

DOREL INDUSTRIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 30, 2009 and 2008

AUDITORS' REPORT TO THE SHAREHOLDERS OF DOREL INDUSTRIES INC.

We have audited the consolidated balance sheets of Dorel Industries Inc. ("the Company") as at December 30, 2009 and 2008 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 30, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the two-year period ended December 30, 2009 in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Accountants

Montreal, Canada

March 10, 2010

*CA Auditor permit no 14044

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DOREL INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 30, 2009 and 2008
(All figures in thousands of U.S. dollars)

	As at December 30, 2009	As at December 30, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 24)	\$ 19,847	\$ 16,966
Accounts receivable (Notes 5 and 14)	349,990	316,267
Income taxes receivable	16,264	19,798
Inventories (Note 6)	399,866	509,467
Prepaid expenses	17,358	16,236
Future income taxes (Note 22)	38,042	37,342
	<u>841,367</u>	<u>916,076</u>
PROPERTY, PLANT AND EQUIPMENT (Note 7)	153,279	158,895
INTANGIBLE ASSETS (Notes 2 and 8)	401,831	395,742
GOODWILL (Note 25)	569,824	540,187
OTHER ASSETS (Notes 2, 9 and 14)	35,879	19,573
	<u>\$ 2,002,180</u>	<u>\$ 2,030,473</u>

See accompanying notes.

DOREL INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 30, 2009 and 2008
(All figures in thousands of U.S. dollars)

	As at December 30, 2009	As at December 30, 2008
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Notes 10 and 14)	\$ 1,987	\$ 4,398
Accounts payable and accrued liabilities (Notes 11 and 14)	339,294	380,915
Income taxes payable	26,970	30,164
Future income taxes (Note 22)	85	2,713
Current portion of long-term debt (Notes 12 and 14)	<u>322,508</u>	<u>8,879</u>
	<u>690,844</u>	<u>427,069</u>
LONG-TERM DEBT (Notes 12 and 14)	<u>27,075</u>	<u>450,704</u>
PENSION & POST-RETIREMENT BENEFIT OBLIGATIONS (Note 15)	<u>20,939</u>	<u>20,072</u>
FUTURE INCOME TAXES (Note 22)	<u>128,984</u>	<u>111,874</u>
OTHER LONG-TERM LIABILITIES (Notes 13 and 14)	<u>25,139</u>	<u>6,010</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 16)	<u>174,816</u>	<u>177,422</u>
CONTRIBUTED SURPLUS	<u>20,311</u>	<u>16,070</u>
RETAINED EARNINGS	818,707	738,113
ACCUMULATED OTHER COMPREHENSIVE INCOME	<u>95,365</u>	<u>83,139</u>
	<u>914,072</u>	<u>821,252</u>
	<u>1,109,199</u>	<u>1,014,744</u>
	<u>\$ 2,002,180</u>	<u>\$ 2,030,473</u>

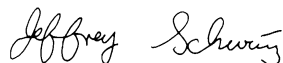
COMMITMENTS AND GUARANTEES (Note 19)

CONTINGENCIES (Note 20)

ON BEHALF OF THE BOARD



DIRECTOR



DIRECTOR

See accompanying notes.

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

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

	2009	2008
Sales	\$ 2,125,459	\$ 2,164,767
Licensing and commission income	<u>14,655</u>	<u>17,113</u>
TOTAL REVENUE	<u>2,140,114</u>	<u>2,181,880</u>
EXPENSES		
Cost of sales (Notes 2 and 3)	1,634,570	1,670,481
Selling, general and administrative expenses	316,168	316,782
Depreciation and amortization (Note 2)	27,366	26,510
Research and development costs (Note 8)	17,184	13,245
Restructuring costs (Note 3)	104	726
Interest on long-term debt	14,969	21,162
Other interest	<u>1,406</u>	<u>961</u>
	<u>2,011,767</u>	<u>2,049,867</u>
Income before income taxes	128,347	132,013
Income taxes (Note 22)		
Current	24,952	17,002
Future	<u>(3,839)</u>	<u>2,156</u>
	21,113	19,158
NET INCOME	<u>\$ 107,234</u>	<u>\$ 112,855</u>
EARNINGS PER SHARE (Note 23)		
Basic	<u>\$ 3.23</u>	<u>\$ 3.38</u>
Diluted	<u>\$ 3.21</u>	<u>\$ 3.38</u>

See accompanying notes.

DOREL INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

	2009	2008
NET INCOME	\$ 107,234	\$ 112,855
OTHER COMPREHENSIVE INCOME:		
<u>Cumulative translation adjustment:</u>		
Net change in unrealized foreign currency gains (losses) on translation of net investments in self-sustaining foreign operations, net of tax of nil	11,331	(23,348)
Portion included in income as a result of reductions in net investments in self-sustaining foreign operations	—	(384)
	<u>11,331</u>	<u>(23,732)</u>
<u>Net changes in cash flow hedges:</u>		
Net change in unrealized gains (losses) on derivatives designated as cash flow hedges	861	—
Reclassification to income	706	—
Future income taxes	(672)	—
	<u>895</u>	<u>—</u>
TOTAL OTHER COMPREHENSIVE INCOME	<u>12,226</u>	<u>(23,732)</u>
COMPREHENSIVE INCOME	<u>\$ 119,460</u>	<u>\$ 89,123</u>

DOREL INDUSTRIES INC.

**CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY**

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

	2009	2008
CAPITAL STOCK (Note 16)		
Balance, beginning of year	\$ 177,422	\$ 177,271
Issued under stock option plan	-	151
Repurchase and cancellation of shares	(2,606)	-
Balance, end of year	<u>174,816</u>	<u>177,422</u>
CONTRIBUTED SURPLUS		
Balance, beginning of year	16,070	11,623
Stock-based compensation (Note 17)	4,241	4,447
Balance, end of year	<u>20,311</u>	<u>16,070</u>
RETAINED EARNINGS		
Balance, beginning of year	738,113	641,981
Net income	107,234	112,855
Adjustment to opening retained earnings from adopting a new accounting standard for inventories, net of tax of \$1,415 (Note 2)	(2,096)	-
Premium paid on share repurchase (Note 16)	(7,898)	-
Dividends on common shares	(16,614)	(16,707)
Dividends on deferred share units	(32)	(16)
Balance, end of year	<u>818,707</u>	<u>738,113</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 18)		
Balance, beginning of year	83,139	106,871
Total Other comprehensive income	12,226	(23,732)
Balance, end of year	<u>95,365</u>	<u>83,139</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$ 1,109,199</u>	<u>\$ 1,014,744</u>

See accompanying notes.

DOREL INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008
(All figures in thousands of U.S. dollars)

	2009	2008
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	\$ 107,234	\$ 112,855
Items not involving cash:		
Depreciation and amortization	49,191	45,854
Amortization of deferred financing costs	266	362
Future income taxes	(3,839)	2,156
Stock-based compensation (Note 17)	3,840	4,447
Pension and post-retirement defined benefit plans (Note 15)	–	(27)
Restructuring activities (Note 3)	(721)	(6,849)
Exchange gain from reduction of net investments in foreign operations	–	(384)
Loss (gain) on disposal of property, plant and equipment	886	(24)
	<u>156,857</u>	<u>158,390</u>
Net changes in non-cash balances related to operations (Note 24)	<u>47,659</u>	<u>(78,507)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>204,516</u>	<u>79,883</u>
FINANCING ACTIVITIES		
Bank indebtedness	(3,391)	(1,055)
Increase of long-term debt	–	266,297
Repayments of long-term debt	(110,522)	(62,400)
Share repurchase (Note 16)	(10,504)	–
Issuance of capital stock (Note 16)	–	155
Dividends on common shares	(16,614)	(16,707)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(141,031)</u>	<u>186,290</u>
INVESTING ACTIVITIES		
Acquisition of companies (Notes 4 and 24)	(21,661)	(226,190)
Additions to property, plant and equipment – net	(21,893)	(26,518)
Intangible assets	(18,753)	(20,929)
CASH USED IN INVESTING ACTIVITIES	<u>(62,307)</u>	<u>(273,637)</u>
Effect of exchange rate changes on cash and cash equivalents	1,703	1,917
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,881	(5,547)
Cash and cash equivalents, beginning of year	<u>16,966</u>	<u>22,513</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 24)	<u>\$ 19,847</u>	<u>\$ 16,966</u>

See accompanying notes.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 1 – NATURE OF OPERATIONS

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) using the U.S. dollar as the reporting currency. The U.S. dollar is the functional currency of the Canadian parent company.

Reclassifications

Effective the first day of fiscal year 2009, the Company has reclassified certain figures within its segments. These changes, based principally on product type and customers served, were made to more accurately reflect the way in which the divisions’ results are reported internally.

In addition, pursuant to the presentation requirements under Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, *Inventories*, which has been adopted effective the first quarter of 2009, depreciation expense related to manufacturing activities is included in Cost of sales. To allow for better year-over-year comparability, prior year comparatives have been reclassified as follow:

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Reclassifications (Cont'd)

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

Segmented figures are presented in Note 25 to these financial statements. Certain comparative accounts have been reclassified to conform to the 2009 financial statement presentation.

New Accounting Standards

Inventories

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

New Accounting Standards (Cont'd)

Inventories (Cont'd)

As a result of the more restrictive guidance on the determination of costs, the Company changed some of its overhead allocation policy, whereby some overhead costs are expensed. In accordance with Section 3031, the Company applied these changes in accounting policies by adjusting the opening retained earnings as at December 31, 2008 (prior fiscal year periods were not restated). Accordingly, effective as of the beginning of the 2009 fiscal year, the impact of measuring the inventories under the new standard is a decrease of the carrying amount of inventories of \$3,511. Opening retained earnings at the beginning of the fiscal year 2009 were decreased by \$2,096, equal to the change in opening inventories net of tax of \$1,415.

Section 3031 requires depreciation expense related to manufacturing activities to be included in Cost of sales. As a result, effective on the first day of fiscal year 2009, depreciation expense related to manufacturing activities has been reclassified to Cost of sales. See the above section, Reclassifications. The cost of inventories recognized as an expense and included in Cost of sales for the year ended December 30, 2009 was \$1,545,281. During the year ended December 30, 2009, the Company recorded \$13,159 (in Cost of sales) of write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

Goodwill and Intangible Assets

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

The Company has reviewed the new section and determined that there was no impact upon its adoption on its financial statements except the deferred development costs are presented with the intangible assets as opposed to with other assets. As a result, \$26,895 of deferred development costs as at December 30, 2008 have been reclassified from other assets to intangible assets.

