



**DOREL INDUSTRIES INC.**

**ANNUAL INFORMATION FORM**

**For the fiscal year ended December 30, 2019**

**March 30, 2020**

## TABLE OF CONTENTS

<p>CAUTION REGARDING FORWARD-LOOKING INFORMATION .....2</p> <p>MARKET AND INDUSTRY DATA .....3</p> <p>CORPORATE STRUCTURE.....3</p> <p style="padding-left: 20px;">Incorporation of Dorel Industries Inc. ....3</p> <p style="padding-left: 20px;">Subsidiaries.....3</p> <p>GENERAL DEVELOPMENT OF THE BUSINESS.....4</p> <p style="padding-left: 20px;">Events in the Development of the Business .....5</p> <p style="padding-left: 20px;">Developments in the Past Three Years .....7</p> <p style="padding-left: 20px;">Developments in Fiscal 2017 .....7</p> <p style="padding-left: 20px;">Developments in Fiscal 2018 .....8</p> <p style="padding-left: 20px;">Developments in Fiscal 2019 .....8</p> <p>DESCRIPTION OF THE BUSINESS.....10</p> <p style="padding-left: 20px;">Operating Segments and Principal Products.....10</p> <p style="padding-left: 20px;">Dorel Home .....11</p> <p style="padding-left: 20px;">Dorel Juvenile.....11</p> <p style="padding-left: 20px;">Dorel Sports .....13</p> <p style="padding-left: 20px;">Distribution.....13</p> <p style="padding-left: 20px;">Major Customers.....14</p> <p style="padding-left: 20px;">Foreign Operations.....14</p> <p style="padding-left: 20px;">Components .....14</p> <p style="padding-left: 20px;">Intangible Properties .....14</p>	<p>Cycles .....15</p> <p>Competitive Conditions.....15</p> <p>Product Development .....16</p> <p>Environmental Protection.....16</p> <p>Employees.....16</p> <p>Social or Environmental Policies .....17</p> <p>RISK FACTORS.....18</p> <p>DIVIDENDS.....23</p> <p>DESCRIPTION OF CAPITAL STRUCTURE.....23</p> <p>MARKET FOR SECURITIES .....23</p> <p>DIRECTORS AND SENIOR OFFICERS .....25</p> <p>LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....26</p> <p>INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....27</p> <p>MATERIAL CONTRACTS .....27</p> <p>TRANSFER AGENT AND REGISTRAR .....27</p> <p>NAMES AND INTERESTS OF EXPERTS.....27</p> <p>INFORMATION ON THE AUDIT COMMITTEE .....27</p> <p>ADDITIONAL INFORMATION .....29</p>
---	--

**In this annual information form (“AIF”), unless the context indicates otherwise, the terms “Dorel” and the “Company” mean Dorel Industries Inc. together with its subsidiaries.**

**Unless otherwise indicated, all references to “dollars” and the symbol “\$” in this AIF are to US dollars.**

## CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this AIF may constitute “forward-looking statements” within the meaning of applicable Canadian securities legislation. Except as may be required by Canadian securities laws, the Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the Company’s expectations expressed in or implied by such forward-looking statements and that the Company’s objectives, plans, strategic priorities and business outlook may not be achieved. As a result, the Company cannot guarantee that any forward-looking statement will materialize, or if any of them do, what benefits the Company will derive from them. Forward-looking statements are provided in this AIF for the purpose of giving information about management’s current expectations and plans and allowing investors and others to get a better understanding of the Company’s operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this AIF are based on a number of assumptions that the Company believed were reasonable on the day it made the forward-looking statements. Factors that could cause actual results to differ materially from the Company’s expectations expressed in or implied by the forward-looking statements include: general economic conditions; changes in product costs and supply channels; foreign currency fluctuations; customer and credit risk including the concentration of revenues with a small number of customers; costs associated with product liability; changes in income tax legislation or the interpretation or application of those rules; the continued ability to develop products and support brand names; changes in the regulatory environment; outbreak of public health crises, such as the coronavirus; continued access to capital resources, including compliance with covenants, and the related costs of borrowing; failure related to information

technology systems; changes in assumptions in the valuation of goodwill and other intangible assets and future decline in market capitalization; and there being no certainty that the Company will declare any dividend in the future. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking statements are discussed throughout this AIF and, in particular, under “Risk Factors”.

The Company cautions readers that the risks described above are not the only ones that could impact it. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial may also have a material adverse effect on the Company’s business, financial condition or results of operations. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

## **MARKET AND INDUSTRY DATA**

Dorel has obtained market and industry data presented in this AIF from a combination of third-party sources and the estimates of management. Although Dorel believes that these third-party sources and its management estimates are reliable, the accuracy and completeness of such data is not guaranteed and has not been verified by any independent sources. Market and industry data, including estimates and projections relating to size of market and market share, is inherently imprecise and cannot be verified due to limitations on the availability and reliability of data inputs, the voluntary nature of the data-gathering process and other limitations inherent in any market research or other survey. Management’s estimates are based on internal research, its knowledge of the relevant market and industry and extrapolations from third-party sources. While Dorel is not aware of any misstatements regarding the market and industry data presented in this AIF, such data involve risks and uncertainties and are subject to change based on various factors, including those factors discussed under “Caution Regarding Forward-Looking Statements” and “Risk Factors” in this AIF.

## **CORPORATE STRUCTURE**

### **Incorporation of Dorel Industries Inc.**

Dorel was incorporated on March 5, 1962 pursuant to Part I of the *Companies Act* (Québec) under the name Dorel Co. Ltd. On May 19, 1987, the Company was continued under Part IA of the *Companies Act* (Québec), at which time certain changes were effected to its share capital, the “private company” provisions were removed from its Articles and the Company’s name was changed to Dorel Industries Inc./Les Industries Dorel Inc. On October 26, 1988, the Company amalgamated with its wholly-owned subsidiary, Ridgewood Industries Ltd. On September 20, 1991, the Company filed Articles of Amendment, effective October 1, 1991, converting each issued and outstanding common share into one-half of a Class “A” Multiple Voting Share carrying ten votes per share and one-half of a Class “B” Subordinate Voting Share carrying one vote per share. The Company was automatically continued under the *Business Corporations Act* (Québec) on February 14, 2011, the date on which that statute came into force. The Company’s head and registered office is located at 1255 Greene Avenue, Suite 300, Westmount, Québec H3Z 2A4.

### **Subsidiaries**

Schedule A annexed hereto sets out the major companies within the organizational structure of the Company as of December 30, 2019, the jurisdiction of incorporation of each subsidiary of the Company and the percentage of votes attaching to all voting securities of each beneficially owned, or controlled or directed, directly or indirectly, by the Company.

## GENERAL DEVELOPMENT OF THE BUSINESS

Dorel is a global organization, operating three distinct businesses in home products, juvenile products and bicycles. It operates in three distinct reporting segments: Dorel Home, Dorel Juvenile and Dorel Sports. Dorel's extensive product offering includes home items such as a wide variety of Ready-to-Assemble ("RTA") furniture for home and office use, as well as folding furniture, futons, mattresses, children's furniture, step stools, hand trucks, specialty ladders, outdoor furniture and other imported furniture items; juvenile products such as infant car seats, strollers, high chairs, playpens, swings, developmental toys and infant health and safety aids; and in Dorel Sports, items such as bicycles, children's electric ride-ons, electric bikes and bicycle trailers, as well as related parts and accessories.

Dorel's strength lies in the diversity, innovation and quality of its products as well as the superiority of its brands. Dorel Home, with its comprehensive e-commerce platform, markets a wide assortment of domestically produced and imported furniture. Dorel Juvenile's powerfully branded products include global brands Maxi-Cosi, Quinny and Tiny Love, complemented by regional brands such as Safety 1<sup>st</sup>, Béb  Confort, Cosco and Infanti. Dorel Sports brands include Cannondale, Schwinn, GT, Mongoose, Caloi and IronHorse.

As at the date of this AIF, Dorel employs approximately 8,900 people and operates in 25 countries. Operations in the United States include Ameriwood Home ("Ameriwood"), which markets RTA furniture products under the Ameriwood, System Build, Altra and Ridgewood brands; Cosco Home & Office ("Cosco"), which markets home/office products under the Cosco brand; Dorel Juvenile U.S., which markets the Safety 1<sup>st</sup>, Cosco and Maxi-Cosi brands, as well as Disney under licensing agreements; Cycling Sport Group ("CSG"), which markets the premium-oriented Cannondale and GT brands; and Pacific Cycle, which markets several brands, including Schwinn, Mongoose, Roadmaster, IronHorse, InStep and Kid Trax. In Canada, Dorel operates Dorel Juvenile Canada, Ridgewood Industries, DHP Furniture and CSG Canada. CSG also has operations based in Switzerland, the Netherlands, Japan, Chile and the United Kingdom. Dorel Juvenile Europe principally markets juvenile products throughout Europe, primarily under the Maxi-Cosi, Quinny, Safety 1<sup>st</sup>, Tiny Love and Béb  Confort brands. Dorel Home Europe is located in the United Kingdom and designs and distributes furniture mainly in the home office and audio-visual categories, including the Alphason brand. Dorel Juvenile Australia assembles and/or distributes its products under both global brands and local brand Mother's Choice, and serves Australia and New Zealand with sales to both large retailers and specialty stores. The greater East Asian market is serviced via a network of third-party distributors. Dorel Juvenile Brazil manufactures car seats locally and imports other juvenile products such as strollers under local brands Infanti and Voyage as well as Dorel's international brands such as Safety 1<sup>st</sup>, Cosco, Maxi-Cosi and Quinny. Dorel Juvenile Chile has operations in Chile and Peru and also sells to customers based in Bolivia and Argentina. Dorel Juvenile Chile operates approximately 90 retail locations in Chile and Peru of which the majority are under the Infanti banner and sell multiple ranges of juvenile products, including non-Dorel owned brands. The principal Dorel brand sold by Dorel Juvenile Chile is Infanti, sold across multiple products and price ranges, with a focus on opening to mid-price points. Dorel Juvenile Chile also distributes products to Colombia, Panama and other Caribbean countries through a local distributor. In addition, Dorel operates several factory outlet retail locations in Europe and Australia. Dorel Juvenile Mexico serves that market by selling Dorel's global brands. Dorel also owns Caloi, a major Brazilian manufacturer of bicycles and bicycle equipment which markets the Caloi brand and assembles bicycles for Dorel's brands such as Cannondale, Schwinn, Mongoose and GT to serve the Brazilian and export markets. In Asia, Dorel serves the Chinese market through its Dorel Juvenile China domestic operation based in Shanghai and sells mostly the Maxi-Cosi and Safety 1<sup>st</sup> brands. Dorel Juvenile China's factory headquarters are in Zhongshan and comprises two manufacturing facilities that supply all Dorel divisions, as well as third-party customers outside of China. In addition, Dorel has other offices in mainland China and Taiwan to oversee the sourcing, engineering and logistics of raw materials and finished goods in order to ensure the highest standard of quality and to ensure that the flow of product is not interrupted.

## Events in the Development of the Business

The Company was founded in Montréal, Québec in 1962 by the late Mr. Leo Schwartz, who served as its President until 1992. Dorel began operations as a small manufacturer and distributor of juvenile products. By the early 1970s, Dorel had established a national sales network for its products.

In 1987, the Company completed an initial public offering in the province of Québec of two million common shares at a price of CAD\$5.00 per share for gross proceeds of CAD\$10 million. At the same time, its common shares commenced trading on the Montréal Exchange. The Company's common shares were initially listed on the Toronto Stock Exchange ("TSX") in 1990.

In September 1991, the Company's shareholders approved a share capital reorganization, pursuant to which each issued and outstanding common share was converted into one-half of a Class "A" Multiple Voting Share carrying ten votes per share and one-half of a Class "B" Subordinate Voting Share carrying one vote per share.

