed in February 2009.</p>
Timetable	2009
Progress	Completed

Phase 3: Solution Design and Development

Actions	<p><u>Solution Design</u> Select preliminary accounting policy solutions / identify business unit impacts and solutions / re-evaluate business, IT and process effects for all business areas / select implementation approach. Solution design analysis completed for all Company Divisions. Impact on underlying processes assessed considering the frequency and magnitude of the accounting change. Use of third party technical experts on key accounting positions, as required.</p> <p><u>Solution Development</u> Select accounting policies and prepare accounting policies and procedures manuals / identify business process and system impacts / identify solutions to IFRS impacts / finalize conversion plans.</p>
Timetable	Solution Design: 2009 Solution Development: November 30, 2010
Progress	Solution Design: Completed Solution Development: In Progress

Phase 4: Implementation

Actions	Approve selected accounting policies and finalize manuals Roll out accounting policies Test and remediate, including dry run in a “test environment” Roll out process and system changes and perform education Perform reporting under IFRS
Timetable	December 30, 2010
Progress	Not yet commenced

Phase 5: Post -Implementation

Actions	Transition to a sustainable operational model Conversion plan assessment
Timetable	June 30, 2011
Progress	Not yet commenced

The Company has analyzed the IFRS standards and has made choices, as warranted, with regard to these standards and noted the differences between certain of these standards and current accounting policies. The most significant ones are set out in the following table:

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 1: <i>Presentation of Financial Statements</i>	<p>IFRS allows that expenses recognized in profit or loss should be analyzed either by nature or by function. If an entity categorizes by function, then additional information on the nature of expenses – at a minimum depreciation, amortization and employee benefits expense – must be disclosed.</p> <p>Under IFRS, in the Statement of Cash Flows, the Company has a choice on the presentation of operating cash flows. The direct method of presentation is encouraged but the indirect method is acceptable.</p> <p>IFRS specifies that classification of assets and liabilities can be based on liquidity, whereas Canadian GAAP does not specify a method other than by current and non-current.</p>	<p>The Company has chosen to present the expenses in the Financial Statements by function.</p> <p>The Company has chosen to present the operating cash flows in the Statement of Cash Flows using the indirect method.</p> <p>The Company has chosen to classify assets and liabilities as current and non-current.</p>
IAS 12: <i>Income Taxes</i>	<p>Unlike IFRS, under Canadian GAAP a deferred income tax asset or liability is not recognized for a temporary difference arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets and liabilities of integrated foreign operations.</p> <p>Under IFRS, potential tax exposures are analyzed individually and separately from the calculation of income tax, and the amount of tax provided for is the best estimate of the tax amount expected to be paid. Under Canadian GAAP, the general recognition standard is “probable” or “more likely than not”. Tax liabilities are measured using amounts “expected to be paid to” tax authorities, using a single best estimate.</p>	<p>The Company is currently assessing the impact of these differences on the financial statements.</p> <p>The Company’s current accounting policy under Canadian GAAP over potential tax exposures is to recognize them when “probable” with the tax liabilities measured using a single best estimate.</p>
IAS 16: <i>Property, Plant and Equipment</i>	<p>The main relevant differences between IFRS and Canadian GAAP are:</p> <ol style="list-style-type: none"> The possibility to evaluate assets at fair value at each balance sheet date. Componentization: parts of an asset with different useful lives have to be amortized separately. This requirement exists under Canadian GAAP but it is further emphasized by IFRS. 	<p>Based on the information collected to date, none of the GAAP differences related to IFRS will have a material impact on the Company’s financial statements.</p> <p>The Company has not elected to evaluate assets at fair value at each balance sheet date. Fixed assets do not have to be componentized further.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 17: <i>Leases</i>	<p>The main relevant difference between IFRS and Canadian GAAP is the following: The distinction between an operating lease (where only the rent is recognized in the P&L) and a capital lease (where the item leased is recorded as an asset in the Balance Sheet) is based on different criteria. IFRS makes the capital versus operating lease distinction based on the substance of the lease contract. Canadian GAAP makes the distinction based on its form.</p>	<p>A thorough analysis of all material Company leases was performed using the classification criteria under IFRS and Canadian GAAP. None of the GAAP differences related to leases will have a material impact on the Company's financial statements based on the information collected to date.</p>
IAS 19: <i>Employee Benefits</i>	<p><u>Accounting options of defined benefit plans</u> The options are the following under IFRS:</p> <ul style="list-style-type: none"> - Present actuarial gains and losses directly in the P&L - The "corridor" approach - Present actuarial gains and losses directly in the Balance Sheet with changes recorded in Other Comprehensive Income <p>The options are the following under Canadian GAAP:</p> <ul style="list-style-type: none"> - Present actuarial gains and losses directly in the P&L - The "corridor" approach <p><u>Amortization of past service costs</u> Past service costs are amortized faster under IFRS with the immediate recognition of the vested portion.</p>	<p>The Company continues to assess the impact of these differences with the assistance of third party actuaries.</p>
IAS 21: <i>The Effect of Changes in Foreign Exchange Rates</i>	<p>IFRS and Canadian GAAP are essentially converged.</p> <p>The main difference relates to the exchange rate use to translate non monetary assets carried at fair value.</p> <p>Under IFRS, the functional currency is the currency of the primary economic environment in which the entity operates. Under Canadian GAAP, an entity is not explicitly required to assess the unit of measure (functional currency) in which it measures its own assets, liabilities, revenues and expenses, but rather only assesses the functional currency of its foreign operations.</p>	<p>Based on the Company's analysis, it is expected that none of the GAAP differences related to foreign exchange translation will have a material impact on the Company's financial statements based on the information collected to date.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 33: <i>Earnings Per Share</i> ("EPS")	<p>The main differences between IFRS and Canadian GAAP are the following:</p> <ol style="list-style-type: none"> 1) Unlike Canadian GAAP, IFRS does not allow rebuttal of the presumption of share settlement treatment on contracts that may be settled in shares or cash based on past experience of contracts settlements. 2) Unlike Canadian GAAP, IFRS does not require presentation of earnings per share for income or loss before discontinued operations and extraordinary items. 3) Under IFRS, for diluted EPS, dilutive potential ordinary shares are determined independently for each period presented. Under Canadian GAAP, the computation of diluted EPS for year-to-date periods is based on the weighted average of the number of incremental shares included in each interim period making up the year-to-date period. 	<p>Findings by difference:</p> <ol style="list-style-type: none"> 1) There is no material impact on the Company's financial statements for this difference based on the information collected to date. 2) There is no material impact for the Company as it does not have discontinued operations or extraordinary items. 3) The diluted earnings per share is expected to be different for the Company however the impact is not expected to be material based on the information collected to date.