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

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

New Accounting Standards (Cont'd)

General Standards of Financial Statement Presentation

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

Financial Instruments

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

Basis of Consolidation

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

Use of Estimates

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

Revenue Recognition

Sales and licensing and commission income are recognized upon shipment of product and transfer of ownership to the customer. The Company records estimated reductions to revenue for customer programs and incentive offerings, including special pricing agreements, promotions, advertising allowances and other volume-based incentives. Provisions for customer incentives and provisions for sales and return allowances are made at the time of product shipment.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and Cash Equivalents

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Capital leases where the risks and rewards of ownership are transferred to the Company are included in property, plant and equipment.

Property, plant and equipment are depreciated as follows:

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

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible Assets

Intangible assets are recorded at cost:

Trademarks

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

Customer Relationships

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

Supplier Relationship

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

Patents

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

Software Licence

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

Research and Development Costs

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

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

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

Impairment or Disposal of Long-Lived Assets

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

Costs relating to revolving credit facility

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency

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

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

Financial Instruments

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

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet when the Company becomes a party to the contractual obligations of the instrument. Except for those incurred on the revolving credit facility, transaction costs are deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability. Financial instruments are initially and subsequently measured at fair value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are subsequently measured at amortized cost. Subsequent recognition of changes in fair value of financial instruments remeasured each reporting date at fair value depend on their initial classification. Held for trading financial investments are measured at fair value with all gains and losses included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with gains and losses included in other comprehensive income until the asset is removed from the balance sheet or until impaired.

The Company has classified its cash and cash equivalents as held for trading. Accounts receivable are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, long-term debt, other long-term liabilities and balance of sale payable are classified as other liabilities, all of which are measured at amortized cost.

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

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derivative Financial Instruments and hedge accounting

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

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposures and interest-rate market risks. These derivative financial instruments are used as a method for meeting the risk reduction objectives of the Company by generating offsetting cash flows related to the underlying position in respect of amount and timing of forecasted foreign currency cash flows. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. To meet its objective, the Company uses foreign exchange contracts, including futures, forwards, options and interest rate swap agreements.

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

During 2009, the Company decided to use interest rate swap agreements to lock-in a portion of its debt cost and reduce its exposure to the variability of interest rates by exchanging variable rate payments for fixed rate payments. The Company has designated its interest rate swaps as cash flow hedges for which it uses hedge accounting. For any new foreign exchange contracts taken after October 31, 2009, the Company has designated the new foreign exchange contracts as cash flow hedges for which it uses hedge accounting. For the foreign exchange contracts taken prior to November 1, 2009, the Company elected not to apply hedge accounting for these derivatives; these foreign exchange contracts, classified as held for trading, are marked to market and the associated unrealized and realized gains and losses are recorded in cost of sales.

DOREL INDUSTRIES INC.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Pension Plans and Post-Retirement Benefits

Pension Plans:

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

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

Pension expense consists of the following:

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

Post-Retirement Benefits Other Than Pensions:

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

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Future Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values using the substantively enacted income tax rate, which will be in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amount of future income tax assets to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income and tax planning strategies. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.

Stock-Based Compensation and other stock-based payments

A description of the stock-based compensation and other stock-based payments offered by the Company is included in Note 17 to these financial statements.

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

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

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

Product warranties

A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty, the nature of product sold and in service, counter-warranty coverage available from the Company's suppliers and product recalls. The Company reviews periodically its recorded product warranty provisions and any adjustment is recorded in cost of sales.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Guarantees

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

Future Accounting Changes

International Financial Reporting Standards (IFRS)

On February 13, 2008, the Accounting Standards Board of Canada confirmed the date of the changeover from Canadian GAAP to International Financial Reporting Standards. Canadian publicly accountable enterprises must adopt IFRS to their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption allowed. Subject to securities regulatory approval, the Company has chosen to early adopt IFRS and it will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Effective the first day of fiscal year 2011, the Company's financial statements will be prepared in accordance with IFRS, with comparative figures and an opening balance sheet restated to conform to IFRS, along with a reconciliation from Canadian GAAP to IFRS, as per guidance provided in IFRS 1, *First-Time Adoption of International Reporting Standards*.

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

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

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

The Company is now in the solution design and development phase. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. As the Company continues to work through this phase, it has selected certain of its accounting policy choices and IFRS 1 exemptions.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business Combinations

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 3 – RESTRUCTURING ACTIVITIES

In 2009, the Company recorded total expenses of \$135 (2008 – \$943) with respect to restructuring activities, of which \$31 (2008 – \$217) were recorded as cost of sales and \$104 (2008 – \$726) were recorded as restructuring costs.

Juvenile Segment

In the fourth quarter of 2006, Dorel Europe initiated restructuring activities affecting the Juvenile Segment. Significant operational changes related to the production facilities in Telgate, Italy and Cholet, France are being implemented. The plan's objective is to reduce operational costs through strategic sourcing and manufacturing. These restructuring initiatives are currently mainly completed and result in cumulative restructuring charges of \$13,249. To date, the Company has recorded a cumulative charge of \$13,238 under the plan, including \$3,411 of non-cash charges related to the write-down of long-lived assets and inventory markdowns, \$10,897 of employee severance and termination benefits and \$235 of other associated costs, net of curtailment gains on defined benefit pension plans of \$222, curtailment gains on compensation liabilities of \$318 and gains on sale of machinery and equipment of \$765. Of this \$13,238 cumulative charge, \$135 was recorded in the current fiscal year, \$860 in 2008, \$8,243 in 2007 and \$4,000 in 2006.