In December 1991, the Company completed a public offering in Canada of 2.6 million Class "B" Subordinate Voting Shares at a price of CAD\$5.75 per share for gross proceeds to the Company of CAD\$14.95 million.

In late 1997, the Company issued 1,075,000 Class "B" Subordinate Voting Shares at a price of CAD\$34.00 per share by way of public offering in Canada, for gross proceeds to the Company of CAD\$36.55 million.

In May 1998, Dorel acquired Ameriwood; a portion of the purchase price for Ameriwood was financed by the issuance of 460,000 Class "B" Subordinate Voting Shares at a price of CAD\$47.65 per share by way of a public offering in the United States and Canada. The net proceeds to the Company from this offering were CAD\$20.2 million.

In August 1998, the Company announced a two-for-one stock split, which became effective in September 1998.

In May 2002, the Company issued 2,929,200 Class "B" Subordinate Voting Shares at a price of CAD\$38.50 per share by way of a public offering in Canada, for gross proceeds to the Company of CAD\$112.8 million. The net proceeds from the public offering were used by the Company to reduce bank indebtedness.

In July 2002, the Company sold, through one of its subsidiaries, \$50 million principal amount of 6.80% Series A Senior Guaranteed Notes due July 26, 2012. The net proceeds from the sale of the notes were used to repay floating debt that was outstanding at the time. The notes were purchased by a group of institutional investors led by The Prudential Insurance Company of America.

In connection with the acquisition of Ampa France, now known as Dorel Juvenile France, Dorel completed the sale in February 2003 of \$110 million principal amount of senior guaranteed notes. The senior guaranteed notes were purchased by a group of institutional investors including Prudential Capital Group, an institutional investment business of Prudential Financial, and Teachers Insurance and Annuity Association - College Retirement Equity Fund. Of the \$110 million, Dorel issued \$55 million of Series A Notes bearing interest at 5.09%, which were repaid on February 11, 2008, and \$55 million of Series B Notes bearing interest at 5.63%, which were repaid on February 10, 2010.

In March 2007, the Company voluntarily delisted its Class "B" Subordinate Voting Shares from the NASDAQ Global Market. The Class "B" Subordinate Voting Shares continued to trade on the TSX after the delisting from NASDAQ.

For the first time in the Company's history, on March 12, 2007, the Board of Directors declared a quarterly dividend, in an amount of \$0.125 per share on the Class "A" Multiple Voting Shares, Class "B" Subordinate Voting Shares, Deferred Share Units, cash-settled Restricted Share Units and cash-settled Performance Share Units of the Company. Following the initial dividend declaration, the Company declared annualized dividends in the amount of \$0.50 per share. On May 6, 2010, the annualized dividend was increased to \$0.60 per share as a result of an increase in the quarterly dividend to \$0.15 per share and on August 9, 2012, the annualized dividend

was increased to \$1.20 per share as a result of an increase in the quarterly dividend to \$0.30 per share. On March 14, 2019, the annualized dividend was decreased to \$0.60 per share as a result of a decrease in the quarterly dividend to \$0.15 per share. On September 30, 2019, the Board of Directors suspended Dorel's dividends.

In connection with the acquisition of Cannondale/SUGOI, the Company entered into an amendment to its revolving bank loans ("Revolving Bank Loans") on January 18, 2008. Under the amended Revolving Bank Loans, the total availability was increased to \$475 million with an "accordion" feature allowing the Company to have access to an additional amount of \$50 million on a revolving basis.

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

Effective July 15, 2011, the Company amended the Revolving Bank Loans in order to extend the maturity date from July 1, 2013 to July 1, 2014.

On November 3, 2011, the Company announced that it had significantly increased the presence of its Dorel Juvenile segment in Latin America by signing share purchase agreements to acquire a 70% interest in an existing group of companies, the Silfa Group (now known as Dorel Juvenile Chile), which owns and operates the popular Infanti brand in Chile, Bolivia, Peru and Argentina. The transaction was completed on November 30, 2011. With this investment, Dorel entered the juvenile retail business.

Effective April 10, 2012, the Company amended the Revolving Bank Loans in order to extend the maturity date from July 1, 2014 to July 1, 2015; the total availability thereunder was reduced from \$300 million to \$260 million.

On September 25, 2012, the Company signed purchase agreements acquiring a 70% interest in two juvenile product businesses that sell to customers in Colombia and Central America (now known as Dorel Juvenile Colombia). This acquisition expanded the Company's ownership of the Infanti brand for which the Company owned the rights in Chile, Bolivia, Peru and Argentina. Dorel Juvenile Chile also distributes products to Colombia, Panama and other Caribbean countries through a local distributor.

Effective May 31, 2013, the Company amended the Revolving Bank Loans in order to extend the maturity date from July 1, 2015 to July 1, 2016. In addition, effective August 21, 2013, the total availability of the Revolving Bank Loans was increased from \$260 million to \$360 million and the accordion feature allowing the Company to have access to an additional amount was reduced from \$200 million to \$100 million.

On April 22, 2014, Caloi issued approximately \$30.7 million (100.0 million BRL) of non-convertible debentures in Brazil ("Non-Convertible Debentures"). The proceeds from the issuance of the Non-Convertible Debentures were used to replace then-existing debts such as bank indebtedness and revolving bank loans. The Non-Convertible Debentures were prepaid in March 2017.

Effective May 27, 2014, the Company amended the Revolving Bank Loans in order to extend the maturity date from July 1, 2016 to July 1, 2017.

On October 9, 2014, the Company completed a public offering in Canada of 5.50% extendible convertible subordinated debentures ("Convertible Debentures") due November 30, 2019 in an aggregate principal amount of \$120 million. The Company used the net proceeds from the offering to fund the acquisition of Lerado Group (now known as Dorel Juvenile China). The Convertible Debentures were redeemed in July 2019.

Effective June 19, 2015, the Company amended its Note Purchase Agreement of April 2010. Specifically, the Company repaid the \$50 million Series "A" Senior Guaranteed Notes and issued \$50 million Series "C" Senior

Guaranteed Notes with similar terms and conditions. The Series “B” and “C” Senior Guaranteed Notes were prepaid in March 2017.

Effective June 19, 2015, the Company amended the Revolving Bank Loans and increased the total availability thereunder to \$400 million from \$360 million while the accordion feature allowing the Company to have access to an additional amount was reduced from \$100 million to \$60 million. In addition, effective November 20, 2015, the Company increased the total availability of the Revolving Bank Loans from \$400 million to \$422 million, while the availability of the accordion feature decreased by the same amount to \$38 million.

Effective March 31, 2016, the Company amended the Revolving Bank Loans in order to extend the maturity date from July 1, 2017 to July 1, 2018. In 2016, the Company increased the total availability of the Revolving Bank Loans from \$422 million to \$435 million while the availability of the accordion feature decreased by the same amount to \$25 million.

## **Developments in the Past Three Years**

### **Developments in Fiscal 2017**

As part of the acquisition of Caloi in 2013, the Company had entered into a forward purchase agreement with the non-controlling interest holder for the purchase of its 30% stake in Caloi. In April 2016, the Company purchased 15% of its stake in Caloi for \$4.4 million and in March 2017, the remaining 15% stake in Caloi was purchased for \$7.9 million.

Effective March 24, 2017, the Company amended and restated its Credit Agreement with respect to the Revolving Bank Loans and extended the maturity date from July 1, 2018 to the earlier of (i) July 1, 2020 and (ii) May 30, 2019 if the Convertible Debentures have not been repaid or refinanced (i.e. six months prior to the maturity date). In addition, the total availability under the Revolving Bank Loans was decreased to \$350 million from the total availability as at December 30, 2016 of \$435 million. The accordion feature included in the Credit Agreement allowing the Company to have access to an additional amount of \$25 million as at December 30, 2016 was increased to \$100 million.

In addition, effective March 24, 2017, the Company secured a term loan (“Term Loan”) of \$200 million with the same maturity date as the Revolving Bank Loans. The net proceeds from the Term Loan were used by the Company to prepay the Series “B” and “C” Senior Guaranteed Notes and the Non-Convertible Debentures in Brazil, and to reduce bank indebtedness. The Term Loan bears interest at various rates per annum, based on the LIBOR rate plus a margin.

The Term Loan as well as the Revolving Bank Loans are secured by certain of the Company’s trade receivables, inventories, property, plant and equipment and intangible assets. Under the Term Loan and the Revolving Bank Loans, the Company is subject to certain covenants, including maintaining certain financial ratios.

The restructuring activities initiated previously in 2015 as part of Dorel Juvenile’s on-going transformation, whose main objective was to further align its operations to drive profitable sales growth by concentrating on improved agility with a more market-focused approach to reduce costs and better react to trends in the juvenile industry, were completed in the fourth quarter of 2018. Central to this change was the allocation of resources that create the greatest return. Overheads were reduced and savings re-purposed into needed improvement in digital capabilities and enhanced brand support. The ability to develop and bring meaningful products to market faster was improved by decreasing complexity and by sourcing opportunities to supplement existing best-in-class product development and manufacturing and further people costs reductions occurred. The main driver of these headcount reduction costs was the consolidation of the Asian-based product development team in China and additional headcount reduction opportunities overall. In addition, certain licensed third-party brands used in North America were exited to allow for additional energy and financial resources to be dedicated to Dorel owned brands.

In order to simplify and focus its business to support and grow earnings, Dorel Sports began restructuring activities in the third quarter of 2016. First, the distribution for the GT brand was transferred to a third-party distributor in China, which is the actual route-to-market in many other countries for this brand. In addition, to better serve customers, the majority of Pacific Cycle's mass market and distribution operations were relocated from Olney, Illinois to Savannah, Georgia. Lastly, the three U.S. "Cannondale Sports" retail outlets were exited. These restructuring initiatives were completed in third quarter of 2017.

## **Developments in Fiscal 2018**

During the second quarter of 2018, as Dorel Juvenile – Latin America's business continued to face a decline in sales and profitability as a result of changes in the market and consumer behaviour, assumptions on projected earnings and cash flows growth for Dorel Juvenile – Latin America cash generating unit ("CGU") were revised, which resulted in impairment charges on customer relationships of \$8.9 million and trademarks of \$15.3 million (Infanti brand) for a total of \$24.2 million.

Due to the sustained decline in Dorel's stock price during 2018, which caused Dorel's market capitalization to be significantly lower than the carrying amount of its net assets, assumptions on projected earnings and cash flows growth were revised for the majority of the CGUs during the fourth quarter of 2018. As a result, Dorel recorded impairment losses on goodwill of \$353.6 million, on trademarks of \$127.3 million, on customer relationships of \$13.6 million, on software licenses of \$0.9 million and on property, plant and equipment of \$6.0 million for a total of \$501.4 million. Of the \$501.4 million recorded, \$264.2 million was within Dorel Juvenile and \$237.2 million was within Dorel Sports.

On March 15, 2018, Toys"R"Us, one of the Company's customers, announced that it had filed a motion seeking Bankruptcy Court approval to begin the process of conducting an orderly wind-down of its U.S. business and liquidation of inventory in all of its U.S. stores. The Company had determined that the trade accounts receivable from this customer were at risk of collection and recorded an impairment loss of \$3.8 million for the year ended December 30, 2017 and an additional \$12.5 million for the year ended December 30, 2018 with respect to these trade accounts receivable from Toys"R"Us U.S. During the fourth quarter of 2019, the Company received a final payment of \$1.0 million resulting from the settlement agreement with Toys"R"Us U.S. for which it recorded a reversal of \$0.7 million of previously recognized impairment losses.

In the second quarter of 2018, Dorel announced it was divesting its performance apparel line of business to focus on its core strategic businesses of bicycles, parts and accessories and electric ride-ons and had sold the SUGOI and Sombrio brands. As a result of the sale of the performance apparel line of business, \$11.8 million was recorded as restructuring costs.