IAS 36: <i>Impairment of Assets</i>	<p><u>Process of the impairment test</u> Under Canadian GAAP, the impairment test for long lived assets is a two step process:</p> <ul style="list-style-type: none"> - The carrying amount of the asset is compared to the sum of its undiscounted cash flow expected to result from its use and eventual disposition; - If the carrying amount of the asset is greater, then it is compared to the fair value of the asset. An impairment may have to be recognized. <p>Under IFRS, it is a one step process; the carrying amount of the asset is directly compared to the recoverable amount of the asset.</p> <p><u>Assigning assets to cash generating units</u> Under IFRS, impairment testing of assets is done at the independent cash generating unit ("CGU") level.</p> <p>Under Canadian GAAP, the unit is defined as it generates both independent cash inflows and outflows.</p>	<p><u>Process of the impairment test</u> This difference has been analyzed for the Company's impairment tests and is found to have no material impact at the transaction date on the financial statements based on the information collected to date.</p> <p><u>Assigning assets to cash generating units</u> The Company has identified its cash generating units. Impairment testing for goodwill will be conducted at the CGU level. The impact of this difference will not have a material impact on the Company's financial statements based on the information collected to date.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
<p>IAS 37: <i>Provisions, Contingent Liabilities and Contingent Assets</i></p>	<p>Under IFRS, provisions involving a large population of items must be evaluated using the expected value method.</p> <p>Under IFRS, in a range of estimates where each point in the range is as likely as any other, the mid-point of the range is used. Under Canadian GAAP, the lower point is used.</p> <p>Under Canadian GAAP, the notion of constructive obligation does not exist.</p> <p>The threshold of provision recognition is lower under IFRS than under Canadian GAAP.</p> <p>Under IFRS, the time value of money must be taken into consideration, when material.</p> <p>Under IFRS, contingent assets are recorded when they are virtually certain. Under Canadian GAAP, contingent gains are not recorded.</p> <p>Under IFRS, counter claims/reimbursement must be reported separately in assets, when virtually certain.</p>	<p>These differences were considered by the Company and none were found to have a material impact on the Company's financial statements based on the information collected to date.</p>
<p>IAS 39: <i>Financial Instruments</i></p>	<p>Under Canadian GAAP, when the critical terms of a hedging relation match, the short cut method is allowed. Under IFRS, the short cut method is not allowed.</p> <p>Under Canadian GAAP, counterparty credit risk does not have to be considered when assessing hedge effectiveness. Under IFRS, counterparty credit risk must be considered.</p> <p>For embedded derivatives, the transitional provisions of Canadian GAAP contain grandfathering provisions which allow an adoption timing choice for some embedded derivatives. Such grandfathering rules do not exist in IFRS thus, potentially resulting in some recognition of embedded derivatives that were not required to be recognized under Canadian GAAP.</p> <p>Under IFRS, multiple derivatives in a single instrument are accounted for as a single compound derivative, unless they relate to different risks and are readily separable and independent of each other, in which case they are treated as separate derivatives. Under Canadian GAAP, multiple embedded derivatives in a single instrument must be accounted for in aggregate as a single compound derivative.</p>	<p>Based on the Company's choice in accounting policies under Canadian GAAP, this difference does not apply.</p> <p>Based on the Company's choice in accounting policies under Canadian GAAP, this difference does not apply.</p> <p>The Company continues to assess the impact of the differences related to embedded derivatives.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IFRS 2: <i>Share-Base payments</i>	<p><u>Share based payments vesting in installments:</u> Under IFRS, when an entity makes a share based payment that vests in installments (often referred to as graded vesting), each tranche of the award should be treated as a separate award.</p> <p>Canadian GAAP offers the option to consider the equity instruments as a pool and determine fair value using the average life of the instruments, provided that compensation is then recognized on a straight-line basis.</p> <p>Under the Company's stock option plan, options vest according to a graded schedule of 25% per year commencing a day after the end of the first year. From an accounting perspective, the option offered by Canadian GAAP was selected i.e. each tranche of the plan is not treated separately. This creates a difference with current Canadian GAAP.</p> <p><u>Stock options: forfeiture estimates:</u> Under IFRS, an estimate of forfeitures must be factored into the calculation of periodic compensation expense. Compensation costs are to be accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. The objective is that, at the end of the vesting period, the cumulative charge to the income statement should represent the number of equity instruments that have actually vested multiplied by their fair value.</p> <p>Canadian GAAP offers a choice in accounting for forfeitures. Like IFRS, compensation expense can be accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Unlike IFRS, compensation expense can be accrued assuming that all instruments granted that are subject only to a service requirement are expected to vest, with the effect of actual forfeitures recognized only as they occur.</p> <p>The Company's accounting policy under Canadian GAAP is to recognize the effect of actual forfeitures only as they occur which creates a difference with IFRS.</p>	<p><u>Share based payments vesting in installments:</u> The compensation expense will be considered over the expected term of each vested tranche. It is expected that the amount recorded by the Company will not be materially different based on the information collected to date.</p> <p><u>Stock options: forfeiture estimates:</u> The Company will need to modify the calculation to take into account an estimation of future forfeitures. The impact is not expected to be material for past options based on the information collected to date.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IFRS 3: <i>Business Combinations</i>	<p><u>Contingent Considerations</u></p> <p><i>Initial Recognition:</i> Under Canadian GAAP, contingent consideration is recognized at the date of acquisition when the amount can be reasonably estimated and the outcome is determinable beyond reasonable doubt. Otherwise, contingent consideration is recognized when resolved.</p> <p>Under IFRS, all contingent consideration has to be recognized at acquisition, regardless if it can be reasonably estimated or if the outcome is determinable beyond reasonable doubt.</p> <p><i>Subsequent Recognition:</i> Under Canadian GAAP, when there are revisions to the amount of contingent consideration, the requirement is to recognize the current fair value of the consideration issued or issuable as an additional cost of the purchase when the contingency is resolved and the additional consideration is issued or becomes issuable.</p> <p>Under IFRS, when the contingent consideration is (a) classified as a liability and (b) not within the scope of IAS 39, changes in fair value are recognized in profit or loss.</p>	<p><u>Contingent Considerations</u></p> <p><i>Initial Recognition:</i> This difference does not apply to the Company as all the contingent considerations are recognized as the associated criteria for recognition under Canadian GAAP have been met.</p> <p><i>Subsequent Recognition:</i> This difference applies to the Company on a prospective basis. Going forward, contingent considerations will be revaluated every year. Any change in fair value will be recorded in the P&L.</p>