The costs recognized for these restructuring activities consist of the following:

	2009	2008
Employee severance and termination benefits	\$ 104	\$ 1,035
Gains on sale of machinery & equipment	–	(333)
Other associated costs	–	8
Recorded as Restructuring costs	\$ 104	\$ 710
Move of inventory, equipment and other expenses (in Cost of sales)	31	74
Inventory markdowns (in Cost of sales)	–	76
Total	\$ 135	\$ 860

As at December 30, 2009, the related restructuring plan provision totaling \$549 consists of employee termination benefits and is included in accrued liabilities (2008 – \$894). A summary of the changes to the Company's restructuring plan provision is as follows:

	Balance December 30, 2008	2009 Provision	Cash received (paid)	Effect of foreign exchange	Balance December 30, 2009
Employee severance and termination benefits	\$ 894	\$ 104	\$ (458)	\$ 9	\$ 549
Move of inventory, equipment and other expenses (in Cost of sales)	–	31	(31)	–	–
Total	\$ 894	\$ 135	\$ (489)	\$ 9	\$ 549

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3 – RESTRUCTURING ACTIVITIES (Cont'd)

Home Furnishings Segment

On May 17, 2007, the Company announced a plan for restructuring at Ameriwood Industries. The Company determined that its current ready-to-assemble (RTA) furniture manufacturing footprint exceeded anticipated market needs. As such, the majority of manufacturing operations at the Dowagiac, Michigan RTA facility were suspended in July of 2007. The related restructuring actions were completed in the third quarter of 2008, with \$367 remaining to be paid as at December 30, 2008 which has been paid in 2009. The Company has recorded a cumulative charge of \$11,024 under the plan, of which \$83 was recorded in 2008 and \$10,941 was recorded in 2007. Of the total costs incurred, \$9,604 were non-cash charges related to the write-down of long-lived assets and inventory markdowns.

NOTE 4 – BUSINESS ACQUISITIONS

Baby Art bvba

On January 27, 2009 the Company announced the purchase of all of the outstanding shares of Belgium-based *BABY ART bvba*. Created in 2006, *BABY ART bvba* markets its baby products and accessories under the BABY ART and HOPPOP brands. The purchase price was \$5,410 (4,112 Euro). The transaction was financed through the Company's existing credit facilities.

The acquisition has been recorded under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition. The goodwill is not deductible for tax purposes. The total goodwill amount is included in the Company's Juvenile segment as reported in Note 25.

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

Assets	
Accounts receivable	\$ 324
Income taxes receivable	30
Inventories	1,028
Customer relationships	237
Deferred development costs	947
Goodwill	4,860
	<hr/>
	7,426
	<hr/>
Liabilities	
Bank indebtedness	446
Accounts payable and accrued liabilities	929
Current portion of long-term debt	55
Long-term debt	183
Long-term future income taxes	403
	<hr/>
	2,016
	<hr/>
Net assets acquired	<hr/>
	\$ 5,410
	<hr/>

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

NOTE 4 – BUSINESS ACQUISITIONS (Cont'd)

Iron Horse Bicycles

On July 15, 2009, the Company acquired certain assets of Iron Horse Bicycles, including inventory, various trademarks and trade names, as well as the “Iron Horse” brand. In addition to downhill and extreme trail bikes, Iron Horse products range from mountain bikes, road bikes, and comfort bikes to juvenile bikes and hybrids. The purchase price was \$5,560. A balance of sale of \$220 remains to be paid in July of 2010 and is presented with the accounts payable and accrued liabilities on the consolidated balance sheet.

The acquisition has been recorded under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition. The goodwill is deductible for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 25.

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

Assets	
Inventories	\$ 879
Trademarks	3,800
Goodwill	940
	<hr/>
	5,619
	<hr/>
Liabilities	
Accounts payable and accrued liabilities	59
	<hr/>
	59
	<hr/>
Net assets acquired	<hr/>
	\$ 5,560

Gemini Bicycles

On August 4, 2009, the Company acquired certain assets of Gemini Bicycles for \$2,047 (AUD\$2,453), an Australian bicycle distributor. The acquisition has been recorded under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition. The goodwill is deductible for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 25.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 4 – BUSINESS ACQUISITIONS (Cont'd)

Gemini Bicycles (Cont'd)

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

Assets	
Inventories	\$ 1,924
Goodwill	200
	<hr/> 2,124 <hr/>
Liabilities	
Accounts payable and accrued liabilities	77
	<hr/> 77 <hr/>
Net assets acquired	<hr/> \$ 2,047 <hr/> <hr/>

Hot Wheels and Circle Bikes

On October 1st, 2009, the Company acquired certain assets of UK-based Hot Wheels and Circle Bikes for \$10,626 (GBP 6,662), a UK preeminent distributor of the Mongoose and GT brands. As part of the acquisition agreement, additional consideration is contingent upon a formulaic variable price based mainly on future earnings results of the acquired business up to the year ended December 30, 2012. The Company is presently in the process of allocating the cost of this purchase to the net assets acquired. The preliminary allocation of the cost of this purchase includes an estimate of the contingent consideration of \$2,572 and this estimate is recorded as a financial liability within other long-term liabilities. For each subsequent year until the contingent consideration is resolved in 2012, the adjustment to the financial liability will be recorded as an additional element of purchase price and goodwill will be adjusted accordingly.