On October 1, 2018, Dorel Home acquired the assets and operations of UK-based Alphason for a purchase price of \$3.1 million (GBP 2.4 million). Established some 30 years ago, Alphason designs and distributes award-winning home office and audio-visual furniture. Alphason is now integrated within the Dorel Home Europe operations, and Dorel is using this base to expand and to provide strong logistics support with a distribution hub to serve and grow its European business, including the North American e-commerce partners, many of whom have been growing in Europe and have been asking Dorel Home to support this growth.

## **Developments in Fiscal 2019**

On March 8, 2019, Dorel amended and restated the Revolving Bank Loans and Term Loan to modify the covenants set out therein to permit additional indebtedness with other lenders in order for Dorel to refinance and redeem the Convertible Debentures. In addition, the covenants were adjusted in light of the previous twelve months results of operations in order to facilitate compliance with such covenants. The amendment also extended the maturity date to July 1, 2021 if the Convertible Debentures were repaid or refinanced by May 30, 2019. On May 8, 2019, Dorel amended the Revolving Bank Loans and Term Loan to extend their maturity date to the earlier of (i) July 1, 2021 and (ii) July 31, 2019 if the Convertible Debentures had not been repaid or refinanced, in cash or in shares of Dorel, by that date. As the Convertible Debentures were redeemed and repaid on July 22, 2019, the maturity date of the Revolving Bank Loans and Term Loan was extended to July 1, 2021. On September 30, 2019,

Dorel again amended and restated the Revolving Bank Loans and Term Loan to modify the covenants therein in order to facilitate compliance with such covenants. On March 9, 2020, Dorel amended and restated the Revolving Bank Loans and Term Loan to facilitate compliance with the covenants therein based on the quarterly forecasted projections for 2020.

On March 14, 2019, Dorel announced that it had adjusted its quarterly dividend from the prior \$0.30 a share to \$0.15 a share for the current year. During the first three quarters of 2019, a quarterly dividend of \$0.15 per share was declared by the Board of Directors. On September 30, 2019, the Board of Directors suspended Dorel's dividends.

During the first quarter of 2019, Dorel Juvenile initiated a new restructuring program across several regions, whose main objective is to simplify the organization and optimize its global footprint. These restructuring initiatives are expected to be completed in 2020. In order to improve Dorel's competitive position in the marketplace, several areas of opportunity have been identified. In Europe, the objective is to streamline the organization and better leverage its scale of operations by adopting technologies and processes that allow for the centralization of certain operating activities. In Latin America, distribution operations based in Colombia and Panama were closed, with supply continuing through a local distributor. In Asia, further efficiencies and savings initiatives are anticipated, enabled partly by investments in technology already in place. In addition, the China domestic sales organization is being re-oriented to sell directly to the consumer and is exiting unprofitable product lines and customer arrangements.

On June 17, 2019, Dorel entered into a five-year \$175.0 million senior unsecured notes agreement ("Senior Unsecured Notes") with several institutional lenders. The Senior Unsecured Notes are divided into two tranches: (i) a \$125.0 million tranche that was fully drawn and used to redeem at par the Convertible Debentures; and (ii) a \$50.0 million tranche that is available for general corporate purposes with the consent of the lenders. The Senior Unsecured Notes mature five years from the date of the initial advance, bear interest at a rate of 7.50% per annum payable quarterly in cash, rank *pari passu* with all of Dorel's other senior unsecured indebtedness and are guaranteed by certain of Dorel's subsidiaries. In addition, Dorel is subject to certain covenants under the Senior Unsecured Notes, including maintaining certain financial ratios. The first tranche of \$125.0 million was fully drawn by Dorel on July 19, 2019, the date of the initial advance. On December 30, 2019, Dorel amended the Senior Unsecured Notes agreement to modify the covenants therein in order to be in line with the amended Revolving Bank Loans and Term Loan financial covenants.

In June 2019, Dorel provided the holders of the Convertible Debentures with a redemption notice. On July 22, 2019, Dorel redeemed the Convertible Debentures, in whole, at the par value of \$120.0 million, plus accrued and unpaid interest amounting to \$0.9 million, using the net proceeds from the Senior Unsecured Notes.

On July 1, 2019, Dorel acquired certain assets and operations of Canbest Marketing Inc. ("Canbest"), a Montréal-based company engaged in the development, design and marketing of home furnishings products, for a purchase price of \$9.2 million, payable in three non-interest bearing instalments, (i) \$3.2 million paid on October 1, 2019; (ii) \$3.0 million payable on October 1, 2020; and (iii) \$3.0 million payable on October 1, 2021. Canbest is a sales, marketing and design company which provided these services to Dorel Home. For almost 20 years, Canbest supported Dorel Living in the furniture product categories of wooden bedroom, upholstery, nursery and dining.

During the fourth quarter of 2019, Dorel Sports initiated restructuring activities as part of its focus into a more fully integrated operation in various markets. These restructuring initiatives will continue in 2020 as the strategic direction identified will be put into action, and are expected to be completed by the end of 2020. Among the initiatives, in a move to support its next level of growth and to maintain the increasing momentum of its Cannondale brand, Dorel Sports is strengthening its European CSG operations which will be centralized in the Netherlands. The existing assembly plant in Oldenzaal is being transformed into a new and more modern facility to increase its current production capacity of Cannondale bicycles and e-bikes, and allow for an increased focus on premium quality products. All production and supply related departments are being merged into the new facility. In addition, the office portion of the Oldenzaal facility as well as CSG's Basel, Switzerland location are being closed. Dorel Sports will also consolidate its Brazilian operations by merging its Sao Paulo and Atibaia offices to a new facility located in Sao Paulo. This move will drive cost reductions and improve communications

by combining the engineering and product development teams under one roof.

## DESCRIPTION OF THE BUSINESS

### Operating Segments and Principal Products

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

Dorel's channels of distribution vary by segment, but overall, its largest customers are major retail chains and Internet retailers. The retail chains include mass merchant discount chains, department stores, club format outlets and hardware/home centers while the Internet retailers consist of both mass merchant sites such as Walmart.com and pure Internet retailers such as Amazon. Within Dorel Juvenile, sales are also made to independent boutiques and juvenile specialty stores. In Dorel Sports, the Independent Bike Dealer ("IBD") network is a significant channel, along with sporting goods chains. Dorel also owns and operates approximately 90 retail stores in Chile and Peru, as well as several factory outlet retail locations in Europe and Australia.

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

All of the three segments market, advertise and promote their products through advertisements on-line, via social media and on Company-owned websites, in specific magazines, multi-product brochures, and other media outlets. The Company's major retail customers also advertise Dorel's products, principally through circulars and brochures. For Dorel Sports, various sponsorships are provided to teams and individual athletes to promote the Cannondale, Caloi, GT and Mongoose brands.

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

Dorel is a designer and manufacturer of a wide range of products, as well as an importer of finished goods, the majority of the latter from overseas suppliers. As such, the Company relies on its suppliers for both finished goods and raw materials and has always prided itself on establishing successful long-term relationships both domestically and overseas. The Company has established a workforce of more than 250 people in mainland China and Taiwan whose role is to ensure the highest standard of quality of its products and to guarantee that the flow of product is not interrupted. The economic downturn has illustrated the quality of these supplier relationships in that Dorel has not been adversely affected by issues with its supplier base and their continuing ability to service Dorel.

In addition to its solid supply chain, quality products and dedicated customer service, recognized consumer brands are an important element of Dorel's strategy. As examples, in North America, Dorel's Schwinn and Cannondale product lines are among the most recognized brand names in the sporting goods industry. Safety 1<sup>st</sup> is a highly regarded Dorel brand in the North American juvenile products market. Throughout Europe, the Maxi-Cosi brand has become synonymous with quality car seats. In most of Dorel's Latin American markets, Infanti is a leading brand for lower to medium priced juvenile products, and the Caloi brand is one of the largest bicycle brands in the market.

These brands, and the fact that Dorel has a wide range of other brand names, allow for product and price differentiation within the same product categories. Product development is a significant element of Dorel's past and expected future growth. Dorel has invested heavily in this area, focusing on innovation, quality, safety and speed to market with several design and product development centers. Over the past five years, Dorel has spent on average more than \$40.7 million per year on new product development.

## Operating Segments

The following is a description of Dorel's three operating segments, namely, Dorel Home, Dorel Juvenile and Dorel Sports.

### Dorel Home

Dorel Home participates in the approximately \$105 billion North American furniture and mattress industry. Dorel ranks in the top five of North American furniture manufacturers and marketers and has a strong foothold in both North American manufacturing and importation of furniture, with a significant portion of its supply coming from its own manufacturing facilities and the balance through sourcing efforts in Asia. Dorel is also the number two manufacturer of RTA furniture in North America. Products are distributed from Dorel's North American manufacturing locations as well as from several distribution facilities.

Dorel Home consists of four operating divisions. They are Ameriwood Home ("Ameriwood"), Cosco Home & Office ("Cosco"), DHP Furniture ("DHP") and Dorel Home Europe. Ameriwood specializes in domestically manufactured RTA furniture and is headquartered in Wright City, Missouri. Ameriwood's manufacturing and distribution facilities are located in Tiffin, Ohio, Savannah, Georgia, Dowagiac, Michigan and Cornwall, Ontario. Ameriwood also has an import division, Altra Furniture ("Altra"). Altra is also located in Wright City, Missouri and designs and imports furniture mainly within the home entertainment and home office categories. Cosco is located in Columbus, Indiana and the majority of its sales consist of folding furniture, step stools, hand trucks, specialty ladders and outdoor furniture. DHP is located in Montréal, Québec, and is a leading manufacturer and importer of quality futons, mattresses and bedroom furniture; it also imports upholstery, kitchen, nursery, and dining room furniture. DHP was created through the combination of Dorel Home Products and Dorel Living in 2019. Dorel Home Europe is located in the United Kingdom and designs and distributes furniture mainly in the home office and audio-visual categories, and includes the recently acquired Alphason brand. Major distribution facilities are also located in Québec, California and Georgia.

With its continued expansion into on-line sales in 2019, Dorel Home grew revenue by approximately 5%, recording its highest annual sales to date. Dorel Home has significant market share within its product categories and has a strong presence with its customer base. Sales are concentrated with Internet retailers, mass merchants, warehouse clubs, home centers and office and electronic superstores. On-line sales represent a significant portion of Dorel Home revenue and it has made many investments in this channel. Dorel Home markets its products under generic retail house brands as well as under a range of branded products including: Ameriwood, Altra, System Build, Ridgewood, DHP, Dorel Fine Furniture, Dorel Living, Signature Sleep, Cosmo Living, Novogratz, Little Seeds, Baby Relax, Cosco and Alphason.

In 2019, Dorel Home accounted for 32% of Dorel's revenue (31% in 2018).

### Dorel Juvenile

Dorel Juvenile manufactures and distributes products such as infant car seats, strollers, high chairs, playpens, swings, developmental toys and infant health and safety aids. Globally, within its principal categories, Dorel's combined juvenile operations make it one of the leading juvenile products companies in the world. Innovative products and a strong brand portfolio form an integral part of Dorel Juvenile's business strategy.

The Maxi-Cosi, Quinny and Tiny Love brands are sold globally in most of Dorel Juvenile's markets. Other brands such as Safety 1<sup>st</sup>, Bébé Confort, Cosco, Mother's Choice and Infanti are strong regional brands and Dorel Juvenile

is able to address all price points with its range of brands and products. In addition, sales are made under licensed brands such as Disney, principally in North America. Sales are also made to customers under their own unique house brand names. Dorel Juvenile has divisions in North America, Europe, Latin America, China, Israel, Australia and New Zealand. In total, Dorel Juvenile sells product to more than 100 countries around the world.

The head office of Dorel Juvenile U.S. is in Foxboro, Massachusetts. With the exception of car seats, the majority of its products are conceived, designed and developed at the Foxboro location. Manufacturing and warehousing operations are based in Columbus, Indiana where car seat development is centralized at the Company's state-of-the-art Dorel Technical Center for Child Safety. Additional West Coast warehousing is in Ontario, California. Dorel Juvenile Canada is based in Toronto, Ontario and sells to customers throughout Canada. The principal brand names sold in North America are Safety 1<sup>st</sup>, Cosco, Tiny Love and Maxi-Cosi.

