



## 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, 2010 and 2009 ("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. Certain non-GAAP financial measures are included in the MD&A which do not have a standardized meaning prescribed by GAAP and therefore may be unlikely to be comparable to similar measures presented by other issuers. Contained within this MD & A are reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP. This MD&A is current as at March 10, 2011.

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](http://www.sedar.com) and Dorel's website at [www.dorel.com](http://www.dorel.com).

### Corporate Overview

The Company's head office is based in Montreal, Quebec, Canada. Established in 1962, the Company operates in nineteen countries with sales made throughout the world and employs approximately 4,700 people. Dorel's ultimate goal is to produce innovative, quality products and satisfy consumer needs while achieving maximum financial results for its shareholders. It operates in three distinct reporting segments; Juvenile, Recreational / Leisure and Home Furnishings. The Company's growth over the years 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, as well as a North American furniture distributor that markets a wide assortment of furniture products. The Company's products are domestically produced and imported. New product development, innovation and branding allow the Company to compete successfully in the three segments in which it operates. In the Juvenile segment, Dorel's powerfully branded products such as Quinny, Maxi-Cosi, Safety 1<sup>st</sup>, Bébé Confort and HOPPOP have shown the way to safety, originality and fashion. Similarly, its highly popular brands such as Cannondale, Schwinn, GT, Mongoose and Iron Horse as well as SUGOI Apparel have made Dorel a principal player in the bicycle marketplace.

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

In the case of Recreational / Leisure, event and team sponsorships are also an important marketing tool. As an example in 2010, the Company announced that as of January 1st, 2011, it would become a Co-Sponsor of the Liquigas Pro Cycling team. The newly named Liquigas-Cannondale team name will appear prominently on team jerseys and there will be logo placement for Cannondale on the Liquigas-Cannondale team vehicles, website and team clothing. This allows for significant marketing integration between Cannondale and the team in order to showcase team riders and wins as well as capitalize on consumers' interests in pro-cycling.

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 250 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 on-going 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 1<sup>st</sup> 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 four years, Dorel has averaged spending of over \$30 million per year on new product development.

## **Operating Segments**

### *Juvenile*

The Juvenile segment manufactures and imports products such as infant car seats, strollers, high chairs, toddler beds, playpens, swings, furniture items 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. In 2010, the Juvenile segment accounted for 45% of Dorel's revenues.

Dorel Juvenile Group (“DJG”) USA’s operations are headquartered in Columbus, Indiana, where North American manufacturing and car seat engineering is based, with facilities in Foxboro, Massachusetts and Ontario, California. With the exception of car seats, the majority of products are conceived, designed and developed at the Foxboro location. Car seat development is centralized at the Company’s new state-of-the-art Dorel Technical Center for Child Safety 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 1<sup>st</sup>, Maxi Cosi and Quinny. In addition, several brand names are used under license, the most significant being the well-recognized Disney and Eddie Bauer brands.

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 as they attempt to compete with smaller boutiques. 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 1<sup>st</sup>, 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 also introduced 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. Dorel is also the majority shareholder in Dorel Brazil. Significant operations began in 2010 as Dorel Brazil began to manufacture car seats locally and import other juvenile products. Dorel Asia sells 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.

### ***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 independent bicycle dealers (“IBD”) as well as in the sporting goods chains. In 2010, the Recreational/Leisure segment accounted for 33% of Dorel’s revenues.

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 and Vancouver, British Columbia. 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. However, 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 Footwear Group ("AFG") through the IBDs, various sporting good chains and specialty running stores. AFG's principal brand is SUGOI and its major competitors are Nike, Pearl Izumi, Adidas, among others, as well as some of the bicycle brands.

### *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. In 2010, this segment accounted for 22% of Dorel's revenues.

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. Dorel Asia specializes in sourcing upholstery and a full range of finished goods from Asia for distribution throughout North America. Major distribution facilities are also located in California, Georgia and Quebec.

While industry furniture sales increased slightly in 2010 for the first time since 2007, Dorel's sales in home furnishings continued its fourth consecutive year of growth outpacing the market. 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, DHP, 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.

## Significant Events in 2010

On March 30, 2010, the Company announced that it intended to make a normal course issuer bid (NCIB). 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 normal course issuer bid. The Board has therefore concluded that the repurchase of shares at certain market prices may constitute an appropriate use of financial resources and be beneficial to Dorel and its shareholders.

Under the NCIB, Dorel is entitled to repurchase for cancellation up to 700,000 Class B Subordinate Voting Shares over a twelve-month period commencing April 1, 2010 and ending March 31, 2011, representing 2.4% of Dorel's issued and outstanding Class B Subordinate Voting Shares. The purchases by Dorel are being effected through the facilities of the Toronto Stock Exchange and are at the market price of the Class B Subordinate Voting Shares at the time of the purchase.

Under the policies of the Toronto Stock Exchange Dorel has the right to repurchase during any one trading day a maximum of 13,583 Class B Subordinate Voting Shares, representing 25% of the average daily trading volume. In addition, Dorel may make, once per calendar week, a block purchase (as such term is defined in the TSX Company Manual) of Class B Subordinate Voting Shares not directly or indirectly owned by insiders of Dorel, in accordance with the policies of the Toronto Stock Exchange.

On April 6, 2010, the Company announced that it secured new long-term financing by issuing \$50 million of Series "A" Senior Guaranteed Notes and \$150 million of Series "B" Senior Guaranteed Notes, bearing interest at 4.24% and 5.14%, respectively. The Notes were purchased by a group of institutional investors including Prudential Capital Group, an institutional investment business of Prudential Financial, Inc. The principal repayment of the Series "A" Senior Guaranteed Notes is due in April 2015, whereas the principal repayments of the Series "B" Senior Guaranteed Notes begin in April 2013 with the final payment due in April 2020. In addition, on June 16, 2010 it was announced that the Company had completed the extension of its revolving credit facility. This three-year agreement which is effective July 1, 2010 and expires July 1, 2013 was co-led by the Royal Bank of Canada and the Bank of Montreal. The facility allows for borrowing up to \$300 million and contains provisions to borrow up to an additional \$200 million.