The Company has also made choices concerning certain exemptions from retrospective application at the time of changeover provided by IFRS 1. As a first step, each exemption permitted under IFRS 1 was reviewed to determine which ones were relevant to the Company. Second, the exemptions that were considered to be relevant were analyzed in order to determine whether they would be elected or not by the Company. The significant accounting issues are set out in the following table:

Exemptions	Findings and Conclusions
Business Combination Exemption	<p>IFRS 1 allows the Company to elect not to apply IFRS 3 <i>Business Combinations</i> to past business combinations (business combinations that occurred before the date of transition to IFRS).</p> <p>Given the Company's history of acquisitions, its current position is not to apply IFRS 3 to any historical business combinations prior to its transition date. The complexity of applying IFRS 3 to historical acquisitions and the resultant effort outweighs any potential benefit.</p>

Exemptions	Findings and Conclusions
Fair Value or Revaluation as Deemed Cost	<p data-bbox="378 205 1435 338">Under IFRS 1, an entity may elect to measure an item of property, plant and equipment in its opening balance sheet at its fair value and use that fair value as its carrying value as at that date. This election is also available for intangible assets but only for assets that have an active market.</p> <p data-bbox="378 373 1435 499">The exemption offered at transition by IFRS 1 will not be used. The Company will adopt the carrying values under Canadian GAAP of all items of property, plant and equipment as at the date of transition as their deemed cost rather than carrying out a valuation exercise as permitted by IFRS 1.</p>
Employee Benefits	<p data-bbox="378 499 1435 604">Under IFRS 1, the Company may elect to recognize all cumulative actuarial gains and losses at the date of transitions to IFRS even if it uses the corridor approach for future actuarial gains and losses.</p> <p data-bbox="378 640 1435 730">As at December 30, 2009 the net amount unamortized of actuarial losses carried forward was \$16.1 million and management proposes to utilize the election. This will reduce opening retained earnings and increase pension liabilities by \$16.1 million.</p>
Cumulative Translation Differences	<p data-bbox="378 730 1435 968">Under IFRS 1, the Company may elect to recognize all translation adjustments arising on the translation of the financial statements of foreign entities in accumulated profits or losses at the opening IFRS balance sheet date (that is, reset the translation reserve included in equity under Canadian GAAP to zero). If the Company elects this exemption, the gain or loss on subsequent disposal of the foreign entity will be adjusted only by those accumulated translation adjustments arising after the opening IFRS balance sheet date.</p> <p data-bbox="378 1003 1435 1092">In light of the nature of the election and assuming the Company can reliably calculate its impact, the Company proposes not to use this exemption and to retain the cumulative translation difference in its Balance Sheet.</p>

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which will replace Section 1581, Business Combinations, and will provide 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 the Company's financial statements for future acquisitions that will be made in periods subsequent to the date of adoption. The Company is currently assessing whether or not it will early adopt Section 1582.