In North America, the majority of juvenile sales are to larger retailers such as mass merchants, Internet retailers and department stores, where consumers' priorities are design oriented, with a focus on safety and quality at reasonable prices. Dorel Juvenile's premium brands and innovative product designs are a focus for sales of medium to higher price points available at smaller boutiques and specialty stores. This North American collection, under principally the Maxi-Cosi brand name, also competes with smaller premium product juvenile companies. Dorel is one of several large juvenile products companies servicing the North American market.

Dorel Juvenile Europe's head office, as well as its major product design facilities, are located in Helmond, the Netherlands. Sales operations along with manufacturing and assembly facilities are located in France, the Netherlands and Portugal. In addition, sales and/or distribution subsidiaries are located in Italy, Spain, the United Kingdom, Germany, Belgium, Switzerland and Poland. Dorel Juvenile Europe markets its products primarily under the brand names Maxi-Cosi, Quinny, Safety 1<sup>st</sup>, Tiny Love and Béb  Confort.

In Europe, Dorel sells the majority of its products across the mid-level to high-end price points. With Dorel's well-recognized brand names, superior designs and product quality, the majority of European sales are to large European juvenile product retail chains, Internet retailers, independent boutiques and specialty stores. Dorel is one of the leading juvenile products companies in Europe.

In Latin America, Dorel Juvenile has operating locations in Brazil, Chile, Peru and Mexico. Dorel Juvenile Brazil, one of the largest juvenile products companies in the country, manufactures car seats locally and imports other juvenile products, such as strollers. Brands sold in Brazil include local brands Infanti and Voyage, as well as Dorel's international brands such as Safety 1<sup>st</sup>, Cosco, Maxi-Cosi and Quinny. Dorel Juvenile Chile has operations in Chile and Peru and also sells to customers based in Bolivia and Argentina. Dorel Juvenile Chile operates approximately 90 retail locations in Chile and Peru and sells multiple ranges of juvenile products and toys, including non-Dorel owned brands. The majority of these stores are under the Infanti banner. The principal Dorel brand sold by Dorel Juvenile Chile is Infanti, sold across multiple products and price ranges, with a focus on opening to mid-price points. Dorel Juvenile Chile also distributes products to Colombia, Panama and other Caribbean countries through a local distributor.

In Asia, Dorel serves the Chinese market through its Dorel Juvenile China domestic operation based in Shanghai and sells mostly the Maxi-Cosi and Safety 1<sup>st</sup> brands. Dorel Juvenile China's factory headquarters are in Zhongshan and comprises two manufacturing facilities that supply all Dorel divisions, as well as third-party customers outside of China. Dorel Juvenile Australia assembles and/or distributes its products under both global brands and local brand Mother's Choice and serves Australia and New Zealand with sales to large retailers and specialty stores. The greater East Asian market is serviced via a network of third party distributors. Tiny Love is based in Tel Aviv, Israel and is recognized as an innovator in the developmental toy category, which comprises products such as activity gyms, mobiles, light gear and toys designed specifically for babies and toddlers. As one of Dorel's global brands, Tiny Love sells products in approximately 70 countries worldwide, both through Dorel subsidiaries and via a worldwide distributor network.

In 2019, Dorel Juvenile accounted for 33.5% of Dorel's revenue (35% in 2018).

## Dorel Sports

Dorel Sports participates in a worldwide marketplace that totals approximately \$49 billion in retail sales annually. This includes bicycles, children's electric ride-ons, electric bikes and bicycle trailers, as well as related parts and accessories. The breakdown of bicycle industry sales around the world is approximately 64% in the Asia-Pacific region, 20% in Europe and 12% in North America, with the balance in the rest of the world. Bicycles are sold in the mass merchant channel, at IBDs as well as in sporting goods chains.

In the United States, mass merchants have captured a greater share of the market over the past 20 years and today account for approximately 74% of unit sales. Despite the growth of the mass merchant channel, the IBD channel remains an important retail outlet in North America, Europe and other parts of the world. IBD retailers specialize in higher-end bicycles and deliver a level of service to their customers that mass merchants cannot provide. Retail prices in the IBDs are much higher, reaching approximately \$10,000 per unit. This compares to the mass merchant channel where the highest prices are between \$200 and \$300 per unit. The sporting goods and outdoor specialty retailer chains sell bicycles in the mid-price range; in the United States this channel accounts for approximately 9% of total industry retail sales.

Brand differentiation is an important part of the bicycle industry with different brands being found in the different distribution channels. High-end bicycles and brands are found in IBDs and some sporting goods chains, while the other brands can be purchased at mass market retailers. Consumer purchasing patterns are generally influenced by economic conditions, weather and seasonality.

Dorel Sports' worldwide headquarters are in Wilton, Connecticut. There are also significant operations in Madison, Wisconsin and Bentonville, Arkansas. Additionally in the U.S., distribution centers are located in California, Georgia and Illinois. European operations are headquartered in Oldenzaal, the Netherlands with additional offices in Switzerland, Germany and the United Kingdom. Brazilian operations, through Caloi, are headquartered in São Paulo, Brazil with manufacturing facilities in Manaus, Brazil. Globally, there are sales and distribution companies based in Japan and Chile. There is a sourcing operation based in Taiwan established to oversee Dorel Sports' Asian supplier base and logistics chain, ensuring that the Company's products are produced to meet exacting quality standards.

The IBD retail channel as well as sporting goods and outdoor specialty retailers are serviced by CSG which focuses exclusively on this category, principally with the premium-oriented Cannondale and GT brands. The vast majority of sales to this channel consist of bicycles, with some sales of parts and accessories. The Caloi division sells to both IBD and mass merchant channels. The Pacific Cycle division has an exclusive focus on mass merchant customers, and along with bicycles and parts and accessories, its product line also includes bicycle trailers, children's electric ride-ons and some toys. The mass merchant product line of bicycles, parts and accessories are sold under several brands, the most significant being Schwinn and Mongoose. Other important brands used at varying price points include Roadmaster and IronHorse, as well as licensed brands on children's bicycles and tricycles. Bicycle trailers are sold under the InStep and Schwinn brands and children's electric ride-ons are sold mainly under Kid Trax as well as certain licensed products.

In Europe and elsewhere around the world, certain bicycle brands are sold across these distribution channels. As an example, in Russia, GT is a successful brand in the sporting goods channel, whereas in the Czech Republic this same brand is sold in the IBD channel.

In 2019, Dorel Sports accounted for 34.5% of Dorel's revenue (34% in 2018).

## Distribution

Dorel sells its products primarily to major retail chains and Internet retailers. In 2019, Dorel had sales to the following: (i) mass merchant discount chains; (ii) speciality stores; (iii) department stores; (iv) club format outlets; (v) hardware/home centers; (vi) independent stores; (vii) sporting goods stores; and (viii) Internet retailers.

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

## **Major Customers**

For the year ended December 30, 2019, one customer accounted for more than 10% of the Company's revenue, at 28.6%. In 2018, this customer accounted for 28.9% of revenue. Dorel believes that its commitment to provide a high-quality, industry-leading level of service has allowed it to develop successful and mutually-beneficial relationships with major retailers such as Wal-Mart and Target. Dorel has achieved high levels of customer satisfaction by fostering particularly close contacts between its sales representatives and clients. To this end, Dorel has a permanent, full-service account team dedicated exclusively to Wal-Mart, located near Wal-Mart's headquarters in Bentonville, Arkansas. Dorel has also engaged account teams dedicated exclusively to Target. These dedicated account teams give Dorel's customers the assurance that inventory and supply requirements will be met and that any problems will be immediately addressed. The account teams also provide product and market analysis and can assist with product specification and design.

Dorel believes that its mass merchant customers' preference is to buy from fewer but larger suppliers who can deliver a wide range of products, provide greater security of supply and render increased levels of service. Dorel believes that its ability to deliver a wide range of products on a reliable basis, combined with its demonstrated commitment to service, provides it with an important competitive advantage in this environment.

Dorel's relationship with each of Wal-Mart and Target has the additional benefit of providing Dorel with important feedback which it uses to improve its product offerings and to respond rapidly to changing market trends.

## **Foreign Operations**

In 2019, 63% of Dorel's sales took place in the United States, 3% in Canada, 20% in Europe, 10% in Latin America, 2% in Asia and 2% elsewhere. The origin of Dorel's sales in 2019 from its various facilities is as follows: United States 60%, Canada 7%, Europe 19%, Latin America 9%, Asia 3% and 2% elsewhere.

## **Components**

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

## **Intangible Properties**

Strong consumer brands are an important element of Dorel's strategy. For example, in North America, Dorel's Schwinn and Cannondale product lines are among the most recognized brand names in the sporting goods industry. Safety 1<sup>st</sup> is a highly regarded Dorel brand in the North American juvenile products market. Throughout Europe, the Maxi-Cosi brand has become synonymous with quality car seats. In most of Dorel's Latin American markets, Infanti is a leading brand for lower to medium priced juvenile products and the Caloi brand is one of the largest bicycle brands in the market. These brands, and the fact that Dorel has a wide range of other brand names, allow for product and price differentiation within the same product categories.

Some of Dorel's intangible assets include: trademarks, customer relationships and patents.

## Cycles

Though revenue at the three operating segments within Dorel may vary in its seasonality, for the Company as a whole, variations between quarters are not significant.

## Competitive Conditions

Dorel Home participates in the approximately \$105 billion North American furniture and mattress industry. To Dorel's knowledge, it ranks in the top five of North American furniture manufacturers and marketers and has a strong foothold in both North American manufacturing and importation of furniture, with a significant portion of its supply coming from its own manufacturing facilities and the balance through sourcing efforts in Asia. Dorel is also the number two manufacturer of RTA furniture in North America. Products are distributed from Dorel's North American manufacturing locations as well as from several distribution facilities. Dorel Home has many competitors including Sauder Manufacturing and Whalen Furniture in the RTA category, Mecco in the folding furniture category, Tricam in step stools, Werner in ladders and Zinus in mattresses.

With regards to Dorel Juvenile, Dorel is one of several large juvenile products companies servicing the North American market along with Graco (a part of Newell Brands Inc.), Evenflo Company Inc. (a subsidiary of Goodbaby International Holdings Limited), Uppababy, Chicco and Britax. In Europe, Dorel is one of the leading juvenile products companies, competing with others such as Britax, Team-Tex, Joie Baby, Artsana and Cybex (a subsidiary of Goodbaby International Holdings Limited), as well as several smaller companies. In Latin America, Dorel is a leading juvenile products company with divisions located in its major markets as opposed to global brand competitors such as Graco, Evenflo, Britax, Peg Perego and Chicco which mostly operate through distributors. There are also several smaller competitors which operate using local brands unique to their markets. The Chinese market is characterized by many local suppliers as well as most major international juvenile products companies attempting to establish a presence in this growing market. In China, feeding category and strollers are the most important product categories as the use of car seats is less common. Dorel currently has a small share of the Chinese market and is beginning to support its international brands including Maxi-Cosi and Safety 1<sup>st</sup>. Within its principal categories, Dorel believes that its combined juvenile operations make it one of the leading juvenile products companies in the world.