## Operating Results

**Note: all tabular figures are in thousands of US dollars except per share amounts**

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:					
	2010		2009		2008	
	\$	% of revenues	\$	% of revenues	\$	% of revenues
Revenues	\$ 2,312,986	100.0%	\$ 2,140,114	100.0%	\$ 2,181,880	100.0%
Net income	\$ 127,853	5.5%	\$ 107,234	5.0%	\$ 112,855	5.2%
Cash dividends declared per share	\$0.58		\$0.50		\$ 0.50	
Earnings per share:						
Basic	\$3.89		\$3.23		\$ 3.38	
Diluted	\$3.85		\$3.21		\$ 3.38	

	Operating Results for the Quarters Ended			
	31-Mar-10	30-Jun-10	30-Sep-10	30-Dec-10
Revenues	\$596,313	\$607,695	\$569,455	\$539,523
Net income	\$37,367	\$35,131	\$30,119	\$25,236
Earnings per share:				
Basic	\$1.13	\$1.07	\$0.92	\$0.77
Diluted	\$1.12	\$1.05	\$0.91	\$0.76

	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

## Income Statement - Overview

2010 versus 2009

### Tabular Summaries

Variations in revenue across the Company segments:

	Fourth Quarter				Year			
	<u>2010</u>	<u>2009</u>	<u>Increase (decrease)</u>		<u>2010</u>	<u>2009</u>	<u>Increase (decrease)</u>	
			<u>\$</u>	<u>%</u>			<u>\$</u>	<u>%</u>
Juvenile	\$ 236,204	\$ 248,521	\$(12,317)	-5.0%	1,030,209	\$ 995,014	\$ 35,195	3.5%
Recreational / Leisure	205,892	175,670	30,222	17.2%	774,987	681,366	93,621	13.7%
Home Furnishings	<u>97,427</u>	<u>121,112</u>	<u>(23,685)</u>	<u>-19.6%</u>	<u>507,790</u>	<u>463,734</u>	<u>44,056</u>	<u>9.5%</u>
Total Revenues	<u>\$ 539,523</u>	<u>\$ 545,303</u>	<u>\$ (5,780)</u>	<u>-1.1%</u>	<u>2,312,986</u>	<u>\$2,140,114</u>	<u>\$172,872</u>	<u>8.1%</u>

Principal changes in earnings:

	<u>4th Qtr</u>	<u>Year-to-Date</u>
<u>Earnings from operations by segment:</u>		
Juvenile increase (decrease)	(\$6,388)	\$2,534
Recreational / Leisure increase	1,619	12,488
Home Furnishings decrease	<u>(6,502)</u>	<u>(2,013)</u>
Total earnings from operations increase (decrease)	(11,271)	13,009
Increase in interest costs	(2,021)	(2,552)
Decrease in income taxes	12,256	8,248
Other	<u>2,061</u>	<u>1,914</u>
Total increase in net income	<u>\$1,025</u>	<u>\$20,619</u>

As described in the Corporate Overview section, the Company's operating segments are aided in their ability to effectively manage challenging economic conditions like those experienced in 2010 due to the nature of its products and its strong commitment to new product development and brand support. In an environment of reduced consumer discretionary spending and rising input costs, Dorel was able to deliver revenue growth of over 8% and improved net income to \$127.9 million. Revenue increases were in all three operating segments and only the Home Furnishings segment had lower earnings than in the prior year.

For fiscal 2010, Dorel recorded revenues of \$2,313 million an increase of 8.1% from 2009. Sales improved by 3.5% in the Juvenile segment, 13.7% in Recreational / Leisure and 9.5% in Home Furnishings. If the impact of business acquisitions and year over year foreign exchange rate variations are excluded, organic sales growth in 2010 was just above 7%. Net income for the full year amounted to \$127.9 million or \$3.85 per share fully diluted, compared to 2009 net income of \$107.2 million or \$3.21 per diluted share.

Gross margins for the year were 23.0% as compared to 23.6% recorded in the prior year. As described in more detail below, prior year margins include out-of-period foreign exchange pre-tax losses of \$14.2 million related to the Company's foreign currency hedging program. Note that this equates to \$10.0 million after-tax, or the equivalent of \$0.30 per diluted share. If these losses are excluded from the results of the prior year, the margins in 2009 were 24.3%, meaning margins declined by 130 basis points in 2010. The principal causes were the adverse effect of higher container freight rates and raw material cost increases. Other than the out-of-period foreign exchange losses, foreign exchange rates were less favourable in 2010, which also negatively affected margins. While earnings in 2010 do not include material out-of-period foreign exchange amounts, currency rate variations versus last year have reduced earnings in all three segments.

As referred to above, to protect itself from variations in foreign exchange rates and their impact on its earnings and cash flow, the Company may enter into foreign exchange forward contracts and other types of derivative financial instruments. The great majority of these are held at Dorel Europe within the Juvenile segment. In the past, the majority of these instruments did not qualify to follow the accounting practice of "hedge accounting", and therefore non-cash "mark-to-market" losses were recognized in the statement of income, representing the difference between the contracted exchange rate and the market rate on these instruments at the end of a given reporting period. These out-of-period losses were recognized relative to fluctuations in current exchange rates as opposed to the date of maturity of the contracts, when the cash flow impact is recorded.

Selling, general and administrative (“S, G & A”) expenses increased from 2009 levels at \$328.1 million versus \$316.3 million the year before. Of note, as a percentage of revenues this is a decline of 60 basis points from 14.8% to 14.2%. Research and development costs expensed in the year decreased from the prior year by \$3.6 million. Note that the amount expensed in the year for research and development is not reflective of the total 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 \$30 million.

Total interest costs in 2010 were \$18.9 million versus \$16.4 million in the prior year. The full year interest rate on its long-term borrowings was approximately 3.9%, an increase from 3.1% in 2009. The benefit of lower borrowings in 2010 were more than offset by the higher borrowing rate as well as \$2.6 million related to interest recorded on the Company’s contingent consideration related to certain of its business acquisitions.

Income before income taxes was \$140.7 million in 2010 versus \$128.3 million in 2009, an increase of \$12.4 million or 9.6%. 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 2010 the Company’s effective tax rate was 9.1% as compared to 16.4% in 2009. A significant reason for the rate decrease was the recognition of incremental tax benefits of \$9.7 million pertaining to the resolution of several prior years’ estimated tax positions. This non-cash amount was not recognized for accounting purposes in prior years and was only recorded in the fourth quarter of 2010 when the relevant tax authorities confirmed the recognition of these benefits. If this amount is excluded, the Company’s tax rate for the year was 16.0%, comparable to the prior year. Net income for the full year amounted to \$127.9 million or \$3.85 per share fully diluted, compared to 2009 net income of \$107.2 million or \$3.21 per diluted share.

The Company’s statutory tax rate is 29.3%. The variation from 29.3% to 9.1% can be explained as follows:

	\$	%
PROVISION FOR INCOME TAXES	41,230	29.3
ADD (DEDUCT) EFFECT OF:		
Difference in effective tax rates of foreign subsidiaries	(7,989)	(5.7)
Recovery of income taxes arising from the use of unrecorded tax benefits	(16,652)	(11.8)
One time adjustment for us functional currency election	(2,725)	(1.9)
Change in valuation allowance	765	0.5
Non-deductible stock options	1,194	0.8
Other non-deductible items	(2,957)	(2.1)
Change in future income taxes resulting from changes in tax rates	2,087	1.5
Effect of foreign exchange	(1,343)	(1.0)
Other - Net	(745)	(0.5)
PROVISION FOR INCOME TAXES	<u>12,865</u>	<u>9.1</u>

## *Fourth quarter 2010 versus 2009*

### *Overview*

Revenues for the fourth quarter were \$539.5 million compared to \$545.3 million a year ago, a decrease of 1.1%. After removing the effect of varying rates of exchange year over year, organic revenue growth was just under 1%. Revenues in the Recreational / Leisure segment increased by 17.2% with strong growth in sales to both the mass market channel and IBD customers. In Juvenile, sales increased in all markets except in the U.S. However, more than offsetting these increases were the reduced sales in the U.S. and the lower Euro to U.S. dollar exchange rate. The result was a decline in revenues of 5.0%. In Home Furnishings, like in Juvenile, U.S. sales were negatively impacted by certain customers reducing orders below expectations in the fourth quarter. As a result revenues decreased by 19.6%.

