

**DOREL INDUSTRIES INC.**  
CONSOLIDATED FINANCIAL STATEMENTS  
**AS AT DECEMBER 30, 2010 and 2009**

# AUDITORS' REPORT TO THE SHAREHOLDERS OF DOREL INDUSTRIES INC.

We have audited the accompanying consolidated financial statements of Dorel Industries Inc., which comprise the consolidated balance sheets as at December 30, 2010 and 2009, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Dorel Industries Inc. as at December 30, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP" with a horizontal line underneath.

KPMG LLP  
Chartered Accountants  
March 10, 2011  
Montreal, Canada

\*CA Auditor permit no 14044

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

**DOREL INDUSTRIES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 30, 2010 and 2009**  
(All figures in thousands of U.S. dollars)

	<b>As at December 30, 2010</b>	<b>As at December 30, 2009 <i>Reclassified (Note 12)</i></b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 26)	\$ 15,748	\$ 19,847
Accounts receivable (Notes 5 and 14)	359,061	349,990
Income taxes receivable	14,096	16,264
Inventories (Note 6)	510,068	399,866
Prepaid expenses	17,823	17,358
Future income taxes (Note 24)	42,444	38,042
	<u>959,240</u>	<u>841,367</u>
PROPERTY, PLANT AND EQUIPMENT (Note 7)	157,865	153,279
INTANGIBLE ASSETS (Note 8)	396,354	401,831
GOODWILL (Note 27)	554,386	569,824
OTHER ASSETS (Notes 9 and 14)	28,115	35,879
	<u>\$ 2,095,960</u>	<u>\$ 2,002,180</u>

See accompanying notes.

**DOREL INDUSTRIES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 30, 2010 and 2009**  
(All figures in thousands of U.S. dollars)

	<b>As at December 30, 2010</b>	<b>As at December 30, 2009</b>
		<i>Reclassified (Note 12)</i>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness (Notes 10 and 14)	\$ 30,515	\$ 1,987
Accounts payable and accrued liabilities (Notes 11 and 14)	370,222	339,294
Income taxes payable	12,755	26,970
Future income taxes (Note 24)	1,252	85
Current portion of long-term debt (Notes 12 and 14)	<u>10,667</u>	<u>122,508</u>
	<u>425,411</u>	<u>490,844</u>
LONG-TERM DEBT (Notes 12 and 14)	<u>319,281</u>	<u>227,075</u>
PENSION & POST-RETIREMENT BENEFIT OBLIGATIONS (Note 16)	<u>21,538</u>	<u>20,939</u>
FUTURE INCOME TAXES (Note 24)	<u>113,249</u>	<u>128,984</u>
OTHER LONG-TERM LIABILITIES (Notes 13 and 14)	<u>35,999</u>	<u>25,139</u>
<b>SHAREHOLDERS' EQUITY</b>		
CAPITAL STOCK (Note 17)	<u>178,816</u>	<u>174,816</u>
CONTRIBUTED SURPLUS	<u>23,776</u>	<u>20,311</u>
RETAINED EARNINGS	913,490	818,707
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 19)	<u>64,400</u>	<u>95,365</u>
	<u>977,890</u>	<u>914,072</u>
	<u>1,180,482</u>	<u>1,109,199</u>
	<u>\$ 2,095,960</u>	<u>\$ 2,002,180</u>

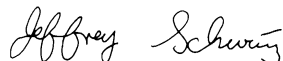
COMMITMENTS AND GUARANTEES (Note 20)

CONTINGENCIES (Note 21)

ON BEHALF OF THE BOARD



\_\_\_\_\_  
DIRECTOR



\_\_\_\_\_  
DIRECTOR

See accompanying notes.

**DOREL INDUSTRIES INC.****CONSOLIDATED STATEMENTS OF INCOME**

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

	<b>2010</b>	<b>2009</b>
Sales	\$ 2,301,393	\$ 2,125,459
Licensing and commission income	<u>11,593</u>	<u>14,655</u>
<b>TOTAL REVENUE</b>	<u><b>2,312,986</b></u>	<u><b>2,140,114</b></u>
<b>EXPENSES</b>		
Cost of sales	1,780,204	1,634,570
Selling, general and administrative expenses	328,138	316,272
Depreciation and amortization	31,373	27,366
Research and development costs	13,626	17,184
Interest (Note 23)	<u>18,927</u>	<u>16,375</u>
	<u><b>2,172,268</b></u>	<u><b>2,011,767</b></u>
Income before income taxes	140,718	128,347
Income taxes (Note 24)		
Current	20,975	24,952
Future	<u>(8,110)</u>	<u>(3,839)</u>
	12,865	21,113
<b>NET INCOME</b>	<u><b>\$ 127,853</b></u>	<u><b>\$ 107,234</b></u>
<b>EARNINGS PER SHARE (Note 25)</b>		
Basic	<u><b>\$ 3.89</b></u>	<u><b>\$ 3.23</b></u>
Diluted	<u><b>\$ 3.85</b></u>	<u><b>\$ 3.21</b></u>

See accompanying notes.

**DOREL INDUSTRIES INC.**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars)

	<b>2010</b>	<b>2009</b>
NET INCOME	\$ 127,853	\$ 107,234
OTHER COMPREHENSIVE INCOME:		
<u>Cumulative translation adjustment:</u>		
Net change in unrealized foreign currency gains (losses) on translation of net investments in self-sustaining foreign operations, net of tax of nil	(29,038)	11,331
<u>Net changes in cash flow hedges:</u>		
Net change in unrealized gains (losses) on derivatives designated as cash flow hedges	(4,415)	861
Reclassification to income or the related non financial asset	648	706
Future income taxes	1,840	(672)
	(1,927)	895
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(30,965)	12,226
COMPREHENSIVE INCOME	\$ 96,888	\$ 119,460

**DOREL INDUSTRIES INC.**

CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars)

	2010	2009
<b>CAPITAL STOCK (Note 17)</b>		
Balance, beginning of year	\$ 174,816	\$ 177,422
Issued under stock option plan	5,755	-
Reclassification from contributed surplus due to exercise of stock options	1,402	-
Repurchase and cancellation of shares	<u>(3,157)</u>	<u>(2,606)</u>
Balance, end of year	<u>178,816</u>	<u>174,816</u>
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of year	20,311	16,070
Exercise of stock options (Note 17)	(1,402)	-
Stock-based compensation (Note 18)	<u>4,867</u>	<u>4,241</u>
Balance, end of year	<u>23,776</u>	<u>20,311</u>
<b>RETAINED EARNINGS</b>		
Balance, beginning of year	818,707	738,113
Net income	127,853	107,234
Adjustment to opening retained earnings from adopting a new accounting standard for inventories, net of tax of \$1,415	-	(2,096)
Premium paid on share repurchase (Note 17)	(14,120)	(7,898)
Dividends on common shares	(18,895)	(16,614)
Dividends on deferred share units	<u>(55)</u>	<u>(32)</u>
Balance, end of year	<u>913,490</u>	<u>818,707</u>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 19)</b>		
Balance, beginning of year	95,365	83,139
Total other comprehensive income (loss)	<u>(30,965)</u>	<u>12,226</u>
Balance, end of year	<u>64,400</u>	<u>95,365</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u><u>\$ 1,180,482</u></u>	<u><u>\$ 1,109,199</u></u>

See accompanying notes.

**DOREL INDUSTRIES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009**  
(All figures in thousands of U.S. dollars)

	<b>2010</b>	<b>2009</b>
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 127,853	\$ 107,234
Items not involving cash:		
Depreciation and amortization	51,091	49,191
Amortization of deferred financing costs	324	266
Accretion expense on contingent considerations (Note 23)	2,571	-
Future income taxes	(8,110)	(3,839)
Stock-based compensation (Note 18)	4,530	3,840
Pension and post-retirement defined benefit plans (Note 16)	1,001	-
Restructuring activities	-	(721)
Loss on disposal of property, plant and equipment	1,070	886
	<u>180,330</u>	<u>156,857</u>
Net changes in non-cash balances related to operations (Note 26)	<u>(102,312)</u>	<u>47,659</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>78,018</b></u>	<u><b>204,516</b></u>
<b>FINANCING ACTIVITIES</b>		
Bank indebtedness	28,472	(3,391)
Increase of long-term debt	200,000	-
Repayments of long-term debt	(220,491)	(110,522)
Share repurchase (Note 17)	(17,277)	(10,504)
Issuance of capital stock (Note 17)	5,755	-
Dividends on common shares	(18,895)	(16,614)
	<u>(22,436)</u>	<u>(141,031)</u>
<b>CASH USED IN FINANCING ACTIVITIES</b>	<u><b>(22,436)</b></u>	<u><b>(141,031)</b></u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of businesses (Notes 4 and 26)	(220)	(21,661)
Additions to property, plant and equipment – net	(35,465)	(21,893)
Additions to intangible assets	(19,511)	(18,753)
	<u>(55,196)</u>	<u>(62,307)</u>
<b>CASH USED IN INVESTING ACTIVITIES</b>	<u><b>(55,196)</b></u>	<u><b>(62,307)</b></u>
Effect of exchange rate changes on cash and cash equivalents	(4,485)	1,703
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u><b>(4,099)</b></u>	<u><b>2,881</b></u>
Cash and cash equivalents, beginning of year	19,847	16,966
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 26)</b>	<u><b>\$ 15,748</b></u>	<u><b>\$ 19,847</b></u>

See accompanying notes.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 1 – NATURE OF OPERATIONS**

Dorel Industries Inc. (the “Company”) is a global consumer products company which designs, manufactures or sources, markets and distributes a diverse portfolio of powerful product brands, marketed through its juvenile, recreational/leisure and home furnishings segments. The principal markets for the Company’s products are the United States, Canada and Europe.

#### **NOTE 2 – BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) using the U.S. dollar as the reporting currency. The U.S. dollar is the functional currency of the Canadian parent company. Certain comparative accounts have been reclassified to conform to the 2010 financial statement presentation.

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES**

##### Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company balances and transactions have been eliminated.

##### Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant estimates and assumptions are used to evaluate the carrying values of long-lived assets, assets held for sale and goodwill, fair value measurement of financial instruments, valuation allowances for accounts receivable and inventories, accrual of product warranties, liabilities for potential litigation claims and settlements including product liability, assets and obligations related to employee pension and post-retirement benefits, the establishment of worldwide provision for income taxes including future income tax liabilities and the determination of the realizable value of future income tax assets, and the allocation of the purchase price of acquired businesses. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

##### Revenue Recognition

Sales are recognized at the fair value of the consideration received or receivable upon shipment of product and transfer of risks and rewards of ownership to the customer. 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. Provisions for customer incentives and provisions for sales and return allowances are made at the time of product shipment. Sales are reported net of these provisions and excludes sales taxes.

When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Company. Licensing and commission income is recognized based on the contract terms on an accrual basis.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid instruments with original maturities of three months or less. The carrying amounts of cash and cash equivalents are stated at cost, which approximates their fair values.

##### Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Inventory costs include the purchase price and other costs directly related to the acquisition of materials. Inventory costs also include the costs directly related to the conversion of materials to finished goods, such as direct labour, and an allocation of fixed and variable production overheads, including manufacturing depreciation expense. The allocation of fixed production overheads to the cost of inventories is based on a normal range of capacity of the production facilities. Normal capacity is the average production expected to be achieved over a number of periods under normal circumstances. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. When the circumstances that previously caused the inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down.

##### Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and/or accumulated impairment losses, if any. Capital leases where the risks and rewards of ownership are transferred to the Company are included in property, plant and equipment.

Property, plant and equipment are depreciated as follows:

	<u>Method</u>	<u>Rate</u>
Buildings and improvements	Straight-line	40 years
Machinery and equipment	Declining balance	15%
Moulds	Straight-line	3 to 5 years
Furniture and fixtures	Declining balance	20%
Vehicles	Declining balance	30%
Computer equipment	Declining balance	30%
Leasehold improvements	Straight-line	Over the lesser of the useful life and the term of the lease

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### Property, Plant and Equipment (Cont'd)

The capitalized value of depreciable assets under capital leases is amortized over the period of expected use, on a basis that is consistent with the above depreciation methods and rates, if the lease contains terms that allow ownership to pass to the Company or contains a bargain purchase option. Otherwise, the asset is amortized over the lease term. Assets not in service include expenditures incurred to date for plant expansions which are still in process, and property, plant and equipment not yet in service as at the balance sheet date. Depreciation of assets not in service begins when they are ready for their intended use.