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

Although the diversity of products and fragmented markets of the home furnishings and sports products industries make useful comparisons difficult, Dorel believes that the following table sets out the major competitors for each of its business segments:

<u>Dorel Home</u>		<u>Dorel Juvenile</u>		<u>Dorel Sports</u>	
Home Star	South Shore	Britax Romer	Maclaren	Accell	Huffy
Lifetime	Tricam	Bugaboo	Peg Perego	Hyper Bikes	Kent
Linon	Zinus	Summer Infant	The First Years	Dynacraft	Specialized
Sauder	Werner	Baby Trend	Munchkin	Giant	Trek
Mecco	Whalen	Fisher Price	Stokke	Scott	Merida
Best Choice Products	Noble House Furniture	Kolcraft	Team Tex	Pon Holdings	Canyon

<u>Dorel Home</u>		<u>Dorel Juvenile</u>		<u>Dorel Sports</u>
Louisville Ladder Group	Other imports from the Orient	Joie	Avent	Cube
		UppaBaby	Artsana Group (Chicco/Prenata I/Neobaby)	
		Goodbaby International (Evenflo/Cybex/GB/Urbini)	Newell Brands (Graco/Baby Jogger)	

## Product Development

Product development is an important element of Dorel’s past and expected future growth. As a growing consumer products company, Dorel has invested heavily in this area, focusing on innovation, quality, safety and speed to market with several design and product development centers. Each of Dorel’s three operating segments generally introduces many new products every year. Additionally, quality control is an essential part of Dorel’s competitive position. Most products are developed to exclusive specifications and rigid safety standards, particularly as regards to Dorel Juvenile.

North American research and development is done at several locations. Except for car seat development, juvenile products are conceived, designed and developed at Dorel Juvenile U.S.’ Foxboro, Massachusetts location. Car seat development is centralized at the Company’s state-of-the-art car seat Dorel Technical Center for Child Safety in Columbus, Indiana. Car seat engineering is carried out at Dorel Juvenile U.S.’ plant in Columbus, Indiana. This facility includes a 25,000 square foot area with respect to car seats as well as for home furnishings products carried by the Cosco Home & Office division. Furniture products and futons are conceived and developed at a design center at Ameriwood’s head office in Wright City, Missouri as well as at DHP Furniture in Montréal, Québec. In Europe, development for Dorel Juvenile is carried out in Helmond, the Netherlands. Dorel Juvenile China further expanded Dorel’s research and development expertise. Recreational products are conceived and designed principally at Dorel’s facilities in Wilton, Connecticut, Madison, Wisconsin, Freiburg, Germany and Sao Paulo, Brazil.

As new product development is vital to the continued success of Dorel, the Company must make capital investments in research and development, moulds and other machinery, equipment and technology. It is expected that Dorel will invest between \$40 million and \$50 million in 2020 to meet its new product development and other growth objectives. The Company expects its existing operations to be able to generate sufficient cash flow to provide for this and other requirements as they arise throughout the year. However, as part of its capital management strategy to ensure it will have sufficient liquidity to meet its obligations as they become due, Dorel may need to reduce or change the timing of its expected capital investments during 2020.

## Environmental Protection

To Dorel’s knowledge, all Dorel segments currently operate within existing environmental regulations.

## Employees

At the end of fiscal 2019, Dorel had approximately 8,900 full-time employees in 25 countries. Approximately 2,950 employees are based in Asia, none of whom are unionized. Approximately 2,600 employees are based in North America, of whom 810 are unionized. The unionized North American employees are subject to an aggregate of four collective agreements. Approximately 1,850 employees are based in Latin America, of whom 560 are unionized, and approximately 1,400 employees are based in Europe, of whom 105 are unionized. The unionized Latin American employees are subject to an aggregate of six collective agreements while the unionized European

employees are subject to an aggregate of two collective agreements. Approximately 100 employees are based in other regions around the world.

## Social or Environmental Policies

Dorel's sustainability initiatives span all divisions and are designed to minimize its environmental impact. In addition, the Company has a Code of Conduct to which all suppliers must adhere. Our programs include:

**Recycling and energy management:** Standard practices at Dorel include the recycling of packaging materials such as shrink wrap, cardboard, plastics and styrofoam. High volume scanners in many offices considerably reduce paper usage. Energy management systems for lighting include use of fluorescents, controls for intensity levels and motion detectors to turn off lights in unoccupied offices and other facilities.

**Going green:** Dorel has developed programs to encourage its employees to use bicycles, car pools and mass transit to commute to and from work. For example, the Wilton, Connecticut headquarters for CSG has employee bike storage and related facilities.

**Creating a healthy lifestyle:** The link between employee wellbeing and overall corporate success is well-documented. Accordingly, Dorel pursues a number of pro-active initiatives with the goal of creating an environment where employees can continuously monitor their health and make adjustments to become healthier.

**Built-in sustainability:** The product development process at Dorel now anticipates and forestalls environmental impact. The Company's research and development center in Europe is progressively integrating Life Cycle Assessment and ECO-design methodology to increase the environmental benefits of new products.

**Company-wide minimization of environmental impact:** Dorel is fostering sustainability at its divisions with the long-term view of helping to preserve and improve the environment:

- **Dorel Juvenile USA's** 1.2 million square foot Columbus, Indiana car seat plant was converted a number of years ago into a zero landfill facility that recycles over 99% of its plastic manufacturing waste and other materials. The remaining less than 1% is sold to an outside recycler (50 million pounds of plastic used a year). The installation of cooling tower systems in Columbus (for plastic pressers and air compressors) has also reduced water usage by over 97% or 1.5 million gallons of water per day.
- **Dorel Juvenile U.S.** launched on April 22, 2018, Earth Day, the Safety 1<sup>st</sup> RIVA Travel System which is the only recycled resin stroller frame made in the U.S.
- **Dorel Juvenile Europe's** research and development center is studying and progressively implementing new and alternative materials in Dorel Juvenile's products to lower their environmental impact, while training programs on ECO-design methods have been intensified to increase the competence of the center's R&D specialists.
- **Dorel Juvenile Europe** has determined a sustainability strategy that will help develop products and services that work with its consumers' changing lifestyles, align with their values and reduce environmental footprint: by 2020, more than 20% of Dorel Juvenile Europe's sales will come from sustainable solutions, while its footprint is cut by 20%.
- At **Dorel Juvenile USA** and **Cosco Home and Office Products**, on-site Health and Wellness Centers provide employees rapid access to a range of services. Additionally, Dorel conducts the American Lung Association's "Freedom From Smoking" program, which produces excellent results and should lead to reduced healthcare costs over the long-term.
- **DHP** holds formal periodic reviews of its policies through an outside firm to chart progress in reducing its carbon footprint; DHP's plant precludes the use of chemicals or the possibility of water contamination in the processing function; its Recycle/Shred initiative significantly reduces landfill use; the facility is FSC (Forest Stewardship Council) certified and audited by QMI (Quality Management Institute).

# RISK FACTORS

## *General Economic Conditions*

In its almost 60-year history, Dorel has experienced several economic downturns and its products have proven to be ones that consumers continue to purchase in varying economic conditions. In 2019, in most of the Company's markets, the retail environment could be characterized as challenging. The dominant share of the market represented by Dorel's retail partners, together with changes in consumer shopping patterns, has contributed to dominant retailers and Internet companies that have strong negotiating power with suppliers. Other trends are for retailers and Internet companies to import products directly from foreign sources and to source and sell products under their own private label brands, typically at lower prices, that compete with Dorel's products. As a result, the majority of the Company's retail chains and Internet retailers continued to emphasize price competitiveness as their primary focus. To provide these retail partners with value over and above competitive pricing, Dorel continued to invest in new product development and various brand support initiatives. The combination of these market influences has created an intensely competitive environment resulting in downward pricing pressures, the need for powerful brands and the on-going introduction of innovative new products.

In Dorel Home, Dorel concentrates exclusively on value priced items and sells the majority of its products through the Internet sales and mass merchant distribution channels. During difficult economic times, when shopping for furniture, consumers are more likely to shop at the mass merchants, both brick and mortar and online, for reasonably priced items.

In Dorel Juvenile, Dorel believes that demand generally remains steady as child safety is a constant priority and parents require products that fulfill that need. In Dorel's traditional markets, birth rates are trending lower meaning newer markets like Latin America and Asia with higher birth rates are being exploited. In recent years, while a trend to less expensive items has emerged for certain consumers, a segment of the market is attracted towards higher-end products, thereby dividing the marketplace into two distinct consumer groups that Dorel Juvenile services with its multiple brand strategy.

In Dorel Sports, Dorel believes that consumer trends that consider health and environmental concerns help buffer this segment against possible declines in overall consumer spending. However, demand can also be affected by weather conditions, which are beyond Dorel's control. In addition, Dorel offers a great assortment of products in the value priced product category available at its mass merchant customers. This means that should consumers elect to spend less on a particular recreational product, Dorel has alternatives to higher priced items.

Should economic conditions worsen significantly, the competitive environment increase, unemployment rise dramatically, importing tariffs increase substantially or bad weather conditions occur, it could have a negative impact on Dorel as consumer spending would likely be curtailed. In addition, as customers are continuously changing their purchasing preferences and habits, the retail industry is experiencing an increase in the number of retailers filing for bankruptcy protection or announcing liquidation of their inventories in recent years. As customers are increasingly embracing shopping on-line, further investment in digital capabilities are necessary. However, there can be no assurance these investments will result in increased sales by the Company through e-commerce. There can be no assurance that the economies in which Dorel operates, taken as a whole, will improve going forward and in the event of a substantial deterioration of these economies, Dorel could be adversely affected.

## *Product Costs and Supply*

Dorel purchases raw materials, component parts and finished goods. The main commodity items purchased for production include particle board and plastic resins, as well as corrugated cartons. Key component parts include car seat covers, hardware, buckles and harnesses, bicycle frames, futon frames and covers. These parts are

derived from textiles and a wide assortment of metals, plastics and wood. Dorel's finished goods purchases are largely derived from steel, aluminum, resins, textiles, rubber and wood.

Raw material cost fluctuations were highlighted by resin price increases in both the United States and Europe in 2019, while particle board prices remained stable in North America. Crude oil pricing remains volatile for 2020 and U.S. resin prices are expected to further decrease in 2020. Particle board prices are expected to remain stable in 2020.

Dorel's suppliers of components and finished goods experienced lower input material costs in 2019. The Chinese currency ("RMB") depreciated approximately 5% in 2019. Labour costs in China remained stable in 2019.

Container freight costs are expected to remain volatile in 2020 due to on-going industry consolidation and implications surrounding global trade. Current expectations are for container prices to increase in the single digits in 2020. International air costs are expected to be volatile and domestic trucking rates are expected to remain stable.

Dorel's level of profitability is impacted by its ability to manage these various input costs and adjust pricing to its customers as required. During 2019, U.S. tariffs increased generally for goods imported from China, affecting Dorel Home and Dorel Sports in particular. Dorel was able to pass on the tariff increases in dollars to its customers, but this had a negative impact on the sales volume and gross margin. In addition, Dorel relies on its suppliers to provide quality products on a timely basis and has always prided itself on establishing successful long-term relationships both domestically and overseas. Dorel remains committed to actively working with its supplier base to ensure that the flow of product is not interrupted. Should input costs increase dramatically, major existing vendors be unable to supply Dorel or the supply chain be disrupted due to crises such as ongoing coronavirus epidemics, it could have an adverse effect on Dorel going forward.

### ***Foreign Currency Fluctuations***

Dorel uses the US dollar as its reporting currency. Dorel is subject to risk due to variations in currency values against the US dollar. Foreign currency risk occurs at two levels: transactional and translational. Transactional currency risk occurs when a given division either incurs costs or generates revenue in a currency other than its own functional currency. The Company's operations that are most affected by transactional currency risk are those that operate in the Euro zone, Canada and China. Translational risk occurs upon conversion of non-US functional currency divisions' results to the US dollar for reporting purposes. Dorel's European, Latin American and Asian operations are the most significant divisions that do not use the US dollar as their functional currency, and as such translational risk is limited to those operations. The two major functional currencies in Europe are the Euro and Pound Sterling.