Gross margins in the fourth quarter of 2010 decreased to 22.5% from 24.3% in the prior year. In 2010, the Company was adversely affected by higher container freight costs and raw materials cost increases, as well as the negative impact of variations in foreign exchange rates. This was compounded by the much lower sales volumes in the U.S. in the Home Furnishings segment and at DJG USA, which had the impact of lowering fixed overhead cost absorption and decreasing margins.

S, G & A costs were flat with the prior year at \$83.3 million versus \$83.2 million. Within S, G & A, higher costs at Recreational / Leisure were mainly offset by Home Furnishings reductions. Product liability costs in the U.S. in the quarter were lower than the prior year by \$2.1 million. Research and development ("R & D") costs decreased by \$2.7 million as 2009 included a write-off of \$2.8 million of previously capitalized research and development costs incurred for certain projects.

In the fourth quarter, interest costs were higher by \$2.0 million as a result of a higher average borrowing rate and an increase in interest recorded on the Company's contingent consideration related to certain of its business acquisitions. Income before income taxes was \$19.8 million in 2010 versus \$31.0 million in 2009, a decrease of \$11.2 million or 36.2%. In the quarter, an income tax recovery of \$5.5 million was recorded. This compares to a tax rate of 21.9% in the prior year's quarter. The main reason for the recovery was the recognition of incremental tax benefits pertaining to the resolution of several prior years' estimated tax positions as described above. As a result, net income for the fourth quarter was \$25.2 million, an increase from \$24.2 million in 2009. Earnings per share for the quarter were \$0.76 fully diluted, compared to \$0.73 per share in the fourth quarter the previous year.

## Segment Results

	Fourth Quarters Ended December 30				
	2010		2009		Change %
	\$	% of rev.	\$	% of rev.	
<b><u>Juvenile</u></b>					
Revenues	236,204		248,521		-5.0%
Gross Profit	62,861	26.6%	69,860	28.1%	-10.0%
Earnings from operations	14,575	6.2%	20,963	8.4%	-30.5%
<b><u>Recreational / Leisure</u></b>					
Revenues	205,892		175,670		17.2%
Gross Profit	46,491	22.6%	38,688	22.0%	20.2%
Earnings from operations	10,608	5.2%	8,989	5.1%	18.0%
<b><u>Home Furnishings</u></b>					
Revenues	97,427		121,112		-19.6%
Gross Profit	11,870	12.2%	23,931	19.8%	-50.4%
Earnings from operations	5,588	5.7%	12,090	10.0%	-53.8%

The Juvenile segment revenue decrease in the fourth quarter was 5.0%, however, excluding the impact of foreign exchange, the organic sales decline was less than 2%. The decline was due to a slowdown at retail that occurred in the U.S. Sales in the segment's other markets increased, but the increases were not sufficient to offset the decline. In Europe, local currency sales increased by 4.9%, driven by car seat growth. The markets with the strongest gains were Germany and exports, principally to Eastern Europe. Tempering these gains was a drop in sales in Spain, where the economic recovery is lagging behind the rest of Europe. Upon conversion to U.S. dollars, European revenues declined by 3.5% due to the lower rate of exchange in 2010. Sales in Canada improved over last year and though less than 10% of total segment sales, Brazil and Australia both posted increased sales in the fourth quarter of 2010.

Juvenile gross margins were lower in the fourth quarter by 150 basis points. However, in the prior year's fourth quarter, contrary to the full year results which included out-of-period foreign exchange losses related to foreign exchange contracts, these foreign exchange amounts were gains, which added 130 basis points to the gross margin in 2009. Therefore if these gains are excluded, prior year fourth quarter gross margins were 26.8%, consistent with 2010. S, G & A costs were \$39.7 million versus \$37.4 million in the prior year. The 2009 quarter included a reclassification to overhead of \$2.8 million, reducing S, G & A, explaining the bulk of the increase. Research and developments costs decreased by \$3.1 million due to a large capitalized R & D write-off as described above. As a result, earnings from operations declined by \$6.4 million or 30.5% from the prior year.

Recreational / Leisure segment revenues in the fourth quarter of 2010 increased by \$30.2 million, or 17.2%. Note that none of the increase came from acquired businesses and organic sales increased by almost 19% when the impact of varying rates of exchange relative to the U.S. dollar are excluded. Sales increased to the mass market chain, supported by the successful Schwinn brand marketing campaign that began earlier in the year and which was revived in the fourth quarter for the holiday shopping period. Sales to IBD customers also increased as successful new model introductions are driving sales. These increases are occurring in both Europe and North America. Importantly, the increase is also in the majority of the brands sold to the IBD customers and is not limited to the Cannondale brand.

Gross margins in the quarter improved in 2010 to 22.6% from 22.0% the year before. The main reason for this was improved margins at CSG as the benefit of sourcing overseas was realized. However, lower margins elsewhere in the segment tempered the increase. In particular, AFG recorded write-downs on certain inventory which reduced segment margins by approximately 150 basis points in the quarter. S, G

& A costs were \$33.2 million in the quarter, an increase from \$27.8 million the year before. The majority is attributable to increased promotional activity, but the higher costs are reflective of an increased infrastructure in anticipation of supporting further growth of the segment. Research and development costs and amortization also increased over last year for the same reason. As a result, earnings from operations for the quarter improved to \$10.6 million from \$9.0 million in 2009.