Market Risks and Uncertainties

General Economic Conditions

The economic conditions that worsened over the course of 2008 continued into 2009 with only moderate signs of recovery. In 2010 various governmental and other agencies have predicted that any recovery to come is likely to be slow and as such over the course of 2010, the Company does not expect a dramatic improvement in the economy and the resultant impact on consumers' buying habits. While Dorel is not immune to these conditions, the nature of the great majority of the Company's products, and the customers to which Dorel's products are sold, protect the Company to a certain extent. Over the course of Dorel's 48 year history, the Company has experienced several economic downturns and its products have proven to be ones that consumers continue to purchase. This was illustrated again in 2009 in that given the economic situation; the Company posted relatively stellar results.

In the Juvenile segment, the Company believes that demand for its products remains steady as child safety is a constant priority and parents require products that fill that need regardless of economic conditions. In Home Furnishings, Dorel concentrates exclusively on value priced items and sells the majority of its products through the mass merchant distribution channel. During difficult economic times, when shopping for furniture, consumers are likely to spend less and tend to eschew furniture store outlets and shop at the mass merchants for reasonably priced items. In Recreational / Leisure, the Company's newest segment, the Company believes that recent consumer trends that consider health and environmental concerns will also help buffer this segment against possible declines in overall consumer spending. In addition, Dorel offers a great deal of product in the value priced product category available at its mass merchant customers. This means that should consumers elect to spend less on a particular recreational product, Dorel has alternatives to higher priced items.

Product Costs and Supply

Dorel purchases raw materials, component parts and finished goods. The main commodity items purchased for production include particleboard and plastic resins, as well as corrugated cartons. Key component parts include car seat and futon covers, hardware, buckles and harnesses, and futon frames. These parts are derived from textiles, and a wide assortment of metals, plastics, and wood. The Company's finished goods purchases are largely derived from steel, aluminum, resins, textiles, rubber, and wood.

After remaining at relatively low levels throughout the first half of 2009, raw material prices started increasing in the second half of the year. Although resin prices increased during the 2nd half of 2009 in North America, pricing still remained below 2008 peak levels. Particleboard pricing in North America decreased approximately 10% in 2009.

Dorel is among North America's top 30 importers in terms of container volume from the Far East. Container freight costs were lower in 2009 relative to 2008 due to a large surplus of container vessels. Container freight rates started rising in the fourth quarter of 2009. Rates should continue to increase in 2010 as all major ocean liners significantly cut capacity by laying-up surplus vessels.

The Company's suppliers of components and finished goods input costs also increased in the 2nd half of 2009 but remained below 2008 peak levels. The Chinese currency ("RMB") as well as labour costs held stable for the year.

Dorel relies on its suppliers for both finished goods and raw materials and has always prided itself on establishing successful long-term relationships both domestically and overseas. Dorel's supplier base was not significantly adversely affected by the economic downturn in 2009 and the Company remains committed to actively working with its supplier base to ensure that the flow of product is not interrupted.

Should the Company's major existing vendors be unable to supply Dorel, this could have an adverse affect on the Company going forward.

Foreign Currency Fluctuations

As a multinational company, Dorel uses the US dollar as its reporting currency. As such, Dorel is subject to risk due to variations in currency values against the US dollar. Foreign currency risk occurs at two levels; operational and translational. Operational currency risk occurs when a given division either incurs costs or generates revenues in a currency other than its own functional currency. The Company's operations that are most affected by operational currency risk are those that operate in the Euro zone, the United Kingdom, Canada, Brazil and Australia. Translational risk occurs upon conversion of non-US functional currency divisions' results to the US dollar for reporting purposes. As Dorel's European, Brazilian and Australian operations are the only significant subsidiaries that do not use the US dollar as their functional currency, translational risk is limited to only those operations. The two major functional currencies in Europe are the Euro and Pound Sterling.