The property, plant and equipment's residual values and useful lives are reviewed at each financial year end, and adjusted prospectively, if appropriate.

##### Intangible Assets

Intangible assets are recorded at cost:

###### *Trademarks*

Trademarks acquired as part of business acquisitions and registered trademarks are considered to have an indefinite life and are therefore not subject to amortization. They are tested annually for impairment or more frequently when events or changes in circumstances indicate that the trademarks might be impaired. The impairment test compares the carrying amount of the trademarks with its fair value.

###### *Customer Relationships*

Customer relationships acquired as part of business acquisitions are amortized on a straight-line basis over a period of 15 to 25 years.

###### *Supplier Relationship*

Supplier relationship acquired as part of a business acquisition is amortized on a straight-line basis over a period of 10 years.

###### *Patents*

Patents are amortized on a straight-line basis over their expected useful lives ranging from 4 years to 18 years.

###### *Non-Compete Agreement*

Non-compete agreement acquired as part of a business acquisition is amortized on a straight-line basis over a period of four years being the period of time the non-compete agreement is in place.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### Intangible Assets (Cont'd)

###### *Software Licence*

Software licence is amortized on a straight-line basis over its expected useful live of 10 years.

###### *Research and Development Costs*

The Company incurs costs on activities which relate to research and development of new products. Research costs are expensed as they are incurred. Development costs are also expensed as incurred unless they meet specific criteria related to technical, market and financial feasibility. Deferred development costs are amortized on a straight-line basis over a period of two years or expensed if capitalized projects are not completed.

##### Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair values assigned to identifiable net assets acquired. Goodwill, which is not amortized, is tested for impairment annually or more frequently when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount.

A two-step impairment test is used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized, if any. The fair value of a reporting unit is first compared with its carrying amount, including goodwill, in order to identify a potential impairment. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. When the carrying amount of a reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill is then compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The fair value of a reporting unit is calculated based on discounted future net cash flows or valuations based on a market approach. When the carrying amount of a reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

##### Impairment or Disposal of Long-Lived Assets

The Company reviews its long-lived assets, consisting of property, plant and equipment and amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future net cash flows resulting from the use of the assets and its eventual disposition. The amount of the impairment loss recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value, with fair value being determined based upon discounted future net cash flows or appraised values, depending on the nature of the assets. Such evaluations for impairment are significantly affected by estimates of future prices for the Company's product, economic trends in the market and other factors. Quoted market values are used whenever available to estimate fair value. When quoted market values are unavailable, the fair value of the long-lived asset is generally based on estimates of discounted expected net cash flows. Assets held for sale are reflected at the lower of their carrying amount or fair values less cost to sell and are not depreciated while classified as held for sale. Assets held for sale are included in other assets on the balance sheet.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### Costs relating to revolving credit facility

The Company incurred certain costs related to the revolving credit facility. These deferred charges are recorded at cost less accumulated amortization. These amounts are amortized as interest expense on a straight-line basis over the term or life of the related debt. The deferred charges are included in other assets on the balance sheet.

##### Foreign Currency

The assets and liabilities of self-sustaining foreign operations, whose functional currency is other than the U.S. dollar, are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates for the period. Differences arising from the exchange rate changes are included in the accumulated other comprehensive income (AOCI) component of shareholders' equity. If there is a reduction in the Company's permanent investment in a self-sustaining foreign operation, the relevant portion of AOCI is recognized in Selling, general and administrative expenses.

Income and expenses in foreign currencies are translated to the respective functional currency of the entity at the average exchange rates for the period. The monetary items denominated in currencies other than the functional currency of an entity are translated at the exchange rates prevailing at the balance sheet date and translation gains and losses are included in income. Non-monetary items are translated at historical rates.

##### Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Company mainly comprise cash and cash equivalents, foreign exchange contracts and interest rate swaps with a positive fair value, accounts receivable – trade, accounts receivable – other. Financial liabilities of the Company mainly comprises foreign exchange contracts and interest rate swaps with a negative fair value, bank indebtedness, accounts payable and accrued liabilities, long-term debt, other long-term liabilities and balance of sale payable.

All financial instruments, including derivatives, are included in the consolidated balance sheet when the Company becomes a party to the contractual obligations of the instrument. Except for those incurred on the revolving credit facility, transaction costs are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settles the liabilities simultaneously.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### Financial Instruments (Cont'd)

###### *Financial assets*

Financial assets are classified into one of the following categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge. Financial instruments are initially and subsequently measured at fair value with the exception of loans and receivables and investments held-to-maturity which are subsequently measured at amortized cost using the effective interest rate method, less impairment. Subsequent recognition of changes in fair value of financial instruments re-measured each reporting date at fair value depend on their initial classification. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Held for trading assets are measured at fair value with all gains and losses included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with gains and losses included in other comprehensive income until the asset is removed from the balance sheet or until impaired.

Financial assets are derecognized when the Company's rights to cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them.

###### *Financial liabilities*

Financial liabilities are classified into one of the following categories: held for trading, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Held for trading financial liabilities are measured at fair value with all gains and losses included in net income in the period in which they arise.

Financial liabilities are derecognized when the obligation under the liabilities are discharged or cancelled or expired or replaced by a new liability with substantially modified terms.

The Company has classified its cash and cash equivalents as held for trading. Accounts receivable are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, long-term debt, other long-term liabilities and balance of sale payable are classified as other financial liabilities, all of which are measured at amortized cost. Derivative financial instruments are either classified as held for trading if they are not designated as hedging instruments in hedge relationships or as derivatives designated as hedging instruments in an effective hedge.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

##### Financial Instruments (Cont'd)

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

- Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.
- Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.
- Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

When the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

##### Derivative Financial Instruments and hedge accounting

Derivative financial instruments are recorded as either assets or liabilities and are measured at their fair value unless exempted from derivative treatment as a normal purchase or sale. Certain derivatives embedded in other contracts must also be separated from the main contract and measured at fair value. All changes in the fair value of derivatives are recognized in income unless specific hedge criteria are met, which requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Derivatives that qualify as hedging instruments must be designated as either a "cash flow hedge", when the hedged item is a future cash flow, or a "fair value hedge", when the hedged item is a recognized asset or liability. For derivative financial instruments designated as cash flow hedges, the effective portion of changes in their fair value is recognized in Other Comprehensive Income in the consolidated statement of comprehensive income. Any ineffectiveness within a cash flow hedge is recognized in income as it arises in the same consolidated income (loss) statement account as the hedged item when realized. Should a cash flow hedging relationship become ineffective or the hedging relationship be terminated, previously unrealized gains and losses remain within Accumulated Other Comprehensive Income until the hedged item is settled and future changes in value of the derivative are recognized in income prospectively. When the hedged item settles, amounts recognized in Accumulated Other Comprehensive Income are reclassified to the same income (loss) statement account or reclassified to the related non-financial asset in which the hedged item is recorded. If the hedged item ceases to exist before the hedging instrument expires, the unrealized gains or losses within Accumulated Other Comprehensive Income are immediately reclassified to income. For a fair value hedge, both the derivative and the hedged item are recorded at fair value in the consolidated balance sheet. The gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income. Any derivative instrument that does not qualify for hedge accounting is marked-to-market at each reporting date and the gains or losses are included in income.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### Derivative Financial Instruments and hedge accounting (Cont'd)

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposures and interest-rate market risks and are classified as held for trading unless they are designated as hedging instruments in an effective hedge for which hedge accounting is applied. These 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 foreign currency cash flows and interest payments. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. To meet its objective, the Company uses foreign exchange contracts, including futures, forwards, options and interest rate swap agreements.

The Company uses 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. The Company has also designated some foreign exchange contracts as cash flow hedges for which it uses hedge accounting.

When it utilizes derivatives in hedge accounting relationships, the Company formally documents all of its eligible hedging relationships. This process involves associating all derivatives to specific assets and liabilities on the balance sheet or with forecasted or probable transactions. The Company also formally measures the effectiveness of hedging relationships at inception and on an on-going basis.

##### Pension Plans and Post-Retirement Benefits

###### *Pension Plans:*

The Company maintains defined benefit plans and defined contribution plans for their employees. Pension benefit obligations under the defined benefit plans are determined annually by independent actuaries using management's assumptions and the accumulated benefit method for plans where future salary levels do not affect the amount of employee future benefits and the projected benefit method for plans where future salaries or cost escalation affect the amount of employee future benefits. The plans provide benefits based on a defined benefit amount and length of service. Management's assumptions consist mainly of best estimate of future salary levels, retirement age of employees, mortality and other actuarial factors.

Plan assets are measured at fair value. Actuarial gains or losses arise from the differences between the actual and expected long-term rate of return on plan assets for a period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period. The average remaining service period of active employees covered by all pension plans is 12 years. Prior service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### Pension Plans and Post-Retirement Benefits (Cont'd)

###### *Pension Plans (Cont'd):*

Pension expense consists of the following:

- the cost of pension benefits provided in exchange for employees' services rendered in the period;
- interest on the actuarial present value of accrued pension benefits less earnings on pension fund assets;
- amounts which represent the amortization of the unrecognized net pension assets that arose when accounting policies were first applied and prior service costs and amendments, and subsequent gains or losses arising from changes in actuarial assumptions, and experience gains or losses related to return on assets, amortized on a straight-line basis over the expected average remaining service life of the employee group.
- Gains or losses on settlements or curtailments

###### *Post-Retirement Benefits Other Than Pensions:*

Post-retirement benefits other than pensions include health care and life insurance benefits for retired employees. The costs of providing these benefits are accrued over the working lives of employees in a manner similar to pension costs. Actuarial gains or losses are treated in a similar manner to those relating to pension plans. The average remaining service period of employees covered by the post-retirement benefit plan is 5 years.

Significant elements in determining the assets or liabilities and related income or expense for these plans are the expected return on plan assets, the discount rate used to value future payment streams, expected trends in health care costs, and other actuarial assumptions. Annually, the Company evaluates the significant assumptions to be used to value its pension and post-retirement plan assets and liabilities based on current market conditions and expectations of future costs.

##### Future Income Taxes

Income taxes expense comprises current and future income taxes. Current and future income taxes are recognized in income except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income.

Current income taxes is the expected tax payable or receivable on the taxable income or loss for the year using enacted or substantively enacted income tax rates at the reporting date and any adjustment to tax payable or receivable of previous years.

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.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### Future Income Taxes (Cont'd)

Future tax assets and future tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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.

##### Stock-Based Compensation and other stock-based payments

A description of the stock-based compensation and other stock-based payments offered by the Company is included in Note 18 to these financial statements.

The Company recognizes as an expense, all stock options granted, modified or settled to its employees using the fair value based method. Stock option awards to employees are measured based on the fair value of the options at the grant date and a compensation expense is recognized over the vesting period of the options, with a corresponding increase to contributed surplus. The fair value of these options is measured using a Black-Scholes option pricing model. When the stock options are exercised, capital stock is credited by the sum of the consideration paid, together with the related portion previously recorded to contributed surplus.

For the Deferred Share Unit Plan offered to its external directors, the Company records an expense with a corresponding increase to contributed surplus when the units are granted which is the date the remuneration is to be paid. The amount corresponds to its directors' fees and fees for attending meeting of the Board of Directors or committees.

For the Executive Deferred Share Unit Plan offered to its executive officers, the Company records an increase to contributed surplus when the units are granted which is on the last business day of each month of the Company's fiscal year in the case of salary and on the date on which the bonus is, or would otherwise be, paid to the participant in the case of bonus. The amount corresponds to the portion of salary or bonus elected to be paid in the form of deferred share units.