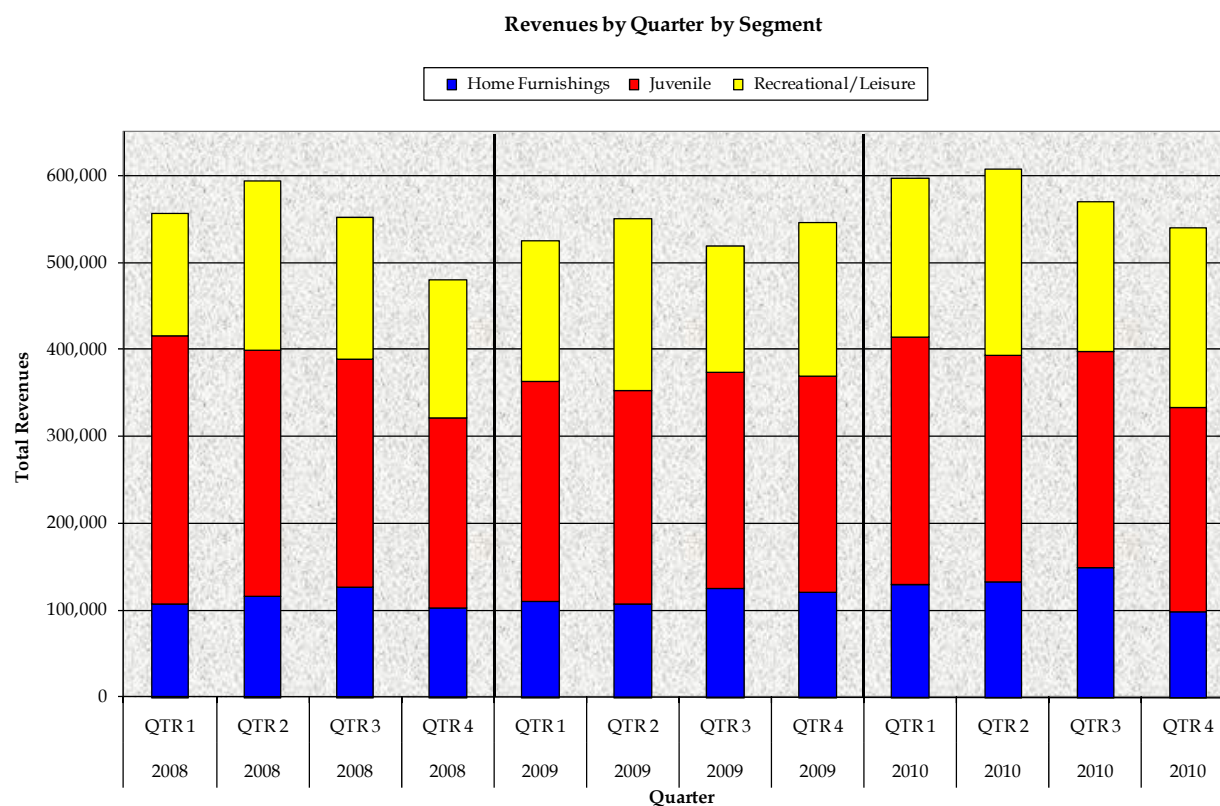
The fourth quarter in the Home Furnishings segment was severely affected by a slowdown at retail in furniture at the majority of its customers. Replenishment orders were reduced and inventories at the retail level were cut by the segment's mass market customers. As a result, revenues declined by 19.6% from the prior year. This decline was most pronounced on the segment's domestic RTA furniture and metal folding furniture items. Margins were also affected as fixed overhead absorption was reduced and freight costs were considerably higher than in the prior year. As a result, 2010 gross margins were reduced to 12.2%. Note that the prior year's quarter gross margins included a gain of \$6.4 million on the successful settlement of a claim against a law firm related to the United States Department of Commerce ("DOC") of prior years' anti-dumping duties. The impact of this on 2009 gross margins was an increase of 530 basis points. Excluding this gain, gross margins would have been 14.5%.

S, G & A costs for the quarter decreased to \$5.4 million, as compared to \$10.9 million in 2009, for two principal reasons. Product liability costs were lower by \$2.8 million and the 2009 figures included higher legal costs of \$1.4 million in connection with the \$6.4 million anti-dumping duty legal settlement that was reached, referred to previously. Other expenses were consistent year-over-year, meaning earnings from operations declined to \$5.6 million versus \$12.1 million in 2009. Note that of the decline of \$6.5 million, \$5.0 million can be attributed to the net gain recorded in 2009 on the legal settlement.

## 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.



### Juvenile

	<u>2010</u>		<u>2009</u>		<u>Change</u>	
	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>%</u>
Revenues	<u>\$ 1,030,209</u>	<u>100.0%</u>	<u>\$995,014</u>	<u>100.0%</u>	<u>\$35,195</u>	<u>3.5%</u>
Gross profit	280,050	27.2%	274,497	27.6%	5,553	2.0%
Selling, general and administrative expenses	153,586	14.9%	149,239	15.0%	4,347	2.9%
Depreciation and amortization	23,567	2.3%	20,776	2.1%	2,791	13.4%
Research and development	<u>7,829</u>	<u>0.8%</u>	<u>11,948</u>	<u>1.2%</u>	<u>(4,119)</u>	<u>-34.5%</u>
Earnings from operations	<u>\$ 95,068</u>	<u>9.2%</u>	<u>\$ 92,534</u>	<u>9.3%</u>	<u>\$2,534</u>	<u>2.7%</u>

Revenues in 2010 increased from 2009 levels by \$35.2 million or 3.5%. For the segment as a whole, the organic revenue increase was above 4%, if the impact of foreign exchange is excluded. The revenue growth was in all markets except for the U.S. which encountered a difficult retail environment, especially in the last half of the year. Europe rebounded in 2010 and recorded sales gains of almost 9% in local currency. In U.S. dollars this improvement equated to approximately 4%. The strength in Europe was in most markets with the notable exception of Spain. Car seats remain Europe's core product and were the principal driver of the increase. In Canada, sales in U.S. dollars were helped by the stronger Canadian

dollar, however over and above this, sales did grow organically. In Australia, sales dollars were helped by the stronger U.S. dollar, but in local currency sales were down as the retail market there was challenging. In Brazil, 2010 was the first year of full operations and sales benefited from new car seat legislation that was enforced locally. As a result, sales in Brazil were approximately \$27 million.

Gross margins declined by 40 basis points from 2009 levels. However as described above, the prior year margins were negatively impacted by out of period foreign exchange losses totalling \$12.6 million. Excluding these losses, gross margins in 2009 would have been 28.9% and the decline year-over-year is 170 basis points. The main reasons are costs for certain raw materials, principally resin, and container freight rates that increased over the prior year. Also, excluding the out of period foreign exchange losses in 2009, Dorel Europe experienced less favourable rates of exchange versus the Euro in the current year, though this situation eased in the second half of the year.

As a result of recalls in the crib industry and new legislation banning drop-side cribs, Dorel has elected to cease the importation of cribs until the impact of these new regulations has been fully assessed. Though less than 2% of segment sales over the past two years, the negative impact of the crib business on earnings in 2010 was approximately \$5 million.

S, G & A costs for the segment as a whole increased by \$4.3 million, or 2.9%, from last year. As a percentage of revenues these costs were down slightly at 14.9% versus 15.0% in the prior year. Product liability costs in the U.S. for the Juvenile segment in 2010 declined for the fourth consecutive year and were \$7.6 million versus \$10.4 million in 2009. More than offsetting this decrease were costs at Dorel Brazil and greater promotional spending at Dorel Europe. Depreciation and amortization was higher in 2010 due to an increased level of capitalization. Offsetting this increase were reductions in research and development expense as 2009 included a large one time write off, as described in the fourth quarter analysis above. Therefore earnings in 2010 were \$95.1 million in 2010 versus \$92.5 million in the prior year.