The acquisition has been recorded under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition. The goodwill is deductible for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 25.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 4 – BUSINESS ACQUISITIONS (Cont'd)

Hot Wheels and Circle Bikes (Cont'd)

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

Assets	
Cash and cash equivalents	\$ 290
Accounts receivable	2,666
Inventories	1,738
Prepaid expenses	56
Property, plant and equipment	155
Goodwill	6,515
	<hr/>
	11,420
Liabilities	
Accounts payable and accrued liabilities	661
Other long-term liabilities	133
	<hr/>
	794
	<hr/>
Net assets acquired	\$ 10,626

IGC (Australia) Pty Ltd

On February 28, 2007, the Company acquired a 55% interest in an Australian company IGC (Australia) Pty Ltd ("IGC"). Operating as *In Good Care*, IGC is a manufacturer and distributor of juvenile products in Australia and New Zealand.

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

- (i) The put and call agreement is considered to have been fully executed at the time of acquisition, resulting in the purchase by Dorel of a further 45% interest in IGC. As a result, Dorel has consolidated 100% of IGC at the inception of this agreement.
- (ii) When the contingency is re-valued until the put or call option is exercised, the value of the exit price will be determined and recorded as a financial liability and as an additional element of the purchase price which will impact goodwill. The financial liability amounts to \$12,715 as at December 30, 2009 (2008 – \$966) and is presented in other long-term liabilities.

The total goodwill amount is included in the Company's Juvenile segment as reported in Note 25.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	December 30,	
	2009	2008
Trade accounts receivable	\$ 394,735	\$ 357,608
Allowance for anticipated credits	(53,298)	(56,479)
Allowance for doubtful accounts	(13,554)	(11,305)
	<u>327,883</u>	<u>289,824</u>
Foreign exchange contracts	1,411	11,548
Other receivables	20,696	14,895
	<u>\$ 349,990</u>	<u>\$ 316,267</u>

NOTE 6 – INVENTORIES

Inventories consist of the following:

	December 30,	
	2009	2008
Raw materials	\$ 77,994	\$ 97,155
Work in process	6,290	6,906
Finished goods	315,582	405,406
	<u>\$ 399,866</u>	<u>\$ 509,467</u>

DOREL INDUSTRIES INC.

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NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	December 30, 2008		
	Cost	Accumulated Depreciation	Net
Land	\$ 14,387	\$ –	\$ 14,387
Buildings and improvements	72,575	16,148	56,427
Machinery and equipment	75,975	48,807	27,168
Moulds	118,301	93,918	24,383
Furniture and fixtures	7,499	5,229	2,270
Computer equipment	30,210	20,319	9,891
Leasehold improvements	9,464	5,499	3,965
Assets not in service	18,902	–	18,902
Assets under capital leases	4,374	3,559	815
Vehicles	<u>1,838</u>	<u>1,151</u>	<u>687</u>
	<u>\$ 353,525</u>	<u>\$ 194,630</u>	<u>\$ 158,895</u>

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 30, 2009 and 2008

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

Assets not in service consist of the following major categories:

	December 30,	
	2009	2008
Buildings and improvements	\$ 313	\$ 50
Machinery and equipment	1,586	1,397
Moulds	4,099	16,285
Computer equipment	1,890	1,170
	<u>\$ 7,888</u>	<u>\$ 18,902</u>

Depreciation of property, plant and equipment amounted to \$28,585 (2008 – \$26,200).

NOTE 8 – INTANGIBLE ASSETS

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

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8 – INTANGIBLE ASSETS (Cont'd)

	December 30, 2008		
	Cost	Accumulated Amortization	Net
Trademarks	\$ 275,085	\$ –	\$ 275,085
Customer relationships	97,401	14,783	82,618
Supplier relationship	1,500	75	1,425
Patents	24,784	15,733	9,051
Software licence	668	–	668
Deferred development costs	43,186	16,291	26,895
	<u>\$ 442,624</u>	<u>\$ 46,882</u>	<u>\$ 395,742</u>

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

	December 30,	
	2009	2008
Acquired	\$ 2,182	\$ 1,992
Internally developed	16,561	19,069
	<u>\$ 18,743</u>	<u>\$ 21,061</u>

Amortization of intangible assets was as follows:

	December 30,	
	2009	2008
Customer relationships	\$ 4,883	\$ 4,191
Supplier relationship	150	75
Patents	1,556	2,472
Software licence	75	–
Deferred development costs	13,942	12,916
	<u>\$ 20,606</u>	<u>\$ 19,654</u>

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NOTE 9 – OTHER ASSETS

Other assets consist of the following:

	December 30,	
	2009	2008
Accrued benefit asset (Note 15)	\$ 8,390	\$ 8,354
Long-term future income tax assets (Note 22)	25,345	10,420
Interest rate swaps	1,476	–
Costs relating to revolving credit facility (1)	51	354
Assets held for sale	46	129
Other	571	316
	<u>\$ 35,879</u>	<u>\$ 19,573</u>

(1) The amortization of financing costs related to the revolving credit facility included in interest on long-term debt expense is \$214 (2008 – \$309).

NOTE 10 – BANK INDEBTEDNESS

The average interest rates on the outstanding borrowings as at December 30, 2009 and 2008 were 4.21% and 4.5% respectively. As at December 30, 2009, the Company had available bank lines of credit amounting to approximately \$57,420 (2008 – \$56,935) which are renegotiated annually.

NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 30,	
	2009	2008
Trade creditors and accruals	\$ 248,850	\$ 301,394
Salaries payable	31,398	27,804
Product liability (Note 20)	25,480	23,087
Product warranties	15,579	9,537
Foreign exchange contracts	395	1,093
Interest rate swaps	790	–
Balance of sale	220	1,100
Other accrued liabilities	16,582	16,900
	<u>\$ 339,294</u>	<u>\$ 380,915</u>

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NOTE 12 – LONG-TERM DEBT

	December 30,	
	2009	2008
<u>Series "A" Senior Guaranteed Notes (2)</u>		
Bearing interest at 6.80 % per annum with principal repayments as follows	\$ 36,500	\$ 45,000
1 instalment of \$8,500 paid in July 2009		
2 annual instalments of \$10,000 ending in July 2011		
1 final instalment of \$16,500 in July 2012		
<u>Series "B" Senior Guaranteed Notes (2)</u>		
Bearing interest at 5.63% per annum repaid in February 2010	55,000	55,000
<u>Revolving Bank Loans (3)</u>		
Bearing interest at various rates per annum, averaging 2.2% (2008 – 4.0%) based on LIBOR or U.S. bank rates, total availability of \$475,000, (2008 – \$475,000) due to mature in July 2010. This agreement also includes an accordion feature allowing the company to have access to an additional amount of \$50,000 on a revolving basis.	257,000	359,024
Obligations under capital leases	1,155	655
Less unamortized financing costs (1)	<u>(72)</u>	<u>(96)</u>
	349,583	459,583
Current Portion	<u>(322,508)</u>	<u>(8,879)</u>
	<u>\$ 27,075</u>	<u>\$ 450,704</u>

- (1) The amortization of financing costs related to the long-term debt included in interest on long-term debt expense is \$52 (2008 – \$143).
- (2) Interest and principal payments are guaranteed by certain subsidiaries.
- (3) The Company is currently renegotiating the terms of the revolving bank loans in order to extend this facility.

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

<u>Fiscal Year Ending</u>	<u>Amount</u>
2010	\$ 322,508
2011	10,390
2012	<u>16,685</u>
	<u>\$ 349,583</u>

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NOTE 13 – OTHER LONG-TERM LIABILITIES

	December 30,	
	2009	2008
Employee compensation	\$ 4,725	\$ 4,121
Contingent considerations (Notes 4 and 25)	18,895	966
Other	<u>1,519</u>	<u>923</u>
	<u>\$ 25,139</u>	<u>\$ 6,010</u>

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

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NOTE 14 – FINANCIAL INSTRUMENTS

Financial instruments – carrying values and fair values

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

	December 30, 2009		December 30, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Financial assets</u>				
Held for trading financial assets:				
Cash and cash equivalents	\$ 19,847	\$ 19,847	\$ 16,966	\$ 16,966
Foreign exchange contracts included in accounts receivable	\$ 533	\$ 533	\$ 11,548	\$ 11,548
Loans and receivables:				
Accounts receivable – trade	\$ 327,883	\$ 327,883	\$ 289,824	\$ 289,824
Accounts receivable - other	\$ 20,696	\$ 20,696	\$ 14,895	\$ 14,895
Derivatives designated as cash flow hedges:				
Interest rate swaps included in other assets	\$ 1,476	\$ 1,476	\$ –	\$ –
Foreign exchange contracts included in accounts receivable	\$ 878	\$ 878	\$ –	\$ –
<u>Financial liabilities</u>				
Held for trading financial liabilities:				
Foreign exchange contracts included in accounts payable and accrued liabilities	\$ 395	\$ 395	\$ 1,093	\$ 1,093
Other liabilities:				
Bank indebtedness	\$ 1,987	\$ 1,987	\$ 4,398	\$ 4,398
Accounts payable and accrued liabilities	\$ 337,889	\$ 337,889	\$ 378,722	\$ 378,722
Long-term debt – bearing interest at variable rates:				
Revolving Bank Loans	\$ 257,000	\$ 257,000	\$ 359,024	\$ 359,024
Long-term debt – bearing interest at fixed rates	\$ 92,583	\$ 95,536	\$ 100,559	\$ 98,827
Other long-term liabilities	\$ 25,139	\$ 25,139	\$ 6,010	\$ 6,010
Balance of sale payable	\$ 220	\$ 220	\$ 1,100	\$ 1,100
Derivatives designated as cash flow hedges:				
Interest rate swaps included in accounts payable and accrued liabilities	\$ 790	\$ 790	\$ –	\$ –

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NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)

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

The Company has determined that the fair value of its short-term financial assets and liabilities approximates their respective carrying amounts as at the balance sheet dates because of the short-term nature of those financial instruments. For long-term debt bearing interest at variable rates, the fair value is considered to approximate the carrying amount. For long-term debt bearing interest at fixed rates, the fair value is estimated based on discounting expected future cash flows at the discount rates which represent borrowing rates presently available to the Company for loans with similar terms and maturity. As at December 30, 2009 and 2008, the fair value of the other long-term liabilities are comparable to their carrying value since the majority of the amount is recorded based on discounted future cash outflows. The fair value of cash and cash equivalents was measured using Level 2 inputs in the fair value hierarchy. The fair value of the foreign exchange contracts and the interest rate swaps were measured using Level 2 inputs in the fair value hierarchy.