Dorel's European, Latin American, Asian and Australian operations are negatively affected by a stronger US dollar as portions of their respective purchases are in that currency, while their revenues are not. Dorel Sports is growing its business more quickly outside of the United States and as such its exposure to fluctuations in the US dollar on both a transactional and translational basis has grown over the past few years. It is similar to Dorel Juvenile in that portions of its purchases are in US dollars, while its revenues are not. Dorel's Canadian operations within Dorel Home benefit from a stronger US dollar as large portions of its revenues are generated in the United States and the majority of its costs are in Canadian dollars. This situation is mitigated somewhat by Dorel Juvenile Canada's operations that import US dollar denominated goods and sell to Canadian customers.

Throughout 2019, the weakening of the Euro, Pound Sterling, Brazilian Real, Australian Dollar and Chilean Peso against the US dollar had a transactional and translational net negative impact on the operating profits of Dorel Juvenile and Dorel Sports, respectively.

The Company uses swaps, options, futures and forward contracts to hedge against these adverse fluctuations in currency rates. Further details on the Company's hedging strategy and the impact in the year can be found in Note 20 to the 2019 Consolidated Financial Statements. Significant changes in the value of the US dollar can greatly affect the Company's future earnings.

## ***Concentration of Revenues***

For the year ended December 30, 2019, one customer accounted for more than 10% of the Company's revenue, at 28.6%. In 2018, this customer accounted for 28.9% of revenue. Dorel does not have long-term contracts with its customers, and as such revenues are dependent upon Dorel's continued ability to deliver attractive products at a reasonable price, combined with high levels of service. There can be no assurance that Dorel will be able to sell to such customers on an economically advantageous basis in the future or that such customers will continue to buy from Dorel.

## ***Customer and Credit Risk***

The majority of Dorel's revenue is derived from sales to major retail chains and Internet retailers. The remainder of Dorel's sales are made mostly to specialty juvenile stores and IBDs. To minimize credit risk, the Company conducts on-going credit reviews and maintains credit insurance on selected accounts. Should certain of these major retailers have financial difficulty and/or cease operations, there could be a material short-term adverse effect on Dorel's consolidated results of operations. In the long term, Dorel believes that should certain retailers cease to exist, consumers will shop at competitors at which Dorel's products will generally also be sold. However, in the event that some of Dorel's other major customers face financial difficulties and/or cease operations, this could adversely affect Dorel's future earnings. As at December 30, 2019, one customer accounted for 14.2% of Dorel's total trade accounts receivable balance, while in 2018, it accounted for 21.6%.

While Dorel recognizes an impairment loss allowance for expected credit losses on trade accounts receivable based on actual credit loss experience and informed credit assessment, taking into consideration forward-looking information, if actual credit losses differ from estimates, future earnings would be affected.

## ***Product Liability***

As with all manufacturers of products designed for use by consumers, Dorel is subject to numerous product liability claims, particularly in the United States. Dorel makes on-going efforts to improve quality control and to ensure the safety of its products. Dorel is insured to mitigate its product liability exposure. No assurance can be given that a judgment will not be rendered against Dorel in an amount exceeding the amount of insurance coverage or in respect of a claim for which Dorel is not insured.

## ***Income Taxes***

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

The Company is regularly under tax audits by various worldwide tax authorities. Although Dorel believes its tax estimates are reasonable, the final outcome of tax audits and related litigation could be materially different than the Company's historical tax provisions and accruals. There can be no assurance that the resolution of any tax audits or related litigation will not have an adverse effect on the Company's future earnings.

## ***Product and Brand Development***

To support continued revenue growth, the Company must continue to update existing products, design innovative new items, develop strong brands and make significant capital investments. The Company has invested heavily in product development and plans to keep it at the center of its focus. In addition, the Company must continue to maintain, develop and strengthen its end-user brands. Should the Company invest in or design products that are not accepted in the marketplace, or if its products are not brought to market in a timely manner,

or in certain cases, fail to be approved by the appropriate regulatory authorities, this could negatively impact future growth.

### ***Regulatory Environment***

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

### ***Public Health Crises***

Dorel is exposed to unprecedented risks related to pandemics and epidemics, such as the outbreak of the coronavirus that surfaced in December 2019 in Wuhan, Hubei Province, China and which has spread to other continents, including North America and Europe, Dorel's primary markets, which represented 86% of Dorel's sales in 2019. The coronavirus could significantly disrupt Dorel's operations and may materially and adversely affect its business and financial condition.

The extent to which the coronavirus will impact Dorel's business, including its supply chain, operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time. These future developments include the duration, severity and scope of the coronavirus outbreak, the measures taken by various government authorities to contain it and the reaction of the general public to, and compliance with, such containment measures. The continued spread of the coronavirus globally could have a significant impact on many, if not all, aspects of Dorel's business including, without limitation, employee health, workforce productivity, the availability of employees, increased insurance premiums and medical costs, restrictions on travel by Dorel personnel and on importing of goods, disruption of Dorel's supply chain, the prolonged closing of stores by many of Dorel's customers, restrictions or prohibitions on travel by consumers in general, and other factors that will depend on future developments, all of which are beyond Dorel's control. All or some of these may have a material adverse effect on Dorel's business, financial condition and results of operations. The duration of any such material adverse effect on Dorel's business, financial condition and results of operations is unknown and may be prolonged.

In addition, the coronavirus could result in a widespread global health crisis that could adversely affect global economies and financial markets, resulting in an economic downturn which could be for a prolonged period of time and have a material adverse effect on the demand for Dorel's products and on Dorel's business, financial condition and results of operations.

### ***Liquidity and Access to Capital Resources***

Dorel requires continued access to capital to support its activities, including the acquisition of complementary businesses that Dorel believes will enhance its value. To satisfy its financing needs, Dorel relies on long-term and short-term debt, as described in this AIF, and on cash flow from operations. Under the Senior Unsecured Notes, Revolving Bank Loans and Term Loan, Dorel is subject to numerous covenants, including maintaining certain financial ratios on a quarterly basis. In the event Dorel is unable to comply with such quarterly covenants, the Senior Unsecured Notes, Revolving Bank Loans and Term Loan will become due in full at the date of non-compliance, which would have a material adverse effect on Dorel's financial condition and results of operations.

While management believes that future cash flows from operations and availability of capital under existing or future banking arrangements should be adequate to support Dorel's financial liabilities, assessing Dorel's liquidity, including its future compliance with covenants under the Senior Unsecured Notes, Revolving Bank Loans and Term Loan, requires significant judgment on the part of management and, in light of extraordinary developments such as the coronavirus referred to above and its effect on Dorel's cash flows and its financial

condition, no assurance can be given that Dorel will be able to comply with such covenants, including maintaining certain financial ratios on a quarterly basis.

In addition, any impediments to Dorel's ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of Dorel's financial condition or prospects, could also have a material adverse effect on Dorel's financial condition and results of operations.

### ***Reliance on Information Technology Systems***

Dorel relies extensively on information technology systems, networks and services, including Internet sites, facilities and tools used for data hosting and processing, other hardware, software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third parties or their vendors, to assist in conducting business.

Dorel's information technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, cyberattacks and cybersecurity threats, network communication failures, computer viruses and other security threats to the confidentiality, availability and integrity of Dorel's data. Increased information technology security threats and more sophisticated computer crime have increased in recent years due to the proliferation of new technologies and the increased sophistication of perpetrators of cyberattacks.

Information contained in Dorel's systems include proprietary or sensitive information on its customers, suppliers, partners, employees, business information, research and development activities and Dorel's intellectual property. Unauthorized third parties may be able to penetrate Dorel's network security and misappropriate or compromise Dorel's confidential information, deploy viruses, other malware or phishing that would exploit any security vulnerabilities in Dorel's information technology systems, create system disruptions or cause machinery or plant shutdowns. Such attacks could potentially lead to the publication, manipulation or leakage of information, improper use of Dorel's information technology systems, defective products, production downtimes and supply shortages. Dorel's partners and suppliers also face risks of unauthorized access to their information technology systems which may contain Dorel's confidential information.

As techniques used to obtain unauthorized access to information technology systems change frequently and considering the complexity of the threats, as well as the unpredictability of the timing, nature and scope of disruptions from such threats, Dorel may be unable to anticipate these techniques or implement adequate preventative measures to counter any such unauthorized access to its information technology systems. If an actual or perceived breach of Dorel's security occurs, it could adversely impact Dorel's reputation, which could lead to losing customers and materially impact Dorel's business and earnings.

### ***Valuation of Goodwill and Intangible Assets***

As part of its annual impairment tests, the value of Dorel's goodwill and indefinite useful life intangible assets are subject to significant assumptions, such as future expected cash flows and assumed discount and weighted average cost of capital rates. In addition, the value of Dorel's customer relationships recognized includes significant assumptions, such as in reference to customer attrition rates and useful lives. Furthermore, Dorel's share price and control premium are significant factors in assessing Dorel's fair value for purposes of its goodwill and indefinite useful life intangible assets impairment assessment. For example, as a result of a sustained decline in Dorel's stock price, Dorel recorded significant impairment losses in the fourth quarter of 2018, which was driven by revision of its assumptions on projected earnings and cash flow growth for the majority of its CGUs. Dorel's share price can be affected by, among other things, changes in industry or market conditions, including the effect of competition, changes in its results of operations and/or in its forecasts or market expectations relating to future results.

During the fourth quarter of 2019, the Company performed its annual impairment testing of goodwill and trademarks, which resulted in no impairment loss being recorded. Should current market conditions adversely affect Dorel's expectations of future results, this could result in a non-cash impairment being recognized at some

point in the future. Additionally, in the current market environment, some of the other assumptions could be impacted by factors beyond Dorel's control including interest rates, cost of capital, tax rates, credit ratings, foreign exchange rates, inflation, industry growth and public health crises such as the coronavirus. More conservative risk assumptions could also materially affect these valuations and could require a downward adjustment in the value of Dorel's goodwill and intangible assets in the future, and would require further impairment to be recorded.

## DIVIDENDS

On March 14, 2019, Dorel announced that it had adjusted its quarterly dividend from the prior \$0.30 per share to \$0.15 per share for the upcoming year on each of the Class "A" Multiple Voting Shares, Class "B" Subordinate Voting Shares, Deferred Share Units, cash-settled Performance Share Units and cash-settled Restricted Share Units of the Company. During the first three quarters of 2019, a quarterly dividend of \$0.15 per share was declared and paid on the Class "A" Multiple Voting Shares and Class "B" Subordinate Voting Shares, for an aggregate amount of \$0.45 per share for the year, or \$14.6 million. On September 30, 2019, the Board of Directors suspended the Company's dividends. In fiscal 2018 and 2017, these four quarterly dividends totalled \$38.9 million and \$38.9 million, respectively.

## DESCRIPTION OF CAPITAL STRUCTURE

The designation of each class and series of the Company's authorized share capital is as follows:

- An unlimited number of preferred shares without nominal or par value, issuable in series (none of which are outstanding as at the date hereof), with such rights and conditions as may be determined by the Board of Directors of the Company prior to issuance thereof, carrying no voting rights except as prescribed by law, and ranking prior to the Class "A" Multiple Voting Shares and Class "B" Subordinate Voting Shares with respect to the payment of dividends and return of capital in the event of liquidation, dissolution or other distribution of the assets of the Company for purpose of winding-up its affairs;
- An unlimited number of Class "A" Multiple Voting Shares (ten votes per share) 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, entitling their holders to participate equally with the holders of the Class "B" Subordinate Voting Shares in respect of payment of dividends, and ranking equally with the Class "B" Subordinate Voting Shares in respect of return of capital in the event of liquidation, dissolution or other distribution of the assets of the Company for purpose of winding-up its affairs; and
- An unlimited number of Class "B" Subordinate Voting Shares (one vote per share) 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" Multiple Voting Shares, entitling their holders to participate equally with the holders of the Class "A" Multiple Voting Shares in respect of payment of dividends, and ranking equally with the Class "A" Multiple Voting Shares in respect of return of capital in the event of liquidation, dissolution or other distribution of the assets of the Company for purpose of winding-up its affairs.

## MARKET FOR SECURITIES

Dorel's Class "A" Multiple Voting Shares and Class "B" Subordinate Voting Shares are listed on the TSX under the symbols DII.A and DII.B, respectively.