##### 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 periodically its recorded product warranty provisions and any adjustment is recorded in cost of sales.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### Guarantees

In the normal course of business, the Company enters into various agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract that contingently requires the Company to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, index of prices or rates, or other variable, including the occurrence or non-occurrence of a specified event (such as a scheduled payment under a contract), that is related to an asset, a liability or an equity security of the guaranteed party, (ii) failure of another party to perform under an obligating agreement, or (iii) failure of another party to pay its indebtedness when due. The stand-by portion of the guarantees is initially measured at fair value. The contingent portion of the guarantee is recorded when the Company considers it probable that a payment relating to the guarantee has to be made to the other party of the contract or agreement. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

##### Future Accounting Changes

###### *International Financial Reporting Standards (IFRS)*

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 adopt 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 to early adopt IFRS and is issuing its last financial statements prepared in accordance with Canadian GAAP for the year ended December 30, 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*.

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

The Company has completed the diagnostic phase, which involved developing an IFRS transition plan based on the results of a high-level preliminary assessment of the differences between IFRS and the Company's current accounting policies. This assessment has provided insight into the most significant areas of potential impact to the Company including, but not limited to, property, plant and equipment, leases, goodwill and intangible assets, provisions, employee benefits, foreign exchange, income taxes and financial instruments.

The Company has further completed the design and development phase. This included establishing a core project team with a mandate to oversee the transition process, including any impacts on financial reporting, business processes, internal controls and information systems. Regular reporting is provided by the project team to senior management and to the Audit Committee of the Board of Directors.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Future Accounting Changes (Cont'd)

*International Financial Reporting Standards (IFRS) (Cont'd)*

The Company is now in the implementation phase. The Company has selected its accounting policy choices and IFRS 1 exemptions. Impacts on business processes and systems, including those relating to internal controls over financial reporting and disclosure controls and procedures, have been identified on related choices and exemptions.

**NOTE 4 – BUSINESS ACQUISITION**

***Hot Wheels and Circle Bikes***

On October 1<sup>st</sup>, 2009, the Company acquired certain assets of UK-based Hot Wheels and Circle Bikes for \$15,574 (GBP 9,765), a UK preeminent distributor of the Mongoose and GT brands. As part of the acquisition agreement, additional consideration is contingent upon a formulaic variable price based mainly on future earnings results of the acquired business up to the year ended December 30, 2012. The allocation of the cost of this purchase includes an estimate of the contingent consideration of \$7,496 and this estimate is recorded as a financial liability within other long-term liabilities.

The acquisition has been recorded under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition. The goodwill is deductible for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 27.

The allocation of the purchase price of the assets acquired and the liabilities assumed is as follows:

<hr/> <hr/>	
<b>Assets</b>	
Cash and cash equivalents	\$ 290
Accounts receivable	2,666
Inventories	1,738
Prepaid expenses	86
Property, plant and equipment	155
Trademarks	766
Customer relationships	5,941
Non-Compete agreement	694
Goodwill	4,063
	<hr/>
	16,399
	<hr/>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	692
Other long-term liabilities	133
	<hr/>
	825
	<hr/>
Net assets acquired	\$ 15,574
	<hr/> <hr/>

**DOREL INDUSTRIES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 5 – ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

	December 30,	
	2010	2009
Trade accounts receivable	\$ 408,163	\$ 394,735
Allowance for anticipated credits	(56,869)	(53,298)
Allowance for doubtful accounts	(10,364)	(13,554)
	<u>340,930</u>	<u>327,883</u>
Foreign exchange contracts	2,554	1,411
Other receivables	15,577	20,696
	<u>\$ 359,061</u>	<u>\$ 349,990</u>

The Company's exposure to credit and foreign exchange risks, and impairment losses related to accounts receivables, is disclosed in Note 14.

**NOTE 6 – INVENTORIES**

Inventories consist of the following:

	December 30,	
	2010	2009
Raw materials	\$ 101,544	\$ 77,994
Work in process	10,812	6,290
Finished goods	397,712	315,582
	<u>\$ 510,068</u>	<u>\$ 399,866</u>

During the year ended December 30, 2010, the Company recorded in cost of sales \$14,209 (2009 – \$13,159) of write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed (2009 – \$nil). The cost of inventories recognized as an expense and included in cost of sales for the year ended December 30, 2010 was \$1,706,517 (2009 – \$1,545,281)

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

	<b>December 30, 2010</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Land	\$ 11,599	\$ –	\$ 11,599
Buildings and improvements	73,574	17,424	56,150
Machinery and equipment	76,688	47,867	28,821
Moulds	104,237	80,251	23,986
Furniture and fixtures	9,142	6,066	3,076
Computer equipment	38,600	27,564	11,036
Leasehold improvements	15,336	7,502	7,834
Assets not in service	13,051	–	13,051
Assets under capital leases	5,658	4,390	1,268
Vehicles	<u>2,709</u>	<u>1,665</u>	<u>1,044</u>
	<u>\$ 350,594</u>	<u>\$ 192,729</u>	<u>\$ 157,865</u>

	<b>December 30, 2009</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Land	\$ 14,483	\$ –	\$ 14,483
Buildings and improvements	70,536	15,471	55,065
Machinery and equipment	71,294	44,304	26,990
Moulds	101,302	71,829	29,473
Furniture and fixtures	8,003	5,731	2,272
Computer equipment	35,360	23,633	11,727
Leasehold improvements	9,962	6,409	3,553
Assets not in service	7,888	–	7,888
Assets under capital leases	5,427	4,210	1,217
Vehicles	<u>1,789</u>	<u>1,178</u>	<u>611</u>
	<u>\$ 326,044</u>	<u>\$ 172,765</u>	<u>\$ 153,279</u>

**DOREL INDUSTRIES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

Assets not in service consist of the following major categories:

	December 30,	
	2010	2009
Buildings and improvements	\$ 83	\$ 313
Machinery and equipment	2,297	1,586
Moulds	8,909	4,099
Computer equipment	1,762	1,890
	<u>\$ 13,051</u>	<u>\$ 7,888</u>

Depreciation of property, plant and equipment amounted to \$27,722 (2009 – \$28,585).

**NOTE 8 – INTANGIBLE ASSETS**

	December 30, 2010		
	Cost	Accumulated Amortization	Net
Trademarks	\$ 276,236	\$ –	\$ 276,236
Customer relationships	101,310	24,206	77,104
Supplier relationship	1,500	375	1,125
Patents	25,969	16,065	9,904
Non-compete agreement	679	212	467
Software licence	1,977	242	1,735
Deferred development costs	52,336	22,553	29,783
	<u>\$ 460,007</u>	<u>\$ 63,653</u>	<u>\$ 396,354</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 8 – INTANGIBLE ASSETS (Cont'd)**

	<b>December 30, 2009</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trademarks	\$ 280,723	\$ –	\$ 280,723
Customer relationships	98,147	19,826	78,321
Supplier relationship	1,500	225	1,275
Patents	24,775	14,962	9,813
Software licence	754	75	679
Deferred development costs	<u>50,062</u>	<u>19,042</u>	<u>31,020</u>
	<u>\$ 455,961</u>	<u>\$ 54,130</u>	<u>\$ 401,831</u>

The following table presents the aggregate amount of intangible assets that were acquired or internally developed during the period:

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Acquired	\$ 1,347	\$ 2,182
Internally developed	<u>16,545</u>	<u>16,561</u>
	<u>\$ 17,892</u>	<u>\$ 18,743</u>

Amortization of intangible assets was as follows:

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Customer relationships	\$ 5,098	\$ 4,883
Supplier relationship	163	150
Patents	1,502	1,556
Non-Compete agreement	215	–
Software licence	167	75
Deferred development costs	<u>16,224</u>	<u>13,942</u>
	<u>\$ 23,369</u>	<u>\$ 20,606</u>

**DOREL INDUSTRIES INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 9 – OTHER ASSETS**

Other assets consist of the following:

	December 30,	
	2010	2009
Accrued benefit asset (Note 16)	\$ 7,580	\$ 8,390
Long-term future income tax assets (Note 24)	18,320	25,345
Interest rate swaps	–	1,476
Costs relating to revolving credit facility (1)	1,622	51
Assets held for sale	–	46
Other	593	571
	<u>\$ 28,115</u>	<u>\$ 35,879</u>

(1) The amortization of financing costs related to the revolving credit facility included in interest on long-term debt expense is \$289 (2009 – \$214).

**NOTE 10 – BANK INDEBTEDNESS**

The average interest rates on the outstanding borrowings as at December 30, 2010 and 2009 were 4.44% and 4.21% respectively. As at December 30, 2010, the Company had available bank lines of credit amounting to approximately \$110,243 (2009 – \$57,420) of which \$30,515 (2009 – \$1,987) have been used. These borrowings are renegotiated annually.

**NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 30,	
	2010	2009
Trade creditors and accruals	\$ 276,975	\$ 248,850
Salaries payable	34,287	31,398
Product liability (Note 22)	23,621	25,480
Product warranties	14,910	15,579
Foreign exchange contracts	3,298	395
Interest rate swaps	906	790
Balance of sale	–	220
Other accrued liabilities	16,225	16,582
	<u>\$ 370,222</u>	<u>\$ 339,294</u>

The Company's exposure to credit and foreign exchange risks is disclosed in Note 14.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 12 – LONG-TERM DEBT**

	December 30,	
	2010	2009 <i>Reclassified</i>
<u>Series "A" Senior Guaranteed Notes (1)</u>		
Bearing interest at 4.24% per annum to be repaid on April 6, 2015	\$ 50,000	\$ –
<u>Series "B" Senior Guaranteed Notes (1)</u>		
Bearing interest at 5.14% per annum with principal repayments as follows:	150,000	–
2 annual instalments of \$13,000 ending in April 2014		
1 annual instalment of \$7,500 ending in April 2015		
5 annual instalments of \$23,300 ending in April 2020		
<u>Series "A" Senior Guaranteed Notes (1)</u>		
Bearing interest at 6.80 % per annum with principal repayments as follows:	26,500	\$ 36,500
1 annual instalment of \$10,000 ending in July 2011		
1 final instalment of \$16,500 in July 2012		
<u>Series "B" Senior Guaranteed Notes (1)</u>		
Bearing interest at 5.63% per annum repaid in February 2010	–	55,000
<u>Revolving Bank Loans (3)</u>		
Bearing interest at various rates per annum, averaging 2.35% (2009 – 2.2%) based on LIBOR, Euribor or U.S. bank rates, total availability of \$300,000, (2009 – \$475,000) due to mature in July 2013. This agreement also includes an accordion feature allowing the company to have access to an additional amount of \$200,000 (2009 – \$50,000) on a revolving basis.	102,712	257,000
Obligations under capital leases	1,379	1,155
Less unamortized financing costs (2)	<u>(643)</u>	<u>(72)</u>
	329,948	349,583
Current Portion	<u>(10,667)</u>	<u>(122,508)</u>
	<u>\$ 319,281</u>	<u>\$ 227,075</u>

(1) Interest and principal payments are guaranteed by certain subsidiaries.

(2) The amortization of financing costs related to the long-term debt included in interest on long-term debt expense is \$35 (2009 – \$52).