## Recreational / Leisure

	<u>2010</u>		<u>2009</u>		<u>Change</u>	
	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>%</u>
Revenues	<u>\$ 774,987</u>	<u>100.0%</u>	<u>\$681,366</u>	<u>100.0%</u>	<u>\$93,621</u>	<u>13.7%</u>
Gross profit	183,553	23.7%	153,739	22.6%	29,814	19.4%
Selling, general and administrative expenses	121,411	15.7%	106,209	15.6%	15,202	14.3%
Depreciation and amortization	6,625	0.9%	5,009	0.7%	1,616	32.3%
Research and development	<u>3,192</u>	<u>0.4%</u>	<u>2,684</u>	<u>0.4%</u>	<u>508</u>	<u>18.9%</u>
Earnings from operations	<u>\$ 52,325</u>	<u>6.8%</u>	<u>\$ 39,837</u>	<u>5.8%</u>	<u>\$12,488</u>	<u>31.3%</u>

Recreational / Leisure revenues increased 13.7% to \$775.0 million in 2010 compared to \$681.4 million a year ago. This increase was due to sales growth at all divisions, with the exception of the Apparel Footwear Group (AFG) that posted flat sales. The improvement was for several reasons. In North America a major advertising campaign supporting the Schwinn brand was a success with both retailers and consumers, and sales of the Schwinn brand, particular at mass merchants, were up strongly. Sales to large customers in Canada were up over 25% over the prior year and since 2008 have more than doubled. Sales by CSG to IBD customers in both the U.S. and Europe improved with new models proving to be well received. The acquisition of CSG UK in the fourth quarter of 2009 also added to revenues and the U.K. operations had a strong year. After removing the acquired sales with the CSG UK addition, as well as a small business acquisition in Australia in late 2009, and adjusting for the effects of foreign exchange, organic sales growth was approximately 11%.

Gross margins for the segment as a whole improved to 23.7% from 22.6%. Most of the improvement was at CSG with the move of production to overseas improving profitability. Note that one-time costs included in cost of sales related to this previously announced initiative to source overseas totaled approximately \$1.4 million. Pacific Cycle margins were also up slightly, but AFG experienced declines which tempered the improvement for the segment as a whole.

S, G & A costs increased over last year by \$15.2 million or 14.3%. The reasons for the increase were increased discretionary spending for promotion and other advertising as well as incremental costs associated with new business acquisitions in late 2009. The advertising spent for Schwinn brand support alone exceeded \$5 million for the year. The investments made throughout 2009 and 2010 in the segment's infrastructure, as evidenced by increases in administrative costs, accounted for the balance of the increase in S, G & A. Note that as a percentage of revenues the increase was only 10 basis points over 2009. Depreciation and amortization as well as research and development costs rose by a combined \$2.1 million in the year, a result of more spending on new product development, amortization at newly acquired CSG UK and some additional capitalization at CSG USA. Therefore earnings from operations rose from \$39.8 million in 2009 to \$52.3 million in 2010, an improvement of \$12.5 million or 31.3%.

## Home Furnishings

	<u>2010</u>		<u>2009</u>		<u>Change</u>	
	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>% of sales</u>	<u>\$</u>	<u>%</u>
Revenues	<u>\$ 507,790</u>	<u>100.0%</u>	<u>\$463,734</u>	<u>100.0%</u>	<u>\$44,056</u>	<u>9.5%</u>
Gross profit	69,179	13.6%	77,308	16.7%	(8,129)	-10.5%
Selling, general and administrative expenses	30,873	6.1%	36,618	7.9%	(5,745)	-15.7%
Depreciation and amortization	1,018	0.2%	1,442	0.3%	(424)	-29.4%
Research and development	<u>2,605</u>	<u>0.5%</u>	<u>2,552</u>	<u>0.6%</u>	<u>53</u>	<u>2.1%</u>
Earnings from operations	<u>\$ 34,683</u>	<u>6.8%</u>	<u>\$ 36,696</u>	<u>7.9%</u>	<u>(\$2,013)</u>	<u>-5.5%</u>

For the year, Home Furnishings revenues increased by 9.5%, reaching \$507.8 million up from \$463.7 million in the prior year. The majority of the divisions increased their sales as the segment continued to benefit from consumer tastes which focused more on value priced furniture during difficult economic periods. Sales growth was much higher as of the second half, but beginning somewhat in the third quarter and more so in the fourth, many large customers cut back on orders as retail sales slowed and their in-store inventories rose.

Gross margins in 2010 were 13.6% versus 16.7% recorded in the prior year. The gain of \$6.4 million that was recorded in 2009 related to prior years' anti-dumping duties referred to above had an impact on 2009 gross margins of 140 basis points. Excluding this gain, gross margins would have been 15.3%. Therefore the true decline year over year is 170 basis points. This decline was due to higher container freight costs, a less profitable sales mix and, because two of the plants are located in Canada and ship to mainly US based customers, the stronger Canadian dollar.

S, G & A costs decreased by \$5.7 million to \$30.9 million in 2010, from \$36.6 million the year before. As a percentage of revenues these costs decreased from 7.9% to 6.1%. The principal reasons for the decrease were lower costs at Cosco Home & Office where product liability costs decreased by \$3.6 million and legal costs declined by \$1.4 million as described previously. Research and development costs and depreciation and amortization were consistent year-over-year. As such, earnings from operations for the year were \$34.7 million compared to \$36.7 million in 2009.

## Balance Sheet

	<u>Selected Balance Sheet Data as at December 30:</u>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total assets	\$2,095,960	\$2,002,180	\$2,030,473
<b><u>Long-term Financial Liabilities, excluding current portion:</u></b>			
Long-term debt	\$ 319,281	\$ 227,075	\$ 450,704
Other long-term liabilities	\$ 35,999	\$ 25,139	\$ 6,010
<b><u>Other:</u></b>			
Current portion of long-term debt and bank indebtedness	\$41,182	\$124,495	\$ 13,277

Versus the December 30, 2009 year-end balance sheet, the majority of the total asset increase was due to higher inventory levels. There are several reasons for the increase. While the impact of order reductions in the U.S. was significant at approximately \$30 million, several other components account for the total increase. Firstly, last year's inventory levels were too low to adequately service the Company's customers, and as such, approximately 35% to 40% of the increase was intentional to align inventories with business needs. The bulk of the remaining increase was due to inventory for 2011 sales being brought in earlier than in the prior year. Finally, cost increases year-over-year added approximately 2% to 3% to total inventory value. These reasons explain the increase in the number of days in inventory as presented below, along with certain other of the Company's working capital ratios:

	<b>As at December 30,</b>	
	<b>2010</b>	<b>2009</b>
Debt to equity	0.31	0.32
# of Days in receivables	56	59
# of Days in inventory	106	91

The lower number of days in receivables is due to the sales reduction near the end of the year in the U.S. in 2010. 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 negative \$13.1 million in 2010 versus \$136.8 million in 2009, detailed as follows:

Free cash flow	2010	2009	2008
Cash flow from operations before changes in non-cash working capital:	\$ 180,330	\$ 156,857	\$ 158,390
Change in:			
Accounts receivable	(12,789)	(27,312)	28,223
Inventories	(111,821)	113,630	(121,027)
Accounts payable and other liabilities	34,193	(39,437)	22,105
Other	<u>(11,895)</u>	<u>778</u>	<u>(7,808)</u>
Cash provided by operating activities	78,018	204,516	79,883
Less:			
Dividends paid	(18,895)	(16,614)	(16,707)
Share repurchase	(17,277)	(10,504)	-
Additions to property, plant & equipment – net	(35,465)	(21,893)	(26,518)
Intangible assets	<u>(19,511)</u>	<u>(18,753)</u>	<u>(20,929)</u>
<b>FREE CASHFLOW (1)</b>	<b><u>(\$ 13,130)</u></b>	<b><u>\$ 136,752</u></b>	<b><u>\$ 15,729</u></b>

(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 intangible assets.