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

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

Foreign exchange gains (losses)

	December 30,	
	2009	2008
Gains (losses) relating to financial assets and liabilities, excluding foreign exchange contracts	\$ 5,377	\$ 7,489
Gains (losses) relating to foreign exchange contracts, including amounts realized on contract maturity and changes in fair value of open positions for the foreign exchange contracts for which the Company does not apply hedge accounting	(5,154)	18,340
Foreign exchange gains (losses) relating to financial instruments	223	25,829
Other foreign exchange gains (losses)	(76)	138
Foreign exchange gains (losses)	\$ 147	\$ 25,967

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NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)

Management of risks arising from financial instruments

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

Foreign Exchange Risk

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

Derivative financial instruments are used as a method for meeting the risk reduction objectives of the Company by generating offsetting cash flows related to the underlying position with respect to the amount and timing of forecasted transactions. The terms of the currency derivatives ranges from one to twelve months. Dorel does not hold or use derivative financial instruments for trading or speculative purposes.

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NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)

Foreign Exchange Risk (Cont'd)

The following tables provide an indication of the Company's significant foreign currency exposures during the years ended December 30, 2009 and 2008, including the period end balances of financial and monetary assets and liabilities denominated in currencies other than the functional currency of each of Dorel's entities, as well as the amount of revenue and operating expenses during the period that were denominated in foreign currencies other than the functional currency of each of Dorel's entities. The tables below do not consider the effect of foreign exchange contracts.

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

December 30, 2008					
	US	CAD	Euro	GBP	AUD
Cash and cash equivalents	\$ 1,403	\$ (25)	\$ 299	\$ 517	\$ –
Accounts receivable	1,160	16,927	1,195	1,665	623
Accounts payable and accrued liabilities	(22,511)	(11,758)	(12,127)	(81)	–
Inter-company loans	(1,500)	–	–	–	6,805
Balance sheet exposure excluding financial derivatives	<u>\$ (21,448)</u>	<u>\$ 5,144</u>	<u>\$ (10,633)</u>	<u>\$ 2,101</u>	<u>\$ 7,428</u>

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NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)

Foreign Exchange Risk (Cont'd)

December 30, 2009					
	US	CAD	Euro	GBP	AUD
Revenue	\$ 9,610	\$ 105,507	\$ 12,346	\$ 11,567	\$ 6,349
Expenses	<u>179,016</u>	<u>111,888</u>	<u>15,242</u>	<u>459</u>	<u>800</u>
Net exposure	<u><u>\$ (169,406)</u></u>	<u><u>\$ (6,381)</u></u>	<u><u>\$ (2,896)</u></u>	<u><u>\$ 11,108</u></u>	<u><u>\$ 5,549</u></u>
December 30, 2008					
	US	CAD	Euro	GBP	AUD
Revenue	\$ 7,644	\$ 104,911	\$ 12,232	\$ 13,370	\$ 2,834
Expenses	<u>181,353</u>	<u>128,708</u>	<u>22,907</u>	<u>209</u>	<u>72</u>
Net exposure	<u><u>\$ (173,709)</u></u>	<u><u>\$ (23,797)</u></u>	<u><u>\$ (10,675)</u></u>	<u><u>\$ 13,161</u></u>	<u><u>\$ 2,762</u></u>

The following table summarizes the Company's derivative financial instruments relating to commitments to buy and sell foreign currencies through options, futures and forward foreign exchange contracts as at December 30, 2009 and, 2008:

Foreign exchange contracts Currencies (sold/bought)	December 30, 2009			December 30, 2008		
	Average rate (1)	Notional amount (2)	Fair value	Average rate (1)	Notional amount (2)	Fair value
Futures						
\$/CAD	0.9375	\$ 15,000	\$ 275	-	-	-
Forwards						
EUR/\$	0.6806	\$ 30,400	\$ 1,122	0.6855	\$ 105,700	\$ 3,487
GBP/\$	0.6131	\$ 2,500	\$ 25	0.5995	\$ 18,800	\$ 2,493
AUD/\$	-	-	-	1.2155	\$ 1,142	\$ 180
NZD/\$	-	-	-	0.7418	\$ 137	\$ 31
GBP/EUR	-	-	-	0.8777	\$ 13,450	\$ 1,344
NZD/AUD	0.5174	\$ 34	\$ (13)	0.8420	\$ 337	\$ 3
Options						
EUR/\$	0.7134	\$ 13,300	\$ (393)	0.6613	\$ 61,150	\$ 1,782
GBP/\$	-	-	-	0.5066	\$ 3,350	\$ 469
GBP/EUR	-	-	-	0.7738	\$ 6,371	\$ 666
Total			<u><u>\$ 1,016</u></u>			<u><u>\$ 10,455</u></u>

(1) Rates are expressed as the number of units of the currency sold for one unit of currency bought.

(2) Exchange rates as at December 30, 2009 and 2008 were used to translate amounts in foreign currencies.

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NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)

Foreign Exchange Risk (Cont'd)

The following outlines the main exchange rates applied:

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

	2008 Year-to-date average rate	Reporting date rate December 30, 2008
CAD TO USD	0.9386	0.8190
EURO TO USD	1.4694	1.4158
GBP TO USD	1.8545	1.4476
AUD TO USD	0.8525	0.6928

Based on the Company's foreign currency exposures noted above and the foreign exchange contracts in effect in 2009 and 2008, varying the above foreign exchange rates to reflect a 5 percent weakening of the currencies, other than the functional currency of each of Dorel's entities, would have the following effects during the years ended December 30, 2009 and 2008, as follows, assuming that all other variables remained constant:

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

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NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)

Foreign Exchange Risk (Cont'd)

December 30, 2008					
Source of variability from changes in foreign exchange rates	US	CAD	Euro	GBP	AUD
Financial instruments, including foreign exchange contracts	\$ (6,688)	\$ (139)	\$ (311)	\$ (105)	\$ (353)
Revenues and expenses	\$ 8,059	\$ 1,190	\$ 233	\$ (634)	\$ (132)
(Decrease) increase on pre-tax income	\$ 1,371	\$ 1,051	\$ (78)	\$ (739)	\$ (485)
Increase (decrease) on other comprehensive income	\$ –	\$ –	\$ –	\$ –	\$ –