Dorel's European, Australian and Brazilian operations are negatively affected by a stronger US dollar as portions of its purchases are in that currency, while its revenues are not. Dorel's Canadian operations within Home Furnishings benefit from a stronger US dollar as large portions of its revenues are generated in the United States and the majority of its costs are in Canadian dollars. This situation is mitigated somewhat by Dorel Distribution Canada's juvenile operations that import US dollar denominated goods and sells to Canadian customers. As a result, over the past several years, the weakening of the US dollar against the Euro, Pound Sterling and Canadian dollar has had an overall impact that was not material year-over-year as these various impacts have offset. However, these offsetting impacts occur in different segments, meaning the negative impact of a stronger US dollar occurs in the Juvenile segment while the positive impact occurs mainly in the Home Furnishings segment. The Recreational / Leisure segment impact is generally neutral, with its European operations offsetting against its Canadian operations.

Where advantageous, the Company uses options, futures and forward contracts to hedge against these adverse fluctuations in currency. Further details on the Company's hedging strategy and the impact in the year can be found in Note 14 to the Company's year-end consolidated financial statements. While the Canadian operations and European operations help offset the possible negative impact of changes in the US dollar, a significant change in the value of the US dollar would affect future earnings.

Concentration of Revenues

For the year ended December 30, 2009, one customer accounted for over 10% of the Company's revenues, at 31.4% of Dorel's total. In 2008, this customer accounted for 30.4% of revenues. Dorel does not have long-term contracts with its customers, and as such revenues are dependent upon Dorel's continued ability to deliver attractive products at a reasonable price, combined with high levels of service. There can be no assurance that Dorel will be able to sell to such customers on an economically advantageous basis in the future or that such customers will continue to buy from Dorel.

Customer and Credit Risk

The majority of the Company's revenue is derived from sales to major retail chains in North America and Europe. The balance of Dorel's sales are made mostly to specialty juvenile stores in Europe and independent bike dealers in both the United States and Europe. To minimize credit risk, the Company conducts ongoing credit reviews and maintains credit insurance on selected accounts. Should certain of these major retailers cease operations, there could be a material short term adverse effect on the Company's consolidated results of operations. In the long term, the Company believes that should certain retailers cease to exist, consumers will shop at competitors at which Dorel's products will generally also be sold.

Product Liability

As with all manufacturers of products designed for use by consumers, Dorel is subject to numerous product liability claims, particularly in the United States. At Dorel, there is an ongoing effort to improve quality control and to ensure the safety of its products. The Company insures itself to mitigate its product

liability exposure. No assurance can be given that a judgment will not be rendered against it in an amount exceeding the amount of insurance coverage or in respect of a claim for which Dorel is not insured.

Income Taxes

The Company's current organizational structure has resulted in a comparatively low effective income tax rate. This structure and the resulting tax rate are supported by current domestic tax laws in which the Company operates and by the interpretation and application of these tax laws. The rate can also be affected by the application of income tax treaties between these various jurisdictions. Unanticipated changes to these interpretations and applications of current domestic tax laws, or to the tax rates and treaties, could impact the effective income tax rate of the Company going forward.

Product and Brand Development

To support continued revenue growth, the Company must continue to update existing products, design innovative new items, develop strong brands and make significant capital investments. The Company has invested heavily in product development and plans to keep it at the centre of its focus. In addition, the Company must continue to maintain, develop and strengthen its end-user brands. Should the Company invest in or design products that are not accepted in the marketplace, or if its products are not brought to market in a timely manner, and in certain cases, fail to be approved by the appropriate regulatory authorities, this could negatively impact future growth.

Regulatory Environment

The Company operates in certain industries which are highly regulated and as such operates within constraints imposed by various regulatory authorities. In recent years greater concern regarding product safety has resulted in more onerous regulations being placed on the Company as well as on all of the Company's competitors operating in these industries. Dorel has always operated within this environment and has always placed a great deal of resources on meeting these obligations, and is therefore well positioned to meet these regulatory requirements. However, any future regulations that would require additional costs could have an impact on the Company going forward.