(3) Subsequent to December 30, 2009, effective April 6, 2010, the Company issued \$50,000 of Series "A" Senior Guaranteed Notes and \$150,000 of Series "B" Senior Guaranteed Notes, bearing interest at 4.24% and 5.14%, respectively. As a result of the issuance of the Senior Guaranteed Notes for an aggregate of \$200,000, the Company reclassified as at December 30, 2009 \$200,000 from the current portion of long-term debt to long-term debt.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 12 – LONG-TERM DEBT (Cont'd)**

The aggregate repayments in subsequent years of existing long-term debt will be:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2011	\$ 10,667
2012	16,971
2013	115,807
2014	12,976
2015	57,458
Thereafter	<u>116,069</u>
	\$ <u>329,948</u>

**NOTE 13 – OTHER LONG-TERM LIABILITIES**

---

---

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Employee compensation	\$ 4,304	\$ 4,725
Interest rate swaps	550	–
Contingent considerations (Notes 4 and 27)	28,002	18,895
Other	<u>3,143</u>	<u>1,519</u>
	<u>\$ 35,999</u>	<u>\$ 25,139</u>

---

---

Employee compensation consists of bonuses based on length of service and profit sharing offered by one of the Company's subsidiaries.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration meets the definition of a derivative and thus financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting performance target and the discount factor.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### NOTE 13 – OTHER LONG-TERM LIABILITIES (Cont'd)

##### *IGC (Australia) Pty Ltd*

As part of the acquisition, the Company entered into a put and call agreement with the minority interest holder for the purchase of its 45% stake in IGC. Under the terms of this agreement, if specified earnings objectives were not met at the end of 2008 and at the end of each subsequent year until the option is exercised, Dorel has an option to buy this 45% minority interest (the call option) at a formulaic variable price based mainly on earnings levels in future periods (the "exit price"). Similarly, the holder of the minority interest has an option to sell his 45% stake in IGC to Dorel (the put option) for the same variable exit price if a certain earnings target was reached in 2008 or at the end of any subsequent year until the option is exercised. In addition, following December 31, 2012, the minority interest holder has the right to sell its 45% stake in IGC to Dorel at any time for the same terms. The agreement does not include a specified minimum amount of contingent consideration. Under the liability method of accounting, the put and call agreement is reflected in the consolidated financial statements as follows:

- (i) The put and call agreement is considered to have been fully executed at the time of acquisition, resulting in the purchase by Dorel of a further 45% interest in IGC. As a result, Dorel has consolidated 100% of IGC at the inception of this agreement.
- (ii) When the contingency is re-valued until the put or call option is exercised, the value of the exit price is determined and recorded as a financial liability and changes in fair value are recognized as an additional element of the purchase price which impacts goodwill. The financial liability amounts to \$11,609 as at December 30, 2010 (2009 – \$12,715) and is presented in other long-term liabilities and an amount of \$4,024 has been recorded as a reduction in goodwill (2009 – \$11,464) which has been reflected in Note 27 of these financial statements.

##### *Hot Wheels and Circle Bikes*

As part of the acquisition agreement, additional consideration is contingent upon a formulaic variable price based mainly on future earnings results of the acquired business up to the year ended December 30, 2012. The allocation of the cost of this purchase included an estimate of the contingent consideration of \$7,496 (Note 4) and this estimate is recorded as a financial liability within other long-term liabilities. For each subsequent year until the contingent consideration is resolved, the changes in fair value are recognized as an additional element of the purchase price which impact goodwill. The financial liability amounts to \$7,060 as at December 30, 2010 (2009 – \$2,572) and an amount of \$4,104 has been recorded as an increase in goodwill (2009 – \$2,572) which has been reflected in Note 27 of these financial statements.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 13 – OTHER LONG-TERM LIABILITIES (Cont'd)**

##### *Companhia Dorel Brasil Produtos Infantis (Dorel Brazil)*

As part of the shareholder agreement, the Company entered into a put and call agreement with the minority interest holder for the purchase of its 30% stake in Dorel Brazil. Under the terms of this agreement, if specified earnings objectives were not met at the end of 2010 and at the end of each subsequent year until the option is exercised, Dorel has an option to buy this 30% minority interest (the call option) at a formulaic variable price based mainly on earnings levels in future periods (the "exit price"). Similarly, the holder of the minority interest has an option to sell his 30% stake in Dorel Brazil following the fiscal year ending in 2013 (the put option) for the same variable exit price. The agreement does not include a specified minimum amount of contingent consideration. Under the liability method of accounting, the put and call agreement is reflected in the consolidated financial statements as follows:

- (iii) The put and call agreement is considered to have been fully executed at the time the shareholders' agreement was put in place, resulting in the purchase by Dorel of a further 30% interest in Dorel Brazil. As a result, Dorel has consolidated 100% of Dorel Brazil at the inception of this agreement.
- (iv) When the contingency is re-valued until the put or call option is exercised, the value of the exit price is determined and recorded as a financial liability and changes in fair value are recognized as an adjustment to goodwill. The financial liability amounts to \$9,333 as at December 30, 2010 (2009 – \$3,608) and is presented in other long-term liabilities and an amount of \$4,144 has been recorded as an increase in goodwill (2009 – \$2,119) which has been reflected in Note 27 of these financial statements.

The Company's exposure to credit and interest rate risks related to other long-term liabilities is disclosed in Note 14. Refer to Note 27 for the continuity of goodwill by industry segment.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS**

Financial instruments – carrying values and fair values

The fair value of financial assets and liabilities, together with the carrying amounts included in the consolidated balance sheet, are as follows:

	December 30, 2010		December 30, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Financial assets</u>				
Held for trading financial assets:				
Cash and cash equivalents	\$ 15,748	\$ 15,748	\$ 19,847	\$ 19,847
Foreign exchange contracts included in accounts receivable	\$ —	\$ —	\$ 533	\$ 533
Loans and receivables:				
Accounts receivable – trade	\$ 340,930	\$ 340,930	\$ 327,883	\$ 327,883
Accounts receivable - other	\$ 15,577	\$ 15,577	\$ 20,696	\$ 20,696
Derivatives designated as cash flow hedges:				
Interest rate swaps included in other assets	\$ —	\$ —	\$ 1,476	\$ 1,476
Foreign exchange contracts included in accounts receivable	\$ 2,554	\$ 2,554	\$ 878	\$ 878
<u>Financial liabilities</u>				
Held for trading financial liabilities:				
Foreign exchange contracts included in accounts payable and accrued liabilities	\$ —	\$ —	\$ 395	\$ 395
Other liabilities:				
Bank indebtedness	\$ 30,515	\$ 30,515	\$ 1,987	\$ 1,987
Accounts payable and accrued liabilities	\$ 366,018	\$ 366,018	\$ 337,889	\$ 337,889
Long-term debt – bearing interest at variable rates:				
Revolving Bank Loans	\$ 102,712	\$ 102,712	\$ 257,000	\$ 257,000
Long-term debt – bearing interest at fixed rates	\$ 227,236	\$ 227,480	\$ 92,583	\$ 95,536
Other long-term liabilities	\$ 35,449	\$ 35,449	\$ 25,139	\$ 25,139
Balance of sale payable	\$ —	\$ —	\$ 220	\$ 220
Derivatives designated as cash flow hedges:				
Foreign exchange contracts included in accounts payable and accrued liabilities	\$ 3,298	\$ 3,298	\$ —	\$ —
Interest rate swaps included in accounts payable and accrued liabilities	\$ 906	\$ 906	\$ 790	\$ 790
Interest rate swaps included in other long-term liabilities	\$ 550	\$ 550	\$ —	\$ —

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)**

Financial instruments – carrying values and fair values (Cont'd)

The Company has determined that the fair value of its short-term financial assets and liabilities approximates their respective carrying amounts as at the balance sheet dates because of the short-term nature of those financial instruments. For long-term debt bearing interest at variable rates, the fair value is considered to approximate the carrying amount. For long-term debt bearing interest at fixed rates, the fair value is estimated based on discounting expected future cash flows at the discount rates which represent borrowing rates presently available to the Company for loans with similar terms and maturity. As at December 30, 2010 and 2009, the fair value of the other long-term liabilities are comparable to their carrying value since the majority of the amount is recorded based on discounted future cash outflows. The fair value of cash and cash equivalents was measured using Level 2 inputs in the fair value hierarchy. The fair value of the foreign exchange contracts and the interest rate swaps were measured using Level 2 inputs in the fair value hierarchy.

The fair value of foreign exchange contracts is measured using a generally accepted valuation technique which is the discounted value of the difference between the contract's value at maturity based on the foreign exchange rate set out in the contract and the contract's value at maturity based on the foreign exchange rate that the counterparty would use if it were to renegotiate the same contract at today's date under the same conditions. The Company's or the counterparty's credit risk is also taken into consideration in determining fair value.

The fair value of interest rate swaps is measured using a generally accepted valuation technique which is the discounted value of the difference between the value of the swap based on variable interest rates (estimated using the yield curve for anticipated interest rates) and the value of the swap based on the swap's fixed interest rate. The counterparty's credit risk is also taken into consideration in determining fair value.

Foreign exchange gains (losses)

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Gains (losses) relating to financial assets and liabilities, excluding foreign exchange contracts	\$ (5,339)	\$ 5,377
Gains (losses) relating to foreign exchange contracts, including amounts realized on contract maturity and changes in fair value of open positions for the foreign exchange contracts for which the Company does not apply hedge accounting	3,325	(5,154)
Foreign exchange gains (losses) relating to financial instruments	(2,014)	223
Other foreign exchange gains (losses)	55	(76)
Foreign exchange gains (losses) recognized in net income	\$ (1,959)	\$ 147

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### **NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)**

##### Management of risks arising from financial instruments

In the normal course of business, the Company is subject to various risks relating to foreign exchange, interest rate, credit and liquidity. The Company manages these risk exposures on an ongoing basis. In order to limit the effects of changes in foreign exchange rates on its revenues, expenses and its cash flows, the Company can avail itself of various derivative financial instruments. The Company's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience. The following analysis provides a measurement of risks.

##### *Foreign Exchange Risk*

In order to mitigate the foreign exchange risks, the Company uses from time to time various derivative financial instruments such as options, futures and forward contracts to hedge against adverse fluctuations in currency rates. The Company's main source of foreign exchange rate risk resides in sales and purchases of goods denominated in currencies other than the functional currency of each of Dorel's entities. For the Company's transactions denominated in currencies other than the functional currency of each of Dorel's entities, fluctuations in the respective exchange rates relative to the functional currency of each of Dorel's entities will create volatility in the Company's cash flows and in the reported amounts in its consolidated statement of income. The Company's financial debt mainly consists of notes issued in U.S. dollars, for which no foreign currency hedging is required. Short-term lines of credit and overdrafts commonly used by Dorel's entities 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. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in currencies other than the functional currency of each of Dorel's entities at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain and loss in the statement of income.

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 with respect to the amount and timing of forecasted transactions. The terms of the currency derivatives ranges from one to twelve months. Dorel does not hold or use derivative financial instruments for trading or speculative purposes.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)**

*Foreign Exchange Risk (Cont'd)*

The following tables provide an indication of the Company's significant foreign currency exposures during the years ended December 30, 2010 and 2009, including the period end balances of financial and monetary assets and liabilities denominated in currencies other than the functional currency of each of Dorel's entities, as well as the amount of revenue and operating expenses during the period that were denominated in foreign currencies other than the functional currency of each of Dorel's entities. The tables below do not consider the effect of foreign exchange contracts.