During 2010, cash flow from operations, before changes in working capital, increased by \$23.5 million due to higher earnings. After changes in non-cash working capital items, cash flow provided by operating activities was \$78.0 million, a decrease of \$126.5 million from the previous year. As described above, the main reason was due to the increase in inventory levels, partially offset by an increase in accounts payable.

The past three years have seen wide swings in free cash flow, principally due to major variations in inventory levels from year to year. Low inventory levels at the beginning of 2010 adversely impacted cash as the Company re-established more normal operating levels. This was exacerbated by the situation described previously as retailers drastically reduced fourth quarter ordering, causing 2010 year end inventories to increase, and thereby reducing free cash flow. The situation in 2010 was similar to that experienced in 2008 which due to a very slow fourth quarter brought on by the economic crisis caused that year’s ending inventories to rise, thereby also reducing cash flow in that year.

Capital expenditures on property, plant and equipment and intangible assets totalled \$55.0 million in 2010, compared to \$40.6 million in 2009. The increase in capital additions was in several areas. In Juvenile, Dorel Europe increased its new product development spending by investing in several new moulds for product introduced in 2010 and into 2011. Additionally, Europe invested in its supply chain activities with improvements to warehousing facilities made in the UK, the Netherlands and Portugal. The total increased spend in Europe was over 7 million Euros. Also in Juvenile, DJG opened its Dorel Technical Center for Child Safety at its manufacturing campus in Columbus, Indiana. The multi-million dollar facility will centralize all North American R&D and product development activities and will foster cutting-edge innovation in the design of car seats and other juvenile products. Total capitalized costs incurred in 2010 on this project were \$3.4 million.

In Recreational / Leisure a new facility in the Metro-Vancouver area in British Columbia for the Apparel Footwear Group Division (AFG) was opened. At a cost of \$2.5 million, the newly renovated 70,000-square-foot complex for manufacturing and distribution also serves as the Global Headquarters for design and marketing for AFG.

During the year, the Company secured new long-term financing by issuing \$50 million of Series "A" Senior Guaranteed Notes and \$150 million of Series "B" Senior Guaranteed Notes. The principal repayment of the Series "A" Senior Guaranteed Notes is due in April 2015, whereas the principal repayments of the Series "B" Senior Guaranteed Notes begin in April 2013 with the final payment due in April 2020. In addition, an extension of a revolving credit facility was completed. This three-year agreement expires July 1, 2013 and allows for borrowing up to \$300 million and contains provisions to borrow up to an additional \$200 million. As of December 30, 2010, Dorel was compliant with all covenant requirements and expects to be so going forward.

### Contractual Obligations

The following is a table of a summary of the contractual obligations of the Company as of December 30, 2010:

<u>Contractual Obligations</u>	<u>Total</u>	<u>less than 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>After 5 years</u>
Long-term debt repayments	\$329,948	\$10,667	\$132,778	\$70,434	\$116,069
Interest payments (1)	61,489	15,400	25,891	6,647	13,551
Net operating lease commitments	126,948	32,430	45,426	22,039	27,053
Contingent considerations	28,002	-	28,002	-	-
Capital addition purchase commitments	5,872	5,872	-	-	-
Minimum payments under licensing agreements	<u>7,552</u>	<u>5,596</u>	<u>1,956</u>	<u>-</u>	<u>-</u>
<b><u>Total contractual obligations</u></b>	<b><u>\$559,811</u></b>	<b><u>\$69,965</u></b>	<b><u>\$234,053</u></b>	<b><u>\$99,120</u></b>	<b><u>\$156,673</u></b>

(1) Interest payments on the Company's revolving bank loans are calculated using the interest rate in effect as at December 30, 2010 and assume no debt reduction until due date in July 2013, 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 20 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 2011 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 16 of the Consolidated Financial Statements, this amount of \$21.5 million pertains to the Company's pension and post-retirement benefit plans. In 2011, contributions expected to be made for funded plans and benefits expected to be paid for unfunded plans under these plans will amount to approximately \$1.6 million.

**Other long-term liabilities** consist of:

Contingent considerations	\$ 28,002
Government mandated employee savings plans in Europe, the majority of which are due after five years	4,304
Other liabilities due in more than one year	<u>3,693</u>
	<u>\$35,999</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 2009 includes additional considerations 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, 2010 the total estimated liability is \$28.0 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 20 and 21 to the Consolidated Financial Statements for the year ended December 30, 2010.

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.

In 2009, the Company began 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 new foreign exchange contracts taken after that date, the Company has designated the majority of 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, for which the Company elected not to apply hedge accounting; these foreign exchange contracts, were classified as held for trading, and were marked to market and the associated unrealized and realized gains and losses were 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 3 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, such as trademarks, 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 future net 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, 2010. 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.
- **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.

The Company's income tax provision is based on tax rules and regulations that are subject to interpretation and require estimates and assumptions that may be challenged by taxation authorities. The Company's estimates of income tax assets and liabilities are periodically reviewed and adjusted as circumstances warrant, such as changes to tax laws and administrative guidance, and the resolution of uncertainties through either the conclusion of tax audits or expiration of prescribed time limits within the relevant statutes. The final results of government tax audits and other events may vary materially compared to estimates and assumptions used by management in determining the provision for income taxes and in valuing income tax assets and liabilities.

- **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.

## Future Accounting Changes

### *International Financial Reporting Standards*

#### Introduction

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. The Company has chosen for an early adoption of IFRS and is issuing its last financial statements prepared in accordance with Canadian GAAP in fiscal 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*.

#### Overall Summary

The Company has identified and calculated the impact of the differences between IFRS and Canadian GAAP on its opening balance sheet. Further information has been outlined in the detailed report below. There is no expected material impact on the Company's 2010 financial reporting results based on the information collected to date.

#### Detailed Report

There have been no significant changes to the Company's IFRS changeover plan and the project is progressing according to plan. There have been no significant modifications in key differences in accounting treatments and potential key impacts as assessed in the Company's 2009 annual report.

Below is an update of the Company's progress on the IFRS changeover plan. The following table outlines the key phases and the updated milestones and an assessment of progress towards achieving them.