Liquidity and Access to Capital Resources

Dorel requires continued access to capital markets to support its activities. Part of the Company's long-term strategy is to grow through the acquisition of complementary businesses that it believes will enhance the value of the Company for its shareholders. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow from operations. The recent severe tightening of global credit markets has made new loans, even for creditworthy businesses, extremely difficult or expensive to obtain. However, the Company's banking relationships are strong and its credit facilities are secured into 2010. Any impediments to the Company's ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Company's financial condition or prospects, could have a material adverse effect on the Company's financial condition and results of operation.

Valuation of Goodwill and other Intangible Assets

As part of annual impairment tests, the value of goodwill and other indefinite life intangible assets are subject to significant assumptions, such as future expected cash flows, and assumed discount and weighted average cost of capital rates. In addition, the value of customer relationship intangible assets recognized includes significant assumptions in reference to customer attrition rates and useful lives. Should current market conditions adversely effect the Company's expectations of future results, this could result in a non-cash impairment being recognized at some point in the future. Additionally, in the current market environment, some of the other assumptions could be impacted by factors beyond the Company's control. For example, more conservative risk assumptions could materially affect these valuations and could require a downward adjustment in the value of these intangible assets in the future.

Other Information

The designation, number and amount of each class and series of its shares outstanding as of March 5, 2010 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)
4,229,510	\$ 1,792	28,694,802	\$172,753	\$ 174,545

Outstanding stock options and Deferred Share Unit items are disclosed in Note 16 to the Consolidated Financial Statements. There were no significant changes to these values in the period between the year end and the date of the preparation of this MD & A.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures

National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators requires Chief Executive Officers ("CEOs") and Chief Financial Officers ("CFOs") to certify that they are responsible for establishing and maintaining disclosure controls and procedures for the Company, that disclosure controls and procedures have been designed and are effective in providing reasonable assurance that material information relating to the Company is made known to them, that they have evaluated the effectiveness of the Company's disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the Company.

Under the supervision of and with the participation of management, including the President and Chief Executive Officer and Executive Vice-president, Chief Financial Officer and Secretary, management has evaluated the design of the Company's disclosure controls and procedures as at December 30, 2009 and have concluded that those disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

Internal controls over financial reporting

National Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the Company, that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that the Company has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

During 2009, management evaluated the Company's internal controls over financial reporting to ensure that they have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. Management has used the Internal Control-Integrated Framework to evaluate the effectiveness of internal controls over reporting, which is recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Under the supervision of and with the participation of management, including the President and Chief Executive Officer and Executive Vice-president, Chief Financial Officer and Secretary, management has evaluated the internal controls over financial reporting as at December 30, 2009 and have concluded that those internal controls were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

Caution Regarding Forward Looking Information

Certain statements included in this MD&A may constitute "forward-looking statements" within the meaning of applicable Canadian securities legislation. Except as may be required by Canadian securities laws, the Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the Company's expectations expressed in or implied by such forward-looking statements and that the objectives, plans, strategic priorities and business outlook may not be achieved. As a result, the Company cannot guarantee that any forward-looking statement will materialize. 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. Refer, in particular, to the section of this MD&A entitled *Market Risks and Uncertainties* for a discussion of certain assumptions the Company has made in preparing any forward-looking statements.

Factors that could cause actual results to differ materially from the Company's expectations expressed in or implied by the forward-looking statements include: general economic conditions; changes in product costs and supply channel; foreign currency fluctuations; customer and credit risk including the concentration of revenues with few customers; costs associated with product liability; changes in income tax legislation or the interpretation or application of those rules; the continued ability to develop products and support brand names; changes in the regulatory environment; continued access to capital resources and the related costs of borrowing; changes in assumptions in the valuation of goodwill and other intangible assets and subject to dividends being declared by the Board of Directors, there can be no certainty that Dorel Industries Inc.'s Dividend Policy will be maintained. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking statements are discussed throughout this MD&A and, in particular, under *Market Risks and Uncertainties*.

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 our business, financial condition or results of operations.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business

combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. The Company therefore cannot describe the expected impact in a meaningful way or in the same way the Company presents known risks affecting the business.