<b>December 30, 2010</b>					
	<b>US</b>	<b>CAD</b>	<b>Euro</b>	<b>GBP</b>	<b>AUD</b>
Cash and cash equivalents	\$ 375	\$ 468	\$ 362	\$ 1,375	\$ –
Accounts receivable	823	27,857	2,189	347	2,625
Accounts payable and accrued liabilities	(27,850)	(16,283)	(7,122)	(6)	(142)
Inter-company loans	2,943	27	(468)	–	11,776
<b>Balance sheet exposure excluding financial derivatives</b>	<b><u>\$ (23,709)</u></b>	<b><u>\$ 12,069</u></b>	<b><u>\$ (5,039)</u></b>	<b><u>\$ 1,716</u></b>	<b><u>\$ 14,259</u></b>

<b>December 30, 2009</b>					
	<b>US</b>	<b>CAD</b>	<b>Euro</b>	<b>GBP</b>	<b>AUD</b>
Cash and cash equivalents	\$ 887	\$ 1,016	\$ 253	\$ –	\$ –
Accounts receivable	1,909	20,471	1,748	2,450	4,369
Accounts payable and accrued liabilities	(29,917)	(18,138)	(6,460)	(400)	–
Inter-company loans	–	–	–	–	8,817
<b>Balance sheet exposure excluding financial derivatives</b>	<b><u>\$ (27,121)</u></b>	<b><u>\$ 3,349</u></b>	<b><u>\$ (4,459)</u></b>	<b><u>\$ 2,050</u></b>	<b><u>\$ 13,186</u></b>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)**

*Foreign Exchange Risk (Cont'd)*

December 30, 2010					
	US	CAD	Euro	GBP	AUD
Revenue	\$ 11,541	\$ 126,413	\$ 13,322	\$ 2,206	\$ 1,759
Expenses	<u>232,111</u>	<u>130,144</u>	<u>38,891</u>	<u>75</u>	<u>823</u>
<b>Net exposure</b>	<u>\$ (220,570)</u>	<u>\$ (3,731)</u>	<u>\$ (25,569)</u>	<u>\$ 2,131</u>	<u>\$ 936</u>

December 30, 2009					
	US	CAD	Euro	GBP	AUD
Revenue	\$ 9,610	\$ 105,507	\$ 12,346	\$ 11,567	\$ 6,349
Expenses	<u>179,016</u>	<u>111,888</u>	<u>15,242</u>	<u>459</u>	<u>800</u>
<b>Net exposure</b>	<u>\$ (169,406)</u>	<u>\$ (6,381)</u>	<u>\$ (2,896)</u>	<u>\$ 11,108</u>	<u>\$ 5,549</u>

The following table summarizes the Company's derivative financial instruments relating to commitments to buy and sell foreign currencies through options, futures and forward foreign exchange contracts as at December 30, 2010 and 2009:

	December 30,			December 30,		
	<u>Average</u> <u>rate</u> (1)	<u>2010</u> <u>Notional</u> <u>amount</u> (2)	<u>Fair</u> <u>value</u>	<u>Average</u> <u>rate</u> (1)	<u>2009</u> <u>Notional</u> <u>amount</u> (2)	<u>Fair</u> <u>value</u>
<b>Foreign exchange contracts</b>						
<b>Currencies (sold/bought)</b>						
Futures						
US/CAD	0.9440	\$ 5,000	\$ 302	0.9375	\$ 15,000	\$ 275
Forwards						
EUR/US	0.7581	\$ 110,360	\$ (1,578)	0.6806	\$ 30,400	\$ 1,122
GBP/US	0.6244	\$ 10,250	\$ 282	0.6131	\$ 2,500	\$ 25
GBP/EUR	0.8485	\$ 20,086	250	–	\$ –	\$ –
NZD/AUD	–	\$ –	\$ –	0.5174	\$ 34	\$ (13)
Options						
EUR/US	–	\$ –	<u>\$ –</u>	0.7134	\$ 13,300	<u>\$ (393)</u>
<b>Total</b>			<u>\$ (744)</u>			<u>\$ 1,016</u>

- (1) Rates are expressed as the number of units of the currency sold for one unit of currency bought.  
(2) Exchange rates as at December 30, 2010 and 2009 were used to translate amounts in foreign currencies.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)**

*Foreign Exchange Risk (Cont'd)*

The following outlines the main exchange rates applied:

	<b>2010 Year-to-date average rate</b>	<b>Reporting date rate December 30, 2010</b>
CAD TO USD	0.9708	1.0054
EURO TO USD	1.3247	1.3390
GBP TO USD	1.5451	1.5598
AUD TO USD	0.9179	1.0235

	<b>2009 Year-to-date average rate</b>	<b>Reporting date rate December 30, 2009</b>
CAD TO USD	0.8760	0.9555
EURO TO USD	1.3895	1.4333
GBP TO USD	1.5593	1.6166
AUD TO USD	0.7804	0.8977

Based on the Company's foreign currency exposures noted above and the foreign exchange contracts in effect in 2010 and 2009, varying the above foreign exchange rates to reflect a 5 percent weakening of the currencies, other than the functional currency of each of Dorel's entities, would have the following effects during the years ended December 30, 2010 and 2009, as follows, assuming that all other variables remained constant:

	<b>December 30, 2010</b>				
<b>Source of variability from changes in foreign exchange rates</b>	<b>US</b>	<b>CAD</b>	<b>Euro</b>	<b>GBP</b>	<b>AUD</b>
Financial instruments, including foreign exchange contracts	\$ 1,159	\$ 635	\$ 309	\$ 95	\$ 758
Revenues and expenses	\$ 11,196	\$ (164)	\$ 2,555	\$ (112)	\$ 122
<b>Increase(decrease) on pre-tax income</b>	<b>\$ 12,355</b>	<b>\$ 471</b>	<b>\$ 2,864</b>	<b>\$ (17)</b>	<b>\$ 880</b>
<b>(Decrease) increase on other comprehensive income</b>	<b>\$ (4,268)</b>	<b>\$ (176)</b>	<b>\$ (720)</b>	<b>\$ –</b>	<b>\$ –</b>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)**

*Foreign Exchange Risk (Cont'd)*

December 30, 2009					
Source of variability from changes in foreign exchange rates	US	CAD	Euro	GBP	AUD
Financial instruments, including foreign exchange contracts	\$ 320	\$ (184)	\$ 224	\$ (103)	\$ 222
Revenues and expenses	\$ 8,548	\$ 285	\$ 236	\$ (561)	\$ (323)
<b>Increase (decrease) on pre-tax income</b>	<u>\$ 8,868</u>	<u>\$ 101</u>	<u>\$ 460</u>	<u>\$ (664)</u>	<u>\$ (101)</u>
<b>(Decrease) increase on other comprehensive income</b>	<u>\$ (593)</u>	<u>\$ (511)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

An assumed 5 percent strengthening of the currencies, other than the functional currency of each of Dorel's entities, during the years ended December 30, 2010 and 2009, would have the following effects assuming that all other variables remained constant:

December 30, 2010					
Source of variability from changes in foreign exchange rates	US	CAD	Euro	GBP	AUD
Financial instruments, including foreign exchange contracts	\$ (1,159)	\$ (635)	\$ (309)	\$ (95)	\$ (758)
Revenues and expenses	\$ (11,196)	\$ 164	\$ (2,555)	\$ 112	\$ (122)
<b>(Decrease) increase on pre-tax income</b>	<u>\$ (12,355)</u>	<u>\$ (471)</u>	<u>\$ (2,864)</u>	<u>\$ 17</u>	<u>\$ (880)</u>
<b>Increase (decrease) on other comprehensive income</b>	<u>\$ 4,268</u>	<u>\$ 176</u>	<u>\$ 720</u>	<u>\$ –</u>	<u>\$ –</u>

December 30, 2009					
Source of variability from changes in foreign exchange rates	US	CAD	Euro	GBP	AUD
Financial instruments, including foreign exchange contracts	\$ (399)	\$ 184	\$ (224)	\$ 103	\$ (222)
Revenues and expenses	\$ (8,548)	\$ (285)	\$ (236)	\$ 561	\$ 323
<b>(Decrease) increase on pre-tax income</b>	<u>\$ (8,947)</u>	<u>\$ (101)</u>	<u>\$ (460)</u>	<u>\$ 664</u>	<u>\$ 101</u>
<b>Increase (decrease) on other comprehensive income</b>	<u>\$ 579</u>	<u>\$ 538</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

**DOREL INDUSTRIES INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009**

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)**

*Interest Rate Risk*

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, Euribor or U.S. bank 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.

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

The maturity analysis associated with the interest rate swap agreements used to manage interest risk associated with long-term debt is as follows:

<b>December 30, 2010</b>				
	<b>Fixed Rate (Percentage)</b>	<b>Notional amount</b>	<b>Maturity</b>	<b>Fair value</b>
Interest rate swap agreements	2.21	\$ 50,000	March 23, 2014	\$ (1,456)

<b>December 30, 2009</b>				
	<b>Fixed Rate (Percentage)</b>	<b>Notional amount</b>	<b>Maturity</b>	<b>Fair value</b>
Interest rate swap agreements	2.21	\$ 50,000	March 23, 2014	\$ 686

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)**

*Interest Rate Risk (Cont'd)*

The fair value as at December 30, 2010 and 2009 of the derivatives designated as cash flow hedges are as follows:

	2010	2009
<u>Derivatives designated as cash flow hedges:</u>		
Interest rate swaps included in other assets	\$ –	\$ 1,476
Interest rate swaps included in accounts payable and accrued liabilities	(906)	(790)
Interest rate swaps included in other long-term liabilities	(550)	–
	\$ (1,456)	\$ 686

Based on the currently outstanding interest-bearing revolving long-term bank loans and interest rate swaps as at December 30, 2010 and 2009, if interest rates had changed by 50 basis points, assuming that all other variables had remained the same, the impact would have the following effects:

	2010		2009	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
<b>Increase (decrease) on pre-tax income</b>	\$ (514)	\$ 514	\$ (1,285)	\$ 1,285
<b>Increase (decrease) on other comprehensive income</b>	\$ 276	\$(283)	\$ (356)	\$ 343

*Credit Risk*

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

The maximum credit risk to which the Company is exposed as at December 30, 2010 and 2009, represents the carrying value of cash equivalents and accounts receivable as well as the fair value of foreign exchange contracts and interest rate swaps with positive fair values.

**DOREL INDUSTRIES INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009**

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS – (Cont'd)**

*Credit Risk (Cont'd)*

Substantially all trade accounts receivable arise from sales to the retail industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. In addition, a portion of the total accounts receivable is insured against possible losses. In 2010, sales to a major customer represented 31.0% of total revenue (2009 – 31.4%). As at December 30, 2010, one customer accounted for 13.7% of the Company's total trade accounts receivable balance (2009 – 17.9%).

The Company establishes an allowance for doubtful accounts on a customer-by-customer basis. It is based on the evaluation of the collectability of accounts receivable at each balance sheet reporting date, taking into account amounts which are past due, specific credit risk, historical trends and any available information indicating that a customer could be experiencing liquidity or going concern problems. Bad debt expense is included within the selling, general and administrative expenses.

The Company's exposure to credit risk for trade accounts receivable by geographic area and type of customer was as follows:

	<b>December 30, 2010</b>	<b>December 30, 2009</b>
Canada	\$ 31,667	\$ 28,618
United States	161,029	158,502
Europe	123,815	119,815
Other foreign countries	24,419	20,948
	<u>\$ 340,930</u>	<u>\$ 327,883</u>

The allocation of accounts receivable to each geographic area is based on the location of selling entity.

	<b>December 30, 2010</b>	<b>December 30, 2009</b>
Mass-market retailers	\$ 148,388	\$ 148,460
Specialty/independent stores	192,542	179,423
	<u>\$ 340,930</u>	<u>\$ 327,883</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS – (Cont'd)**

*Credit Risk (Cont'd)*

Pursuant to their respective terms, trade accounts receivable are aged as follows:

	<b>December 30, 2010</b>	<b>December 30, 2009</b>
Not past due	\$ 252,873	\$ 247,567
Past due 0-30 days	58,495	54,128
Past due 31-60 days	15,338	9,858
Past due 61-90 days	9,292	11,470
Past due over 90 days	<u>15,296</u>	<u>18,414</u>
Trade accounts receivable	351,294	341,437
Less allowance for doubtful accounts	<u>(10,364)</u>	<u>(13,554)</u>
	<u><u>\$ 340,930</u></u>	<u><u>\$ 327,883</u></u>

Based on past experience, the Company believes that no allowance is necessary in respect of trade receivables not past due and past due 0-30 days; 88.6% of these balances (2009 – 88.4%), which includes the amounts owed by the Company's most significant customers, relates to customers that have a good track record with the Company.

The movement in the allowance for doubtful accounts with respect to trade accounts receivable was as follows:

	<b>December 30, 2010</b>	<b>December 30, 2009</b>
Balance at beginning of year	\$ 13,554	\$ 11,305
Bad debt expense	2,049	4,758
Uncollectible accounts written-off, net of recovery	(5,012)	(2,721)
Increase due to acquisitions (Note 4)	–	39
Effect of foreign currency exchange rate changes	<u>(227)</u>	<u>173</u>
Balance at end of year	<u><u>\$ 10,364</u></u>	<u><u>\$ 13,554</u></u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 14 – FINANCIAL INSTRUMENTS – (Cont'd)**

*Liquidity Risk*

Liquidity risk is the risk of being unable to honor financial commitments by the deadlines set out under the terms of such commitments. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in “Capital Risk Management” (Note 15). It also manages liquidity risk by continuously monitoring actual and projected cash flows matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company’s operating and capital budgets, as well as any material transactions not in the ordinary course of business, including acquisitions or other major investments or divestitures.