The following table provides the price range and volume of shares traded of the Class "A" Multiple Voting Shares and Class "B" Subordinate Voting Shares, respectively, on the TSX for each month of 2019:

<b>Class "A" Multiple Voting Shares</b>				<b>Class "B" Subordinate Voting Shares</b>			
<b>Month</b>	<b>Price Range</b>		<b>Volume Traded</b>	<b>Month</b>	<b>Price Range</b>		<b>Volume Traded</b>
	<b>Low</b>	<b>High</b>			<b>Low</b>	<b>High</b>	
January	\$ 16,01	\$ 17,47	6 365	January	\$ 15,69	\$ 17,86	1 552 818
February	\$ 16,30	\$ 17,31	4 250	February	\$ 15,55	\$ 17,60	1 247 212
March	\$ 12,21	\$ 17,75	10 111	March	\$ 11,56	\$ 18,45	3 668 961
April	\$ 11,80	\$ 12,47	9 588	April	\$ 11,28	\$ 12,36	1 055 335
May	\$ 11,50	\$ 13,59	9 419	May	\$ 10,66	\$ 12,36	913 544
June	\$ 10,46	\$ 11,51	2 825	June	\$ 10,09	\$ 11,23	639 193
July	\$ 10,00	\$ 10,25	500	July	\$ 9,22	\$ 11,12	579 692
August	\$ 9,81	\$ 10,50	8 635	August	\$ 8,78	\$ 10,09	651 954
September	\$ 9,57	\$ 9,97	2 075	September	\$ 8,81	\$ 9,41	453 512
October	\$ 5,58	\$ 8,15	13 368	October	\$ 4,65	\$ 8,01	2 636 843
November	\$ 5,65	\$ 7,00	21 586	November	\$ 4,68	\$ 6,19	3 265 186
December	\$ 5,62	\$ 7,49	6 295	December	\$ 4,88	\$ 6,20	2 073 943

The Convertible Debentures were listed on the TSX under the symbol DII.DB.U. The following table provides the price range and volume of the Convertible Debentures traded on the TSX for each month of 2019 before their redemption in July 2019:

<b>5.50% Extendible Convertible Subordinate Debentures</b>				
<b>Month</b>	<b>Price Range</b>		<b>Volume Traded</b>	
	<b>Low</b>	<b>High</b>		
January	\$ 97.00	\$ 99.50	67,860	
February	\$ 98.76	\$ 100.30	10,290	
March	\$ 95.00	\$ 100.50	91,770	
April	\$ 98.25	\$ 98.70	20,220	
May	\$ 97.50	\$ 100.00	20,990	
June	\$ 99.75	\$ 100.24	4,780	
July	\$ 100.04	\$ 100.05	330	

## DIRECTORS AND SENIOR OFFICERS

As at the date of this AIF, the name, province and country of residence, period during which each has served as a director, where applicable, offices held with the Company and principal occupations of each of the directors and senior officers of the Company are as follows:

<u>Name and place of residence</u>	<u>Director since</u>	<u>Offices</u>	<u>Principal occupation</u>
Martin Schwartz..... Québec, Canada	1987	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Company
Jeff Segel..... Québec, Canada	1987	Executive Vice-President, Sales and Marketing and Director	Executive Vice-President, Sales and Marketing of the Company
Alan Schwartz ..... Québec, Canada	1987	Executive Vice-President, Operations and Director	Executive Vice-President, Operations of the Company
Jeffrey Schwartz ..... Ontario, Canada	1987	Executive Vice-President, Chief Financial Officer, Secretary and Director	Executive Vice-President, Chief Financial Officer and Secretary of the Company
Frank Rana..... Québec, Canada	—	Senior Vice-President, Finance and Assistant-Secretary	Senior Vice-President, Finance of the Company
Edward Wyse..... Québec, Canada	—	Senior Vice-President, Global Procurement	Senior Vice-President, Global Procurement of the Company
Maurice Tousson <sup>(2) (3)</sup> ..... Ontario, Canada	1995	Lead Director	Corporate Director
Dian Cohen, C.M., O.M. <sup>(1)(2)</sup> ..... Ontario, Canada	2004	Director	Corporate Director and Economic Consultant
Alain Benedetti, FCPA, FCA, ICD.D <sup>(1)(2)</sup> ..... Québec, Canada	2004	Director	Corporate Director
Norman M. Steinberg, Ad. E <sup>(3)</sup> ..... Québec, Canada	2018	Director	Vice-Chair BFL Canada
Sharon Ranson, FCPA, FCA, ICD.D <sup>(1)</sup> ..... Québec, Canada	2019	Director	President and Founder The Ranson Group Inc.
Brad A. Johnson, CPA <sup>(3)</sup> ..... Massachusetts, U.S.A.	2019	Director	Professor Babson College

(1) Member of the Audit Committee.

(2) Member of the Human Resources and Compensation Committee.

(3) Member of the Corporate Governance and Nominating Committee.

During the last five years, the directors and senior officers have been engaged in their respective present principal occupations or in other executive capacities with the companies indicated opposite their respective names, except as follows: Maurice Tousson was Chairman of the Board of Directors of DAVIDsTEA Inc. until June 14, 2018; Norman Steinberg was Chair Emeritus of Norton Rose Fulbright Canada from April 2017 to July 2019 and prior thereto, from 2005 to March 2017, Co-Chair and then Chair of Norton Rose Fulbright Canada, as well as Global Chair Norton Rose Fulbright; and Brad A. Johnson was Vice President Operations at Wayfair from July 2010 to

January 2018. The term of each of the directors listed above will expire at the next annual meeting of shareholders of the Company.

### ***Beneficial Ownership***

As at December 30, 2019, the directors and senior officers beneficially owned, or exercised control or direction over, directly or indirectly, an aggregate of 4,001,261 Class "A" Multiple Voting Shares, representing 95.5% of the issued and outstanding Class "A" Multiple Voting Shares, and 2,249,189 Class "B" Subordinate Voting Shares, representing 8.0% of the issued and outstanding Class "B" Subordinate Voting Shares.

### ***Cease Trade Orders, Bankruptcies, Penalties or Sanctions***

To Dorel's knowledge, none of the foregoing directors or executive officers of Dorel is as of the date of this AIF, or has been within ten years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that:

- (a) was subject to a cease trade or similar order, or an order that denied such company access to any exemption under applicable securities legislation for a period of more than 30 consecutive days (an "Order") that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of such company; or
- (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of such company.

Other than as set out below, to Dorel's knowledge, none of the foregoing directors or executive officers of Dorel, or a shareholder holding enough securities of Dorel to affect materially its control:

- (a) is, as of the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his, her or its assets.

To Dorel's knowledge, none of the foregoing directors or executive officers of Dorel, or a shareholder holding enough securities of Dorel to affect materially its control, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

In the normal course of business activities, Dorel is subject to various legal actions. Dorel contests these actions and believes that their resolution will not have a material adverse impact on Dorel's financial condition.

During fiscal 2019, Dorel (i) was not subject to any penalty or sanction imposed by a court relating to securities legislation or by a securities regulatory authority, (ii) was not subject to any other penalty or sanction imposed by

a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision, and (iii) did not enter into any settlement agreement before a court relating to securities legislation or with a securities regulatory authority.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director or senior officer of Dorel, and no person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Class “A” Multiple Voting Shares or Class “B” Subordinate Voting Shares, and any of their respective associates or affiliates, has or had a material interest, direct or indirect, in any transaction, within the three most recently completed fiscal years or during the current fiscal year, that has materially affected or is reasonably expected to materially affect the Company.

## **MATERIAL CONTRACTS**

Other than as may be set out in this AIF, the Company did not enter into any contract out of the ordinary course of its business during fiscal year 2019.

## **TRANSFER AGENT AND REGISTRAR**

Computershare Investor Services Inc., at its principal offices in Toronto, Ontario, is the registrar and transfer agent for the Class “A” Multiple Voting Shares and Class “B” Subordinate Voting Shares of the Company.

## **NAMES AND INTERESTS OF EXPERTS**

The Company’s external auditors are KPMG LLP, 600 de Maisonneuve Boulevard West, Suite 1500, Montréal, Québec H3A 0A3, who reported on the 2019 Consolidated Financial Statements, which financial statements have been filed under Québec *Regulation 51-102 respecting Continuous Disclosure Obligations* and National Instrument 51-102 *Continuous Disclosure Obligations*. KPMG LLP is independent in accordance with auditors’ rules of professional conduct in Québec.

## **INFORMATION ON THE AUDIT COMMITTEE**

### ***Audit Committee Charter***

The Audit Committee Charter sets out the roles and responsibilities of the Audit Committee of the Board of Directors. A copy of the Charter is attached hereto as Schedule B.

### ***Composition of the Audit Committee***

The Audit Committee is composed of Alain Benedetti, FCPA, FCA, ICD.D, Dian Cohen, C.M., O.M. and Sharon Ranson, FCPA, FCA, ICD.D. Each member of the Audit Committee is independent and financially literate within the meaning of Québec *Regulation 52-110 respecting Audit Committees* and National Instrument 52-110 *Audit Committees*.

### ***Financial Literacy***

Each member of the Audit Committee has a good command of generally accepted accounting principles and has the ability to understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements. This section describes at greater length how these members acquired that financial literacy.

**Alain Benedetti, FCPA, FCA, ICD.D:** Mr. Benedetti is the retired Vice-Chairman of Ernst & Young LLP, where he worked for 34 years, including as the Canadian area managing partner, overseeing all Canadian operations. Prior thereto, he was the managing partner for eastern Canada and the Montréal office. Mr. Benedetti has extensive experience with both public and private companies and currently serves on the Board of Directors of Russel Metals Inc. A former Chair of the Canadian Institute of Chartered Accountants, Mr. Benedetti has served on the Audit Committee of the Company since 2004 and has been its Chair since 2005.

**Dian Cohen, C.M., O.M.:** As an economist by training and an economic communications consultant, Ms. Cohen has served on the Board of Directors of some of Canada’s largest publicly-traded companies and several not-for-profit entities. Ms. Cohen was CTV’s first national business editor; her radio and television commentaries and analyses as well as her syndicated print columns enjoyed a wide following. Ms. Cohen serves on the Board of the Massawippi Valley Foundation. She is a member of the Order of Canada and the Order of Manitoba.

**Sharon Ranson, FCPA, FCA, ICD.D:** Ms. Ranson is a corporate director and entrepreneur with in-depth financial expertise in accounting, capital markets and investments. She has provided strategic oversight to numerous Boards and Advisory Committees, and has chaired various Board committees including audit, governance, risk, human resources and compensation. Among her current mandates are Sprott Inc., Spark Power Corp., Fire and Flower and the City of Toronto Investment Board. Ms. Ranson is also President and Founder of The Ranson Group Inc., a company offering coaching and leadership work with senior executives. She has extensive experience in the Financial Services industry as a top-ranked Financial Services Analyst and Portfolio Manager. Ms. Ranson is an FCPA, FCA and holds the ICD.D designation. She graduated from Queen’s University, Kingston, Ontario, with a Bachelor of Commerce degree and holds an MBA degree from York University, Toronto, Ontario.

***Pre-approval Policies and Procedures for Audit and Non-Audit Services***

In 2003, the Audit Committee adopted a policy regarding the breadth of services provided by Dorel’s external auditors. This policy prohibits Dorel from hiring external auditors to provide certain non-auditing services. Under certain exceptions, the policy provides that the Company may hire external auditors to provide non-audit services that are not prohibited, on condition that they are pre-approved by the Audit Committee.