#### **Phase 3: Solution Design and Development**

Actions	<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, including internal controls over financial reporting and disclosure controls and procedures.
Timetable	Solution Development: 2010
Progress	Solution Development: Completed <ul style="list-style-type: none"><li>• <u>Developed tools to prepare IFRS opening balance sheet and comparative information:</u> the Company created a duplicate IFRS environment in its information systems to track all adjusting IFRS entries for the opening Balance Sheet and throughout the dual reporting period.</li><li>• <u>Developed any required changes to information systems:</u> the Company did not encounter any significant impact on its information systems.</li><li>• <u>Developed internal controls over financial reporting:</u> the Company assessed the internal controls applicable to its financial reporting processes under IFRS including any relevant changes to the current Canadian GAAP reporting environment.</li><li>• <u>Developed disclosure controls and procedures:</u> disclosure controls and procedures were updated; the Company updated its reporting package tools to include all data required for financial statements disclosures under IFRS.</li></ul>

	<ul style="list-style-type: none"> <li>• <u>Identified business impact of conversion, including the effect on financial covenants, contracts, hedging activities, budgeting processes and compensation arrangements:</u> (i) Company's bank arrangements have been negotiated to allow for the transition from Canadian GAAP to IFRS without significant impact; (ii) other contracts have been reviewed and based on the Company's analysis, there is no material impact on the Company's financial statements as a result of conversion to IFRS; (iii) Canadian GAAP process to test hedge effectiveness is compliant with IFRS; (iv) budgets and strategic plans were prepared under IFRS for fiscal year 2011; and (v) variable incentive compensation has been amended in reference to IFRS financial targets for relevant periods; no significant impact is expected.</li> <li>• <u>Prepared a model of the IFRS financial statements:</u> a complete IFRS financial statements model was prepared, and has been reviewed by Finance senior management.</li> </ul>
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#### Phase 4: Implementation

Actions	<p>Approve selected accounting policies and finalize manuals.</p> <p>Roll out accounting policies.</p> <p>Test and remediate, including dry run in a "test environment".</p> <p>Roll out process and system changes and perform education.</p> <p>Perform reporting under IFRS.</p>
Timetable	2012
Progress	<p>In progress and will continue until the first complete annual financial reporting under IFRS is released in 2012.</p> <p>The data collection for the IFRS opening balance sheet is complete and the data collection for each quarter in fiscal year 2010 is virtually complete. There is no expected material impact on the Company's 2010 financial reporting results based on the information collected to date. New accounting policies have been approved, as applicable. Post-testing and remediation, if any, process and system changes have been rolled out and divisions educated of any changes.</p>

#### Phase 5: Post-Implementation

Actions	<p>Transition to a sustainable operational model</p> <p>Conversion plan assessment</p>
Timetable	June 30, 2012
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>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <ul style="list-style-type: none"> <li>a) 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.</li> <li>b) 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.</li> </ul>	<p>Findings by Difference:</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>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 12: <i>Income Taxes</i>	<p>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <ul style="list-style-type: none"> <li>a) Unlike IFRS, under Canadian GAAP a future 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.</li> <li>b) 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.</li> <li>c) Under IFRS, the difference between the tax base of the employee services received for stock-based compensation and its carrying amount (of \$ nil) is a deductible temporary differences that results in a future income tax assets. Under Canadian GAAP, future income tax assets recognized in relation to stock-based compensation are not explicitly addressed.</li> <li>d) Under IFRS, the tax treatment of temporary differences on intercompany transfers is recognized as a deferred tax expense or recovery and is calculated using the buyer’s rate. Under Canadian GAAP, the tax impact is recognized as a current tax expense or recovery and is calculated using the seller’s rate.</li> </ul>	<p>Findings by Difference:</p> <p>The Company has calculated an opening balance sheet adjustment as at December 31, 2009 to decrease future income tax liabilities and increase retained earnings by approximately \$2.5 million.</p> <p>Based on the information collected to date, this GAAP difference related to IFRS will not have an impact on the company’s financial statements.</p> <p>The Company has calculated an opening balance sheet adjustment as at December 31, 2009 to decrease future income tax assets and decrease retained earnings by approximately \$1.0 million.</p> <p>The Company has calculated an opening balance sheet adjustment as at December 31, 2009 to increase future income tax assets by \$1.7 million, increase income tax payable by \$0.3 million and to increase retained earnings by approximately \$1.4 million.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 16: <i>Property, Plant and Equipment</i>	<p>The main relevant differences between IFRS and Canadian GAAP are:</p> <p>a) The possibility to evaluate assets at fair value at each balance sheet date.</p> <p>b) 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>	<p>Findings by Difference:</p> <p>Based on the information collected, none of these GAAP differences related to fair value 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. The Company determined that fixed assets do not have to be materially componentized further.</p>
IAS 17: <i>Leases</i>	<p>The main relevant difference between IFRS and Canadian GAAP is the following:</p> <p>The distinction between an operating lease (where only the rent is recognized in the P&amp;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 much more based on the substance of the lease contract rather than its form. Canadian GAAP makes the distinction much more based on its form.</p>	<p>Findings by Difference:</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>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <p>a) <u>Accounting options of defined benefit plans for actuarial gains and losses</u>  The options are the following under IFRS:</p> <ul style="list-style-type: none"> <li>- Present actuarial gains and losses directly in the P&amp;L</li> <li>- Use the "corridor" approach</li> <li>- Present actuarial gains and losses directly in the Balance Sheet with changes recorded in Other Comprehensive Income</li> </ul> <p>The options are the following under Canadian GAAP:</p> <ul style="list-style-type: none"> <li>- Present actuarial gains and losses directly in the P&amp;L</li> <li>- Use the "corridor" approach</li> </ul> <p>b) <u>Vested past service costs</u>  Under IFRS, liabilities and expenses for vested past service costs under a defined benefit plan are recognized immediately. Under Canadian GAAP, they are recognized over the expected average remaining service period.</p> <p>c) <u>Unvested past service costs</u>  Unvested past service costs are amortized faster under IFRS.</p>	<p>Findings by Difference:</p> <p>The Company accounts for defined benefit plans using the "corridor approach" under Canadian GAAP. Upon transition to IFRS, the Company will present actuarial gains and losses directly in the Balance Sheet with changes recorded in Other Comprehensive Income.</p> <p>The Company has calculated an opening balance sheet adjustment as at December 31, 2009 to increase pension &amp; post-retirement benefit obligations by \$2.2 million and decrease retained earnings by approximately \$1.3 million after tax.</p> <p>All of the Company's unrecognized past service costs are vested, thus they will be fully recognized in the IFRS opening balance sheet as at December 31, 2009 as described in the preceding paragraph. This difference applies to the Company on a prospective basis.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 21: <i>The Effect of Changes in Foreign Exchange Rates</i>	<p>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <ul style="list-style-type: none"> <li>a) The main difference relates to the exchange rate used to translate non monetary assets carried at fair value. Under IFRS, the exchange rate used is as at the date when the fair value was determined instead of the exchange rate as at the Statement of Financial Position date.</li> <li>b) 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.</li> <li>c) Under IFRS, the reimbursement of an intercompany loan considered as a permanent investment (between companies with different functional currencies) does not necessarily trigger the recycling of a portion of the CTA in the P&amp;L.</li> <li>d) Under Canadian GAAP reductions in the net permanent investment trigger the recycling of CTA in income. The Company currently uses the net change method to determine whether there has been a reduction in permanent investment through either paid up capital reduction, dividends and/or permanent intercompany loan repayment.</li> </ul>	<p>There is no material impact on the Company's financial statements for these differences based on the information collected to date save:</p> <p>The Company has retroactively analyzed all instances where it has recognized CTA in the P&amp;L due to an intercompany loan reimbursement without loss of control of its subsidiaries. The Company has calculated an opening balance sheet adjustment as at December 31, 2009 to increase accumulated other comprehensive income and decrease retained earnings by approximately \$2.4 million.</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> <ul style="list-style-type: none"> <li>a) 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.</li> <li>b) 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.</li> </ul>	<p>Findings by difference:</p> <p>There is no material impact on the Company's financial statements for this difference based on the information collected to date.</p> <p>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 and there is no impact on the opening balance sheet.</p>
IAS 36: <i>Impairment of Assets</i>	<p>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <ul style="list-style-type: none"> <li>a) <u>Process of the impairment test</u> Under Canadian GAAP, the impairment test for long lived assets is a two step process: <ul style="list-style-type: none"> <li>- 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;</li> <li>- If the carrying amount of the asset is greater than the undiscounted cash flow, then it is compared to the fair value of the asset. An impairment may have to be recognized.</li> </ul> <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> </li> <li>b) <u>Assigning assets to cash generating units</u> Under IFRS, impairment testing of assets is done at the independent cash generating unit ("CGU") level.  Under Canadian GAAP, the CGU is defined as it generates both independent cash inflows and outflows as compared to IFRS that defines a CGU as it only generates cash outflows.</li> <li>c) <u>Reversal of impairment of assets</u> Under IFRS, at each balance sheet date, the Company must assess whether there is an indicator that past impairment charges may have decreased and if so, calculate the reversible amount. Under Canadian GAAP, no such evaluation and reversal is allowed.</li> </ul>	<p><u>Findings by Difference:</u></p> <p>This difference has been analyzed for the Company's impairment tests and is found to have no material impact at the transition date on the financial statements based on the information collected to date.</p> <p>The Company has identified its cash generating units. Impairment testing for goodwill will be conducted at the CGU level or group of CGU level.</p> <p>The impact of this difference will not have a material impact on the Company's financial statements based on the information collected to date on its opening balance sheet.</p> <p>The Company has calculated an adjustment to its opening balance sheet as at December 31, 2009 to increase property, plant and equipment by \$1.0 million and increase retained earnings by approximately \$0.7 million after tax.</p>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 37: <i>Provisions, Contingent Liabilities and Contingent Assets</i>	<p>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <ul style="list-style-type: none"> <li>a) Under IFRS, provisions involving a large population of items must be evaluated using the expected value method.</li> <li>b) 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.</li> <li>c) The threshold of liability recognition relating to provisions is lower under IFRS than under Canadian GAAP.</li> <li>d) Under IFRS, the time value of money must be taken into consideration, when material.</li> <li>e) Under IFRS, contingent assets are recorded when they are virtually certain that the assets will be recovered. Under Canadian GAAP, contingent assets are not recorded until the contingency is extinguished.</li> <li>f) Under IFRS, counter claims and/or reimbursements must be reported separately in assets, when virtually certain that the assets will be recovered.</li> </ul>	<p>Findings by Difference:</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>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 39: <i>Financial Instruments</i>	<p>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <ul style="list-style-type: none"> <li>a) 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.</li> <li>b) Under Canadian GAAP, counterparty credit risk does not have to be considered when assessing hedge effectiveness. Under IFRS, counterparty credit risk must be considered.</li> <li>c) 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.</li> </ul> <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>Findings by Difference;</p> <p>Based on the Company's choice in accounting policies under Canadian GAAP, this difference does not apply at the transition date.</p> <p>Based on the Company's choice in accounting policies under Canadian GAAP, this difference does not apply at the transition date.</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>