The Company has committed revolving bank loans for a maximum of \$300,000 due to mature in July 2013 which provide for an annual one-year extension. This agreement also includes an accordion feature allowing the Company to have access to an additional amount of \$200,000 on a revolving basis. The revolving bank loans bear interest at LIBOR, Euribor or U.S. bank rates plus a margin and the effective interest rate for the year ended December 30, 2010, was 2.35% (2009 – 2.2%). Management believes that future cash flows from operations and availability under existing/renegotiated banking arrangements will be adequate to support the Company’s financial liabilities.

The following table summarizes the contractual maturities of financial liabilities of the Company as of December 30, 2010, excluding future interest payments but including accrued interest:

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Bank indebtedness	\$ 30,515	\$ 30,515	\$ –	\$ –	\$ –
Long-term debt – revolving bank loans	102,712	–	102,712	–	–
Other long-term debt	227,236	10,667	30,066	70,434	116,069
Accounts payable and accrued liabilities	366,018	366,018	–	–	–
Foreign exchange contracts	3,298	3,298	–	–	–
Interest rate swaps	1,456	906	622	(72)	–
Other long term liabilities	35,449	–	28,002	7,447	–
<b>Total</b>	<u>\$ 766,684</u>	<u>\$ 411,404</u>	<u>\$ 161,402</u>	<u>\$ 77,809</u>	<u>\$ 116,069</u>

The Company’s only derivative financial liabilities as at December 30, 2010 were foreign exchange contracts and interest rate swaps, for which notional amounts, maturities, average exchange rates and the carrying and fair values are disclosed under “Foreign Exchange Risk” and “Interest Rate Risk”.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### NOTE 15 – CAPITAL RISK MANAGEMENT

The Company's objectives in managing capital is to provide sufficient liquidity to support its operations while generating a reasonable return to shareholders, give the flexibility to take advantage of growth and development opportunities of the business and undertake selective acquisitions, while at the same time taking a conservative approach towards financial leverage and management of financial risk. The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash and cash equivalents.

The Company manages its capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may elect to adjust the amount of dividends paid to shareholders, return capital to its shareholders, issue new shares or increase/decrease net debt.

The Company monitors its capital structure using the ratio of indebtedness to adjusted earnings before interest, taxes, depreciation and amortization, share-based compensation, restructuring costs and extraordinary or unusual items ("adjusted EBITDA"), which it aims to maintain at less than 3.0:1. The terms of the unsecured notes and the revolving credit facility permit the Company to exceed this limit under certain circumstances. This ratio is calculated as follows: indebtedness/ adjusted EBITDA. Indebtedness is equal to the aggregate of bank indebtedness, long-term debt (including obligations under capital leases), guarantees (including all letters of credit and standby letters of credit), contingent considerations and balance of sales. Adjusted EBITDA is based on the last four quarters ending on the same date as the balance sheet date used to compute the indebtedness. The indebtedness to adjusted EBITDA as at December 30, 2010 and 2009 were as follows:

	December 30,	
	2010	2009
Bank indebtedness	\$ 30,515	\$ 1,987
Current portion of long-term debt	10,667	122,508
Long-term debt	319,281	227,075
Guarantees	12,386	17,248
Contingent considerations (Note 13)	28,002	18,895
Balance of sale payable	—	220
<b>Indebtedness</b>	<b>\$ 400,851</b>	<b>\$ 387,933</b>

**DOREL INDUSTRIES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 15 – CAPITAL RISK MANAGEMENT– (Cont'd)**

	For the trailing four quarters ended December 30, (1)	
	2010	2009
Net income	\$ 127,853	\$ 108,233
Interest, net	18,927	16,390
Income taxes expense	12,865	21,145
Depreciation and amortization	51,091	49,238
Share-based compensation	4,074	3,480
Restructuring costs	—	135
<b>Adjusted EBITDA</b>	<b>\$ 214,810</b>	<b>\$ 198,621</b>
<b>Indebtedness to adjusted EBITDA ratio</b>	<b>1.87:1</b>	<b>1.95:1</b>

(1) Includes retroactively the results of the operations of the acquired businesses.

There were no changes in the Company's approach to capital management during the periods. Under the unsecured notes and revolving credit facility, the Company is subject to certain covenants, including maintaining certain financial ratios. During the years ended December 30, 2010 and 2009, the Company was in compliance with these covenants.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 16 – PENSION & POST RETIREMENT BENEFIT PLANS**

Pension Benefits

The Company's subsidiaries maintain defined benefit plans and defined contribution plans for their employees. Pension benefit obligations under the defined benefit plans are determined annually by independent actuaries using management's assumptions and the accumulated benefit method for the plan where future salary levels do not affect the amount of employee future benefits and the projected benefit method for plans where future salaries or cost escalation affect the amount of employee future benefits.

Information regarding the Company's defined benefit pension plans is as follows:

	December 30,	
	2010	2009
Accrued benefit obligations:		
Balance, beginning of year	\$ 43,347	\$ 39,182
Current service cost	1,592	1,281
Interest cost	2,478	2,355
Acquisitions	–	283
Restructuring giving rise to curtailments	(12)	–
Participant contributions	334	401
Benefits paid	(1,927)	(1,649)
Effect of exchange rates	(859)	193
Actuarial (gain) / loss	3,964	1,301
Balance, end of year	48,917	43,347
Plan assets		
Fair value, beginning of year	28,208	23,648
Actual return on plan assets	3,649	2,744
Employer contributions	1,878	3,313
Participant contributions	334	401
Benefits paid	(1,927)	(1,649)
Effect of exchange rates	(288)	40
Additional charges	(281)	(289)
Fair value, end of year	31,573	28,208
Funded status - plan deficit	(17,344)	(15,139)
Unamortized actuarial loss	16,954	15,510
Unamortized transitional obligation	78	93
Unamortized past service costs	1,397	1,729
Net amount recognized	<u>\$ 1,085</u>	<u>\$ 2,193</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 16 – PENSION & POST RETIREMENT BENEFIT PLANS – (Cont'd)**

Pension Benefits (Cont'd)

	December 30,	
	2010	2009
The net amount recognized consists of the following:		
Accrued benefit asset:	\$ 7,580	\$ 8,390
Accrued benefit liability	(6,495)	(6,197)
Net amount recognized	<u>\$ 1,085</u>	<u>\$ 2,193</u>

The accrued benefit asset relating to pension benefits is included in other assets and the accrued benefit liability is included in pension & post-retirement benefit obligations on the Company's Consolidated Balance Sheet.

The accrued benefit obligation at the end of the period and the fair value of plan assets at the end of the period for the aggregate of plans with accrued benefit obligations in excess of plan assets are the following:

	December 30,	
	2010	2009
Accrued benefit obligation, end of year	\$ 48,917	\$ 43,347
Fair value of plan assets, end of year	\$ 31,573	\$ 28,208

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 16 – PENSION & POST RETIREMENT BENEFIT PLANS – (Cont'd)**

Pension Benefits (Cont'd)

Net pension costs for the defined benefit plans comprise the following:

	December 30,	
	2010	2009
Current service cost	\$ 1,592	\$ 1,281
Interest cost	2,478	2,355
Actual return on plan assets	(3,649)	(2,744)
Effect of curtailments	(12)	–
Actuarial (gain) / loss	<u>3,964</u>	<u>1,301</u>
Cost before adjustments to recognize the long-term nature of the plans	4,373	2,193
Difference between actual and expected return on plan assets	1,544	1,135
Difference between actuarial loss on accrued benefit obligation and the amount recognized	(2,880)	(213)
Difference between amortization of past service costs and actual amendments for the year	342	342
Amortization of transition obligation	<u>9</u>	<u>10</u>
Pension expense	<u>\$ 3,388</u>	<u>\$ 3,467</u>

Under the Company's defined contribution plans, total expense was \$1,828 (2009 – \$1,712). Total cash payments for employee future benefits for 2010, consisting of cash contributed by the Company to its funded plans, cash contributed to its defined contribution plans and benefits paid directly to beneficiaries for unfunded plans, was \$4,358 (2009 – \$6,083).

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 16 – PENSION & POST RETIREMENT BENEFIT PLANS – (Cont'd)**

Post-Retirement Benefits

One of the Company's subsidiaries maintains a defined benefit post-retirement benefit plan for substantially all its employees.

Information regarding this Company's post-retirement benefit plan is as follows:

	December 30,	
	2010	2009
Accrued benefit obligations:		
Balance, beginning of year	\$ 13,482	\$ 13,493
Current service cost	193	311
Interest cost	795	791
Benefits paid	(652)	(1,057)
Actuarial (gain) / loss	896	(56)
Balance, end of year	\$ 14,714	\$ 13,482
Plan assets:		
Employer contributions	652	1,057
Benefits paid	(652)	(1,057)
Fair value, end of year	\$ –	\$ –
Funded status-plan deficit	\$ (14,714)	\$ (13,482)
Unamortized actuarial (gain)/loss	(678)	(1,634)
Unamortized past service costs	349	374
Accrued benefit liability	<u>\$ (15,043)</u>	<u>\$ (14,742)</u>

Net costs for the post-retirement benefit plan comprise the following:

	December 30,	
	2010	2009
Current service cost	\$ 193	\$ 311
Interest cost	795	791
Actuarial (gain)/loss	896	(56)
Cost (benefit) before adjustments to recognize the long-term nature of the plans	1,884	1,046
Difference between actuarial (gain)/loss on accrued benefit obligation and the amount recognized	(956)	(15)
Difference between amortization of past service costs and actual amendments for the year	25	26
Net benefit plan expense	<u>\$ 953</u>	<u>\$ 1,057</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 16 – PENSION & POST RETIREMENT BENEFIT PLANS – (Cont'd)**

Assumptions

Weighted-average assumptions used to determine benefit obligations as at December 30:

	Pension Benefits		Post Retirement Benefits	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Discount rate	5.23%	5.78%	5.60%	6.00%
Rate of compensation increase	2.22%	2.06%	n/a	n/a

Weighted-average assumptions used to determine net periodic cost for the years ended December 30:

	Pension Benefits		Post Retirement Benefits	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Discount rate	5.78%	5.98%	6.00%	6.25%
Expected long-term return on plan assets	8.04%	7.47%	n/a	n/a
Rate of compensation increase	2.06%	2.22%	n/a	n/a

The measurement date used for plan assets and pension benefits and the measurement date used for post-retirement benefits was December 30 for both 2010 and 2009. The most recent actuarial valuations for the pension plans and post-retirement benefit plans are dated January 1<sup>st</sup>, 2010. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1<sup>st</sup>, 2010, and the next required valuation will be as of January 1<sup>st</sup>, 2011.

Plan assets are held in trust and their weighted average allocations were as follows as at the measurement date:

	<u>2010</u>	<u>2009</u>
Equity securities	53%	53%
Debt securities	30%	31%
Other	<u>17%</u>	<u>16%</u>
	<u>100%</u>	<u>100%</u>

The assumed health care cost trend used for measurement of the accumulated postretirement benefit obligation is 9% in 2010, decreasing gradually to 5% in 2016 and remaining at that level thereafter. Assumed health care cost trends have an effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost	\$ 203	\$ (161)
Effect on post-retirement benefit obligation	\$ 2,266	\$ (1,848)

Other

Certain of the Company's subsidiaries have elected to act as self-insurer for certain costs related to all active employee health and accident programs. The expense for the year ended December 30, 2010 was \$11,833 (2009 – \$8,856) under this self-insured benefit program.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 17 – CAPITAL STOCK**

The capital stock of the Company is as follows:

Authorized

An unlimited number of preferred shares without nominal or par value, issuable in series.

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.