***External Auditor Service Fees (by Category)***

In 2019 and 2018, the Company’s auditors were KPMG LLP. The table below represents all fees paid to the Company’s auditors for the years ended December 30, 2019 and 2018:

	<u>Years ended December 30</u>	
	<u>2019</u>	<u>2018</u>
Audit fees .....	\$ 2,672,140	\$ 2,704,771
Audit-related fees.....	4,300	12,246
Tax fees .....	366,600	386,648
All other fees .....	246,100	190,000
TOTAL.....	<u>\$ 3,289,140</u>	<u>\$ 3,293,665</u>

1. Audit fees were charged for professional services rendered by the auditors for the audit of the Company’s annual Consolidated Financial Statements and services provided in connection with certain statutory and regulatory filings or engagements.
2. Audit-related fees were charged for due diligence services, miscellaneous assurance and related services that are reasonably related to the performance of the audit or review of the annual Consolidated Financial Statements and which are not reported as part of audit fees.
3. Tax fees were charged for tax compliance services.
4. Other fees were charged for operational advisory services.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness (if any), principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, that is not included herein, is contained in the Company's Management Proxy Circular dated May 8, 2019 sent and filed in connection with the Company's annual meeting of shareholders held on June 20, 2019. Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional financial information may be found in the 2019 Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended December 30, 2019.

## Schedule A

### Major Companies within Dorel Industries Inc. as of December 30, 2019

Name	Jurisdiction of Incorporation	Percentage of Votes Attaching to Shares
<b><u>North America</u></b>		
Cannondale Sports Group, LLC	Delaware	100%
Cycling Sports Group, Inc.	Delaware	100%
Dorel Asia Inc.	Delaware	100%
Dorel China America, Inc.	Delaware	100%
Dorel Finance US Inc.	Delaware	100%
Dorel Home Furnishings, Inc.	Delaware	100%
Dorel Home Furnishings, Inc.	Michigan	100%
Dorel Home Furnishings, Inc.	Ohio	100%
Dorel Juvenile Group, Inc.	Massachusetts	100%
Dorel Sports Inc.	Canada	100%
DS Canada Limited Partnership *	British Columbia	100%
Pacific Cycle Inc.	Delaware	100%
PCL Holdings Inc.	Delaware	100%
PCL IV Inc.	Delaware	100%
<b><u>Europe</u></b>		
Alphason Designs Limited	United Kingdom	100%
AMPA 2P SAS	France	100%
BabyArt BVBA	Belgium	100%
Cycling Sports Group GmbH	Switzerland	100%
Cycling Sports Group Europe B.V.	The Netherlands	100%
Dorel Belgium SA	Belgium	100%
Dorel France Holding SAS	France	100%
Dorel France SAS	France	100%
Dorel Germany GmbH	Germany	100%
Dorel Hispania SA	Spain	100%
Dorel Home Furnishings Europe Limited	United Kingdom	100%
Dorel Italia SpA	Italy	100%
Dorel Juvenile Switzerland SA	Switzerland	100%
Dorel Luxembourg Sàrl	Luxembourg	100%
Dorel Sports Luxembourg Sàrl	Luxembourg	100%
Dorel Polska Sp z.o.o.	Poland	100%
Dorel Portugal - Artigos para bebé Unipessoal, Lda	Portugal	100%
Dorel Suisse Sàrl	Switzerland	100%
Dorel (UK) Limited	United Kingdom	100%
IBD Bikes UK Limited	United Kingdom	100%
Maxi Miliaan B.V.	The Netherlands	100%
Pacific Cycle (UK) Ltd.	United Kingdom	100%

\* Formerly named *Sugoi Performance Apparel Limited Partnership*.

## Schedule A

### Major Companies within Dorel Industries Inc. as of December 30, 2019 (cont'd)

Name	Jurisdiction of Incorporation	Percentage of Votes Attaching to Shares
<b><u>Latin America</u></b>		
Baby Universe SAS	Colombia	70%
Best Brands Group S.A.	Panama	70%
Caloi Norte S.A.	Brazil	100%
Comercial e Industrial Silfa S.A.	Chile	70%
Comexa Comercializadora Extranjera SA	Panama	70%
Companhia Dorel Brasil Produtos Infantis	Brazil	100%
DJGM, S.A. de C.V.	Mexico	100%
Dorel Sports Chile S.A.	Chile	70%
Dorel Sports Peru S.R.L.	Peru	70%
Ofir S.A.	Panama	70%
<b><u>Asia</u></b>		
Ameriwood Home China Co., Ltd.	People's Republic of China	100%
Angel Juvenile Products (Zhongshan) Co., Ltd.	People's Republic of China	100%
Cannondale Japan KK	Japan	100%
Cycling Sports Group China Co., Ltd	People's Republic of China	100%
Dorel Consulting (Shanghai) Co., Ltd.	People's Republic of China	100%
Dorel Juvenile (Huangshi) Product Co., Ltd.	People's Republic of China	100%
Dorel Juvenile (Zhongshan) Product Co., Ltd.	People's Republic of China	100%
Dorel Global (MCO) Limited	Macau	100%
Guohong (Zhongshan) Industrial Co., Ltd.	People's Republic of China	100%
Peaceful Trust Co., Ltd.	Taiwan	100%
Shanghai Dorel Juvenile Co., Ltd.	People's Republic of China	100%
Tiny Love Ltd.	Israel	100%
Zhongshan Jiemeng Children Articles Co., Ltd.	People's Republic of China	100%
<b><u>Other</u></b>		
Comexa Distribution Limited	Barbados	70%
Dorel Asia SRL	Barbados	100%
Dorel Australia Pty Ltd	Australia	100%
Dorel Colombian Holdings Limited	Barbados	70%
Dorel Finance Limited	Barbados	100%
Dorel International Trade Limited	Barbados	100%
Dorel Limited	Barbados	100%
IGC Dorel New Zealand Limited	New Zealand	100%

# Schedule B

## DOREL INDUSTRIES INC.

### AUDIT COMMITTEE CHARTER

The mandate of the Audit Committee (the “Committee”) of the Board of Directors of Dorel Industries Inc. (the “Company”) assists the Board of Directors in fulfilling its oversight responsibilities relating to the quality and integrity of the accounting, auditing, and reporting practices of the Company and such other duties as directed by the Board of Directors or imposed by legislative and securities and exchange authorities.

#### • STRUCTURE AND ORGANIZATION

1. The Committee will be composed solely of directors who are independent of the management of the Company and are free of any relationship that, in the opinion of the Board of Directors, may interfere with their exercise of independent judgment as a Committee member, all in accordance with applicable securities and exchange regulations.
2. The membership of the Committee will consist of at least three independent members of the Board of Directors. Committee members and the Committee Chairperson shall be designated by and serve at the pleasure of the Board of Directors. All members must be financially literate and at least one member shall be designated as the “financial expert” as defined by applicable legislation and regulation. The Committee shall appoint a Secretary who need not be a director of the Company.
3. The Committee shall meet at least four times per year or more frequently as circumstances require. All Committee members may attend meetings in person or via tele- or video-conference. The Committee may ask members of management, auditors or others to attend the meetings and provide pertinent information as necessary. The required quorum is a simple majority of members.
4. The Committee has the authority to maintain free and open communication with Company officers, employees, internal audit, the external auditors and outside counsel.
5. The Committee has the authority to investigate any matter brought to its attention and to retain independent counsel, accountants, or others for this purpose if, in its judgment, that is appropriate. The Committee further has the authority to set and authorize the compensation for any advisors employed by the Committee.
6. Members of the Audit Committee are prohibited from receiving any payment, either directly or indirectly, from the Company other than for the Board of Directors and its committees membership.
7. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services provided that such services meet the definition pursuant to securities and exchange regulations. Such pre-approval must be presented to the Committee by the respective member at its first scheduled meeting following such pre-approval.
8. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

• **GENERAL RESPONSIBILITIES**

1. Meet periodically with representatives of the external auditors, the Vice-President, Audit & Compliance, and management in separate sessions to discuss any matters that the Committee or these groups believe should be discussed privately (in camera) with the Committee. Provide sufficient opportunity for the external auditors to meet with the internal auditor as appropriate without members of the management being present.
2. Submit the minutes of all Committee meetings to the Board of Directors and regularly report to the Board of Directors about Committee activities and issues that arise with respect to the quality and integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors and the performance of the internal audit function.
3. Review and reassess the adequacy of this Charter annually.

• **RESPONSIBILITIES FOR ENGAGING AND MONITORING EXTERNAL AUDITORS**

1. Recommend for approval by the Board of Directors and ratification by the shareholders the selection and retention of an independent firm of Chartered Professional Accountants as external auditors, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services; approve all compensation of the external auditors; and review and approve in advance the discharge of the external auditors.
2. Review the independence of the external auditors. In considering the independence of the external auditors, the Committee will review the nature of the services provided by the external auditors' firm and the fees charged, and such other matters as the Committee deems appropriate.
3. Arrange for the external auditors to be available to the Board of Directors at least annually to help provide a basis for the Board's approval of the external auditors' appointment.
4. Review services and related fees for work done by the external auditors in the period and newly pre-approved services since the prior meeting as well as an updated projection of the total costs for the fiscal year.
5. Pre-approve all non-audit related services to be provided by the Company's external auditors on a case-by-case basis provided that such services meet the definition pursuant to securities and exchange regulations.
6. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.
7. Oversee the rotation of lead, concurring and other external audit partners, to the extent required by securities and exchange regulations.
8. Review at least annually, representations by the external auditors describing their internal quality-control procedures, as well as significant results arising from regulatory and professional quality-control procedures.
9. Review with the external auditors and management the audit plan, including scope and approach, of the external auditors for the current year, including coordination of audit effort with internal audit.
10. Review the performance of the external auditors.

**• RESPONSIBILITIES FOR OVERSIGHT OF THE QUALITY AND INTEGRITY OF ACCOUNTING, AUDITING, AND REPORTING PRACTICES OF THE COMPANY**

1. Review the annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", Annual Information Form and the Management Proxy Circular with management and the external auditors prior to release. The Committee should review each annual and interim profit or loss announcement with management (and the external auditors if desired) prior to release, filing and distribution. These discussions should cover the quality of the financial reporting, and such others matters as the Committee deems appropriate.
2. Review with management and the external auditors the results of the audit, including any difficulties encountered, and management's response and/or action plan related to any Management Letter issued by the external auditors and any significant recommendations contained therein. This will also include a review of any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.
3. Ensure adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to in (1), and periodically assess the adequacy of those procedures.
4. Review disclosures made by the President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Secretary during the Form 52-109F certification process about significant deficiencies and or material weaknesses in the design or operation of internal controls, or any fraud that involves management or other employees who have a significant role in the Company's internal controls.
5. Review the periodic report of the Company's Disclosure Committee, including the reassessment of its Charter annually.
6. Consider the adequacy and effectiveness of the Company's internal control system, including information technology security and control.
7. Understand the scope of internal audit's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
8. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters. Such complaints regarding questionable accounting or auditing matters are to be treated confidentially and anonymously.
9. Review and approve all related party transactions undertaken by the Company.

**• PERIODIC RESPONSIBILITIES**

1. Review with management any legal and regulatory matters that may have a material impact on the Company's financial statements, compliance policies and compliance programs.
2. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
3. Review with the Vice-President, Audit & Compliance the charter, plans, activities, budget, staffing and organizational structure of the internal audit function and its effectiveness. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Vice-President, Audit & Compliance.
4. Discuss with management the Company's major compliance policies with respect to risk assessment and risk management, including but not limited to: Code of Business Conduct, Disclosure Policy, Policy on Financial Reporting, Policy on Whistle blowing, Policy Regarding Procurement of Audit Services and Non Audit Services, Insider Trading and Blackout Periods Policy, Policy Statement on Internal Audit Services, Policy on Incident Reporting and Policy on Hiring of Employees from Independent Auditors.

5. Review the process for communicating the Code of Business Conduct to Company personnel, and for monitoring compliance therewith.
6. Institute and oversee any special investigations as needed.
7. Evaluate the Committee's and individual members' performance on a regular basis.
8. Perform such other functions assigned by law, the Company's charter or bylaws, or by the Board of Directors.