Standards	Comparison between IFRS and Company current accounting policies	Findings
IFRS 2: <i>Share-Base payments</i>	<p>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <p>a) <u>Share based payments vesting in installments:</u></p> <p>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 an IFRS difference with Canadian GAAP.</p> <p>b) <u>Stock options: forfeiture estimates:</u></p> <p>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 options 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>Findings by Difference:</u></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>The main relevant differences between IFRS and Canadian GAAP are the following:</p> <p>a) <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>b) <u>Acquisition-related costs</u></p> <p>Under Canadian GAAP, certain acquisition-related costs are included in the purchase price, and as such increase the goodwill amount.</p> <p>Under IFRS, an acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received.</p>	<p><u>Findings by Difference:</u></p> <p><u>Contingent Considerations</u></p> <p><i>Initial Recognition:</i> This difference does not apply to the Company at the transition date 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 profit and loss.</p> <p><u>Acquisition-related costs</u></p> <p>On future acquisitions, the Company will expense such costs as incurred, unless they constitute the costs associated with issuing debt or equity securities.</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 Combinations	<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>
Fair Value or Revaluation as Deemed Cost	<p>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>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.</p>
Employee Benefits	<p>Under IFRS 1, the Company may elect to recognize in retained earnings all cumulative actuarial gains and losses at the date of transition to IFRS. The Company has elected to recognize all cumulative actuarial gains and losses in retained earnings at the date of transition to IFRS.</p> <p>As at December 30, 2009 the net amount unamortized of actuarial losses carried forward was approximately \$13.9 million before tax. This will reduce opening retained earnings by \$8.4 million after tax, reduce the accrued benefit asset by \$8.4 million, and increase pension and post-retirement benefit obligations by \$5.5 million.</p>
Cumulative Translation Differences	<p>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>In light of the nature of the election, the Company will not use this exemption and will retain the cumulative translation difference in its Balance Sheet.</p>

## Market Risks and Uncertainties

### *General Economic Conditions*

Economic conditions in 2010 remained difficult in most of the Company's markets. Unemployment remains at historically high levels and has a resultant negative 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 near 50 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 2010 in that, despite the economic situation; the Company posted good 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 Recreational / Leisure, 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. 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.

### *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.

Raw material costs continued to increase in 2010, albeit at a slower pace than the latter part of 2009. Although, resin price increases were moderate in the US, more significant increases occurred in Europe in 2010. Given the current level of oil pricing, further increases in resin prices are possible in 2011. Particleboard pricing in North America increased approximately 10% in 2010.

Container freight costs were significantly higher in 2010 relative to 2009. Container freight rates started declining in the fourth quarter of 2010. Current expectations are for stable pricing in 2011 as supply is projected to be greater than demand.

The Company's suppliers of components and finished goods experienced input cost increases in 2010. Although the majority of increases were moderate, rubber and cotton pricing escalated to record levels well above 2009 pricing. The Chinese currency ("RMB") appreciated approximately 3% in 2010 and labour costs in China continued to increase.

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. 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 generally offset one another. 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, 2010, one customer accounted for over 10% of the Company's revenues, at 31.0% of Dorel's total. In 2009, this customer accounted for 31.4% 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 self-insures 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. 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 4, 2011 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	28,434,577	\$177,018	\$ 178,810

Outstanding stock options and Deferred Share Unit items are disclosed in Note 18 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, 2010 and have concluded that those disclosure controls and procedures were appropriately designed and operating effectively 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 2010, 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, 2010 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.