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:

	December 30,			
	2010		2009	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
<b>Class "A" Multiple Voting Shares</b>				
Balance, beginning of year	4,229,510	\$ 1,792	4,229,710	\$ 1,793
Converted from Class "A" to Class "B" (1)	–	–	(200)	(1)
Balance, end of year	4,229,510	\$ 1,792	4,229,510	\$ 1,792
<b>Class "B" Subordinate Voting Shares</b>				
Balance, beginning of year	28,739,802	\$ 173,024	29,172,482	\$ 175,629
Converted from Class "A" to Class "B" (1)	–	–	200	1
Issued under stock option plan (2)	214,375	5,755	–	–
Reclassification from contributed surplus due to exercise of stock options	–	1,402	–	–
Repurchase and cancellation of shares (3)	(518,600)	(3,157)	(432,880)	(2,606)
Balance, end of year	28,435,577	\$ 177,024	28,739,802	\$ 173,024
<b>TOTAL CAPITAL STOCK</b>		<u>\$ 178,816</u>		<u>\$ 174,816</u>

(1) In 2009, the Company converted 200 Class "A" Multiple Voting Shares into Class "B" Subordinate Voting Shares at an average rate of \$0.58 per share.

(2) During the year, the Company realized tax benefits amounting to \$302 as a result of stock option transactions. The benefit has been credited to capital stock and is not reflected in the current income tax provision.

(3) On March 30, 2010, the Company filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to repurchase for cancellation outstanding Class "B" Subordinate Voting Shares on the open market. As approved by the TSX, the Company is authorized to purchase up to 700,000 Class "B" Subordinate Voting Shares (representing 2.4% of its issued and outstanding Class "B" Subordinate Voting Shares at the time of the bid) during the period of April 1, 2010 to March 31, 2011, or until such earlier time as the bid is completed or terminated at the option of the Company. Any shares the Company purchases under this bid will be purchased on the open market plus brokerage fees through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under this bid will be cancelled. In accordance with this normal course issuer bid, the Company repurchased during the year ended December 30, 2010 a total of 473,500 Class "B" Subordinate Voting Shares for a cash consideration of \$15,877. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

During 2009, in accordance with its previous normal course issuer bid which ended on March 19, 2010, the Company repurchased 432,880 Class "B" Subordinate Voting Shares for a cash consideration of \$10,504. During the three-months ended March 31, 2010, the Company repurchased with its previous normal course issuer bid a total of 45,100 Class "B" Subordinate Voting Shares for a cash consideration of \$1,400. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 18 – STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS**

Stock option plans

Under various plans, the Company may grant stock options on the Class "B" Subordinate Voting Shares at the discretion of the Board of Directors, to senior executives and certain key employees. The exercise price is the market price of the securities at the date the options are granted. Of the 6,000,000 Class "B" Subordinate Voting Shares initially reserved for issuance, 3,563,875 were available for issuance under the share option plans as at December 30, 2010. Options granted vest according to a graded schedule of 25% per year commencing a day after the end of the first year, and options outstanding expire no later than the year 2015.

The changes in outstanding stock options are as follows:

	December 30,			
	2010		2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	2,539,000	\$ 26.27	2,253,750	\$ 31.67
Granted	88,500	34.80	1,086,500	16.35
Exercised	(214,375)	25.46	–	–
Expired	(125,000)	34.49	(506,750)	33.46
Forfeited	(71,375)	26.50	(294,500)	29.07
Options outstanding, end of year	<u>2,216,750</u>	<u>\$ 26.71</u>	<u>2,539,000</u>	<u>\$ 26.27</u>
Total exercisable, end of year	<u>1,001,375</u>	<u>\$ 29.31</u>	<u>775,000</u>	<u>\$ 31.54</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 18 – STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS – (Cont'd)**

Stock option plans (Cont'd)

A summary of options outstanding at December 30, 2010 is as follows:

Range of Exercise Prices	Total Outstanding			Total Exercisable	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price
\$16.89 - \$22.87	883,875	\$ 19.61	3.25	152,625	\$ 19.64
\$30.70 - \$37.40	<u>1,332,875</u>	<u>31.41</u>	<u>1.87</u>	<u>848,750</u>	<u>31.04</u>
	<u>2,216,750</u>	<u>\$ 26.71</u>	<u>2.42</u>	<u>1,001,375</u>	<u>\$ 29.31</u>

Total compensation cost recognized in income for employee stock options for the year amounts to \$4,074 (2009 – \$3,480), and was credited to contributed surplus.

The compensation cost recognized in income were computed using the fair value of granted options as at the date of grant as calculated by the Black-Scholes option pricing model. The following weighted average assumptions were used to estimate the fair values of options granted during the year:

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	2.58%	1.91%
Dividend yield	1.66%	3.27%
Expected volatility	39.12%	37.11%
Expected life	4.43	4.49

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### NOTE 18 – STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS – (Cont'd)

##### Directors' Deferred Share Unit Plan

The Company has a Deferred Share Unit Plan (the "DSU Plan") under which an external director of the Company may elect annually to have his or her director's fees and fees for attending meetings of the Board of Directors or committees thereof paid in the form of deferred share units ("DSU's"). A plan participant may also receive dividend equivalents paid in the form of DSU's. The number of DSU's received by a director is determined by dividing the amount of the remuneration to be paid in the form of DSU's on that date or dividends to be paid on payment date (the "Award Dates") by the fair market value of the Company's Class "B" Subordinate Voting Shares on the Award Date. The Award Date is the last day of each quarter of the Company's fiscal year in the case of fees forfeited and the date on which the dividends are payable in the case of dividends. The fair market value of the Company's Class "B" Subordinate Voting Shares is equal to their average closing trading price during the five trading days preceding the Award Date. Upon termination of a director's service, a director may receive, at the discretion of Board of Directors, either:

- (a) cash equal to the number of DSU's credited to the director's account multiplied by the fair market value of the Class "B" Subordinate Voting Shares on the date a notice of redemption is filed by the director; or
- (b) the number of Class "B" Subordinate Voting Shares equal to the number of DSU's in the director's account.
- (c) a combination of cash and Class "B" Subordinate Voting Shares

Of the 175,000 DSU's (2009 – 75,000) authorized for issuance under the plan, 107,259 were available for issuance under the DSU plan as at December 30, 2010. During the year, 10,613 additional DSU's were issued (2009 – 14,896) and \$345 (2009 – \$328) was expensed and credited to contributed surplus. An additional 1,067 DSU's were issued (2009 – 945) for dividend equivalents and \$35 (2009 – \$22) was charged to retained earnings and credited to contributed surplus. As at December 30, 2010, 67,741 (2009 – 56,061) DSU's are outstanding with related contributed surplus amounting to \$1,880 (2009 – \$1,500).

##### Executive Deferred Share Unit Plan

The Company has an Executive Deferred Share Unit Plan (the "EDSU Plan") under which executive officers of the Company may elect annually to have a portion of his or her annual salary and bonus paid in the form of deferred share units ("DSU's"). The EDSU Plan will assist the executive officers in attaining prescribed levels of ownership of the Company's shares. A plan participant may also receive dividend equivalents paid in the form of DSU's. The number of DSU's received by an executive officer is determined by dividing the amount of the salary and bonus to be paid in the form of DSU's on that date or dividends to be paid on payment date (the "Award Dates") by the fair market value of the Company's Class "B" Subordinate Voting Shares on the Award Date. The Award Date is the last business day of each month of the Company's fiscal year in the case of salary, the date on which the bonus is, or would otherwise be, paid to the participant in the case of bonus and the date on which the dividends are payable in the case of dividends. The fair market value of the Company's Class "B" Subordinate Voting Shares is equal to their weighted average trading price during the five trading days preceding the Award Date. Upon termination of an executive officer's service, an executive officer may receive, at the discretion of Board of Directors, either:

- (a) cash equal to the number of DSU's credited to the executive officer's account multiplied by the fair market value of the Class "B" Subordinate Voting Shares on the date a notice of redemption is filed by the executive officer; or
- (b) the number of Class "B" Subordinate Voting Shares equal to the number of DSU's in the executive officer's account; or
- (c) a combination of cash and Class "B" Subordinate Voting Shares.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 18 – STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS – (Cont'd)**

Executive Deferred Share Unit Plan (Cont'd)

Of the 750,000 DSU's authorized for issuance under the plan, 711,322 were available for issuance under the EDSU Plan as at December 30, 2010. During the year, 11,834 (2009 – 25,846) DSU's were issued for bonus and salary paid and \$393 (2009 – \$401) credited to contributed surplus. An additional 612 (2009 – 386) DSU's were issued for dividend equivalents and \$20 (2009 – \$10) was charged to retained earnings and credited to contributed surplus. As at December 30, 2010, 38,678 DSU's are outstanding with related contributed surplus amounting to \$824 (2009 – \$411).

**NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE INCOME**

	<b>Cash Flow Hedges</b>	<b>Cumulative Translation Adjustment</b>	<b>Total</b>
Balance as at December 30, 2008	\$ –	\$ 83,139	\$ 83,139
Change during the year	895	11,331	12,226
Balance as at December 30, 2009	895	94,470	95,365
Change during the year	(1,927)	(29,038)	(30,965)
Balance as at December 30, 2010	\$ (1,032)	\$ 65,432	\$ 64,400

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### NOTE 20 – COMMITMENTS AND GUARANTEES

- a) The Company has entered into long-term operating lease agreements for buildings and equipment that expire at various dates through the year 2028. Rent expense was \$37,779 and \$30,671 in 2010 and 2009, respectively. Future minimum lease payments exclusive of additional charges, are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2011	\$ 32,430
2012	26,186
2013	19,240
2014	11,929
2015	10,110
Thereafter	<u>27,053</u>
	<u>\$ 126,948</u>

- b) The Company has entered into various licensing agreements for the use of certain brand names on its products. Under these agreements, the Company is required to pay royalties as a percentage of sales with minimum royalties of \$5,596 due in fiscal 2011 and \$1,956 due in fiscal 2012 and 2013 combined.
- c) As at December 30, 2010, the Company has capital expenditure commitments of approximately \$5,872 and commercial letters of credit outstanding totalling \$99.
- d) In the normal course of business, the Company enters into agreements that may contain features which meet the definition of a guarantee:
- The Company granted irrevocable standby letters of credit issued by highly rated financial institutions to various third parties to indemnify them in the event the Company does not perform its contractual obligations, such as payment of product liability claims, lease and licensing agreements, duties and workers compensation claims. As at December 30, 2010, standby letters of credit outstanding totalled \$12,182. As many of these guarantees will not be drawn upon, these amounts are not indicative of future cash requirements. No material loss is anticipated by reason of such agreements and guarantees and no amounts have been accrued in the Company's consolidated financial statements with respect to these guarantees. The Company has determined that the fair value of the non-contingent obligations requiring performance under the guarantees in the event that specified events or conditions occur approximate the cost of obtaining the letters of credit.
  - The Company has provided a financing provider the right, upon customer default on payment to this financing provider, to sell back certain new products to the Company at predetermined prices. The maximum exposure with respect to this guarantee as at December 30, 2010 is \$105. Should the Company be required to act under such agreement, it is expected that no material loss would result after consideration of possible resell recoveries. Historically, the Company has not made any payments under such vendor financing agreement and the estimated exposure has been accrued in the Company's consolidated financial statements with respect to this guarantee.

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### NOTE 21 – CONTINGENCIES

The breadth of the Company's operations and the global complexity of tax regulations require assessments of uncertainties and judgments in estimating the ultimate taxes the Company will pay. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from federal, provincial, state and local tax audits. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Company's tax assets and tax liabilities.

The Company is currently a party to various claims and legal proceedings. If management believes that a loss arising from these matters is probable and can reasonably be estimated, that amount of the loss is recorded, or the minimum estimated liability when the loss is estimated using a range and no point within the range is more probable than another. When a loss arising from such matters is probable, legal proceedings against third parties or counterclaims are recorded only if management, after consultation with outside legal counsels, believes such recoveries are likely to be realized. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in aggregate, will not have a material adverse effect on the Company's financial position or overall trends in results of operations.

In 2006, anti-dumping duties were imposed upon the Company by the United States Department of Commerce ("DOC"). These duties pertain to certain metal furniture imported from China into the United States that was subject to anti-dumping duties during the period between December 3, 2001 through May 31, 2003. In relation to this charge the Company had a pending claim against a major international law firm. That claim relates to a breach of professional duty by the law firm for its failure to timely file a request for an administrative review by the DOC of the duties imposed. During the fourth quarter of 2009, an agreement was reached with this law firm that resulted in a gain of \$6,400 being recorded in cost of sales.

#### NOTE 22 – PRODUCT LIABILITY

The Company insures itself to mitigate its product liability exposure.

The estimated product liability exposure was calculated by an independent actuary 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.

As at December 30, 2010, the Company's recorded liability amounts to \$23,621 (2009 – \$25,480), which represents the Company's total estimated exposure related to current and future product liability incidents.

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 23 – INTEREST**

Interest expense consists of the following:

	December 30,	
	2010	2009
Interest on long-term debt – including effect of cash flow hedge related to the interest rate swaps	\$ 15,563	\$ 14,969
Accretion expense on contingent considerations	2,571	–
Other interest	793	1,406
	<u>\$ 18,927</u>	<u>\$ 16,375</u>

**NOTE 24 – INCOME TAXES**

Variations of income tax expense from the basic Canadian federal and provincial combined tax rates applicable to income from operations before income taxes are as follows:

	December 30,			
	2010		2009	
PROVISION FOR INCOME TAXES	\$ 41,230	29.3%	\$ 39,531	30.8%
ADD (DEDUCT) EFFECT OF:				
Difference in effective tax rates of foreign subsidiaries	(7,989)	(5.7)	(13,591)	(10.6)
Recovery of income taxes arising from the use of unrecorded tax benefits	(16,652)	(11.8)	(5,415)	(4.2)
One time adjustment for us functional currency election	(2,725)	(1.9)	–	–
Change in valuation allowance	765	0.5	(2,599)	(2.0)
Non-deductible stock options	1,194	0.8	1,071	0.8
Other non-deductible items	(2,957)	(2.1)	(36)	–
Change in future income taxes resulting from changes in tax rates	2,087	1.5	1,023	0.8
Effect of foreign exchange	(1,343)	(1.0)	672	0.5
Other - Net	(745)	(0.5)	458	0.3
	<u>\$ 12,865</u>	<u>9.1%</u>	<u>\$ 21,113</u>	<u>16.4%</u>

**DOREL INDUSTRIES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 24 – INCOME TAXES – (Cont'd)**

The tax effects of significant items comprising the Company's net future income tax liabilities are as follows:

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Capital and operating loss carryforwards	\$ 28,521	\$ 26,185
Deferral of partnership gain	823	(406)
Employee pensions and post-retirement	4,406	3,878
Other long-term liabilities	215	243
Accounts receivable	11,144	6,178
Inventories	10,097	9,681
Accrued expenses	19,014	20,213
Stock options	1,136	1,148
Derivatives	811	(915)
Property, plant and equipment	(20,915)	(24,981)
Intangible assets	(80,446)	(83,816)
Goodwill	(24,029)	(20,514)
Prepaid expenses	35	(64)
Valuation allowance	(3,068)	(2,310)
Foreign exchange and other	(1,481)	(202)
	<u>\$ (53,737)</u>	<u>\$ (65,682)</u>

The short-term and long-term future income tax assets and liabilities are as follows:

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Short-term future income tax assets	\$ 42,444	\$ 38,042
Long-term future income tax assets (Note 9)	18,320	25,345
Short-term future income tax liabilities	(1,252)	(85)
Long-term future income tax liabilities	(113,249)	(128,984)
	<u>\$ (53,737)</u>	<u>\$ (65,682)</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 24 – INCOME TAXES – (Cont'd)**

As at December 30, 2010, the Company has \$4,654 of capital losses with no expiry and \$92,970 of operating loss carryforwards, of which \$11,600 will expire between 2017 and 2019 and \$41,623 will expire between 2025 and 2030. The remaining \$39,747 has no expiration date. The Company also has unclaimed expenses available to reduce federal income tax amounting to \$2,060 and expiring between 2011 and 2015. The Company recognized a future income tax asset for all of these unused tax losses and other available income tax reductions but used a valuation allowance to reduce the related future income tax asset to the amount that is more likely than not to be realized. As limitations on the utilization of these tax assets may apply, the Company has provided a valuation allowance in the amount of \$3,068 as at December 30, 2010 for the full value of the capital losses and unclaimed expenses and for a portion of the operating loss carryforwards.

The Company has not recognized a future income tax liability for the undistributed earnings of its subsidiaries in the current or prior years since the Company does not expect to sell or repatriate funds from those investments, in which case the undistributed earnings may become taxable. Any such liability cannot reasonably be determined at the present time.

**NOTE 25 – EARNINGS PER SHARE**

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

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares	32,855,191	33,232,606
Dilutive effect of stock options and deferred share units	<u>363,076</u>	<u>167,934</u>
Weighted average number of diluted shares	<u>33,218,267</u>	<u>33,400,540</u>
Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings per share calculation	<u>1,141,800</u>	<u>1,551,395</u>

**DOREL INDUSTRIES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 26 – STATEMENT OF CASH FLOWS**

Net changes in non-cash balances related to operations are as follows:

	December 30,	
	2010	2009
Accounts receivable	\$ (12,789)	\$ (27,312)
Inventories	(111,821)	113,630
Prepaid expenses	(743)	(378)
Accounts payable, accruals and other long-term liabilities	34,193	(39,437)
Income taxes	(11,152)	1,156
Total	<u>\$ (102,312)</u>	<u>\$ 47,659</u>

Details of business acquisitions:

	December 30,	
	2010	2009
Acquisition of businesses	\$ –	\$ (23,643)
Cash acquired	–	290
	–	(23,353)
Balance of sale (paid)	(220)	1,692
	<u>\$ (220)</u>	<u>\$ (21,661)</u>

The components of cash and cash equivalents are:

	December 30,	
	2010	2009
Cash	\$ 15,673	\$ 17,525
Short-term investments	75	2,322
Cash and cash equivalents	<u>\$ 15,748</u>	<u>\$ 19,847</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 26 – STATEMENT OF CASH FLOWS – (Cont'd)**

Supplementary disclosure:

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Interest paid	\$ (14,754)	\$ (14,173)
Income taxes paid	\$ (37,121)	\$ (26,639)
Income taxes received	\$ 9,108	\$ 5,284

Acquiring a long-lived asset by incurring a liability does not result in a cash outflow for the Company until the liability is paid. As such, the consolidated statement of cash flows excludes the following non-cash transactions:

	<b>December 30,</b>	
	<b>2010</b>	<b>2009</b>
Acquisition of property, plant and equipment financed by accounts payable and accrued liabilities	\$ 2,480	\$ 1,085
Acquisition of intangible assets financed by accounts payable and accrued liabilities	\$ 479	\$ 130

## DOREL INDUSTRIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

#### NOTE 27 – SEGMENTED INFORMATION

The Company's significant business segments include:

- **Juvenile Products Segment:** Engaged in the design, sourcing, manufacturing and distribution of children's furniture and accessories which include infant car seats, strollers, high chairs, toddler beds, cribs and infant health and safety aids.
- **Recreational / Leisure Segment:** Engaged in the design, sourcing and distribution of recreational and leisure products and accessories which include bicycles, jogging strollers, scooters and other recreational products.
- **Home Furnishings Segment:** Engaged in the design, sourcing, manufacturing and distribution of ready-to-assemble furniture and home furnishings which include metal folding furniture, futons, step stools, ladders and other imported furniture items.

The accounting policies used to prepare the information by business segment are the same as those used to prepare the consolidated financial statements of the Company as described in Note 3.

The Company evaluates financial performance based on measures of income from segmented operations before interest and income taxes. The allocation of revenues to each geographic area is based on where the selling company is located.

#### Geographic Segments – Origin

	<b>December 30,</b>			
	<b>Total Revenue</b>		<b>Property, plant and equipment and Goodwill</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Canada	\$ 261,632	\$ 247,878	\$ 50,851	\$ 51,336
United States	1,322,030	1,191,755	365,261	371,596
Europe	607,807	540,269	270,770	278,455
Other foreign countries	121,517	160,212	25,369	21,716
Total	<u>\$2,312,986</u>	<u>\$2,140,114</u>	<u>\$ 712,251</u>	<u>\$ 723,103</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 27 – SEGMENTED INFORMATION – (Cont'd)**

Industry Segments

December 30,								
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2010	2009	2010	2009	2010	2009	2010	2009
Total Revenue	\$ 2,312,986	\$ 2,140,114	\$ 1,030,209	\$ 995,014	\$ 774,987	\$ 681,366	\$ 507,790	\$ 463,734
Cost of sales	1,780,204	1,634,570	750,159	720,517	591,434	527,627	438,611	386,426
Selling, general and administrative expenses	305,870	292,066	153,586	149,239	121,411	106,209	30,873	36,618
Depreciation & amortization	31,210	27,227	23,567	20,776	6,625	5,009	1,018	1,442
Research and development costs	13,626	17,184	7,829	11,948	3,192	2,684	2,605	2,552
Earnings from Operations	182,076	169,067	<u>\$ 95,068</u>	<u>\$ 92,534</u>	<u>\$ 52,325</u>	<u>\$ 39,837</u>	<u>\$ 34,683</u>	<u>\$ 36,696</u>
Interest	18,927	16,375						
Corporate expenses	22,431	24,345						
Income taxes	12,865	21,113						
Net income	<u>\$ 127,853</u>	<u>\$ 107,234</u>						
<b>Total Assets</b>	<u>\$ 2,074,892</u>	<u>\$ 1,969,655</u>	<u>\$ 1,036,153</u>	<u>\$ 999,808</u>	<u>\$ 807,745</u>	<u>\$ 756,557</u>	<u>\$ 230,994</u>	<u>\$ 213,290</u>
<b>Additions to property, plant and equipment – net</b>	<u>\$ 35,263</u>	<u>\$ 21,893</u>	<u>\$ 24,966</u>	<u>\$ 13,297</u>	<u>\$ 7,189</u>	<u>\$ 6,763</u>	<u>\$ 3,108</u>	<u>\$ 1,833</u>
<b>Depreciation related to manufacturing activities included in Cost of sales</b>	<u>\$ 19,718</u>	<u>\$ 21,825</u>	<u>\$ 12,794</u>	<u>\$ 15,564</u>	<u>\$ 2,840</u>	<u>\$ 2,006</u>	<u>\$ 4,084</u>	<u>\$ 4,255</u>

Total Assets

December 30,		
	2010	2009
Total assets for reportable segments	\$ 2,074,892	\$ 1,969,655
Corporate assets	21,068	32,525
<b>Total Assets</b>	<u>\$ 2,095,960</u>	<u>\$ 2,002,180</u>

**DOREL INDUSTRIES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2010 and 2009

(All figures in thousands of U.S. dollars, except per share amounts)

**NOTE 27 – SEGMENTED INFORMATION – (Cont'd)**

Goodwill

The continuity of goodwill by industry segment is as follows:

December 30,								
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2010	2009	2010	2009	2010	2009	2010	2009
Balance, beginning of year	\$ 569,824	\$ 540,187	\$ 365,118	\$ 343,155	\$ 173,534	\$ 165,860	\$ 31,172	\$ 31,172
Additions (1)	(7,378)	9,943	–	4,860	(7,378)	5,083	–	–
Contingent considerations (Notes 4 and 13)	4,224	16,155	120	13,583	4,104	2,572	–	–
Foreign exchange	(12,284)	3,539	(12,280)	3,520	(4)	19	–	–
Balance, end of year	\$ 554,386	\$ 569,824	\$ 352,958	\$ 365,118	\$ 170,256	\$ 173,534	\$ 31,172	\$ 31,172

(1) The 2010 adjustment relates to the finalisation of the purchase price allocation of Hot Wheels and Circle Bikes which resulted in a reallocation from goodwill to intangible assets (Note 4).

Concentration of Credit Risk

Sales to the Company's major customer as described in Note 14 were concentrated as follows:

	Canada		United States		Foreign	
	2010	2009	2010	2009	2010	2009
Juvenile	0.9%	0.8%	7.3%	7.3%	0.1%	1.4%
Recreational/Leisure	0.1%	–%	8.8%	8.4%	–%	–%
Home furnishings	4.0%	4.7%	9.4%	6.7%	0.4%	2.1%