An assumed 5 percent strengthening of the currencies, other than the functional currency of each of Dorel's entities, during the years ended December 30, 2009 and 2008, would have the following effects assuming that all other variables remained constant:

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

December 30, 2008					
Source of variability from changes in foreign exchange rates	US	CAD	Euro	GBP	AUD
Financial instruments, including foreign exchange contracts	\$ 6,721	\$ 139	\$ 310	\$ 105	\$ 353
Revenues and expenses	\$ (8,059)	\$ (1,190)	\$ (233)	\$ 634	\$ 132
(Decrease) increase on pre-tax income	\$ (1,338)	\$ (1,051)	\$ 77	\$ 739	\$ 485
Increase (decrease) on other comprehensive income	\$ –	\$ –	\$ –	\$ –	\$ –

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NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)

Interest Rate Risk

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

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

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

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

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NOTE 14 – FINANCIAL INSTRUMENTS (Cont'd)

Interest Rate Risk (Cont'd)

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

	Fair value
<u>Derivatives designated as cash flow hedges:</u>	
Interest rate swaps included in other assets	\$ 1,476
Interest rate swaps included in accounts payable and accrued liabilities	(790)
	\$ 686

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

	2009		2008	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Increase (decrease) on pre-tax income	\$ (1,285)	\$ 1,285	\$ (1,795)	\$1,795
Increase (decrease) on other comprehensive income	\$ (356)	\$ 343	–	–

Credit Risk

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

The maximum credit risk to which the Company is exposed as at December 30, 2009 and 2008, represents the carrying value of cash equivalents and accounts receivable as well as the fair value of foreign exchange contracts and interest rate swaps with positive fair values.

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NOTE 14 – FINANCIAL INSTRUMENTS – (Cont'd)

Credit Risk (Cont'd)

Substantially all trade accounts receivable arise from the sale to the retail industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. In addition, a portion of the total accounts receivable is insured against possible losses. In 2009, sales to a major customer represented 31.4% of total revenue (2008 – 30.4%). As at December 30, 2009, one customer accounted for 17.9% of the Company's total trade accounts receivable balance. As at December 30, 2008, two customers accounted for respectively 20.6% and 10.2% for an aggregate of 30.8% of the Company's total trade accounts receivable balance.

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

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

	December 30, 2009	December 30, 2008
Canada	\$ 28,618	\$ 19,749
United States	158,502	141,330
Europe	119,815	105,926
Other foreign countries	20,948	22,819
	<u>\$ 327,883</u>	<u>\$ 289,824</u>

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

	December 30, 2009	December 30, 2008
Mass-market retailers	\$ 148,460	\$ 151,074
Specialty/independent stores	179,423	138,750
	<u>\$ 327,883</u>	<u>\$ 289,824</u>

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NOTE 14 – FINANCIAL INSTRUMENTS – (Cont'd)

Credit Risk (Cont'd)

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

	December 30, 2009	December 30, 2008
Not past due	\$ 247,567	\$ 222,490
Past due 0-30 days	54,128	49,202
Past due 31-60 days	9,858	8,641
Past due 61-90 days	11,470	5,319
Past due over 90 days	18,414	15,477
Trade accounts receivable	341,437	301,129
Less allowance for doubtful accounts	(13,554)	(11,305)
	<u>\$ 327,883</u>	<u>\$ 289,824</u>

Based on past experience, the Company believes that no allowance is necessary in respect of trade receivables not past due and past due 0-30 days; 88.4% of these balances (2008 – 90.2%), which includes the amounts owed by the Company's most significant customers, relates to customers that have a good track record with the Company.

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

	December 30, 2009	December 30, 2008
Balance at beginning of year	\$ 11,305	\$ 6,914
Bad debt expense	4,758	2,410
Uncollectible accounts written-off, net of recovery	(2,721)	(1,668)
Increase due to acquisitions (Note 4)	39	3,985
Effect of foreign currency exchange rate changes	173	(336)
Balance at end of year	<u>\$ 13,554</u>	<u>\$ 11,305</u>

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NOTE 14 – FINANCIAL INSTRUMENTS – (Cont'd)

Liquidity Risk

Liquidity risk is the risk of being unable to honor financial commitments by the deadlines set out under the terms of such commitments. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in “Capital Risk Management”. It also manages liquidity risk by continuously monitoring actual and projected cash flows matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company’s operating and capital budgets, as well as any material transactions out of the ordinary course of business, including acquisitions or other major investments or divestitures.

The Company has committed revolving bank loans for a maximum of \$ 475,000 due to mature in July 2010 which provide for an annual one-year extension. This agreement also includes an accordion feature allowing the Company to have access to an additional amount of \$ 50,000 on a revolving basis. The revolving bank loans bear interest at LIBOR or U.S. bank rates plus a margin and the effective interest rate for the year ended December 30, 2009, was 2.2% (2008 – 4.0%). The Company is currently renegotiating the terms of the revolving bank loans due to mature in July 2010 in order to extend this facility. Management believes that future cash flows from operations and availability under existing/renegotiated banking arrangements will be adequate to support the Company’s financial liabilities.

The following table summarizes the contractual maturities of financial liabilities of the Company as of December 30, 2009, excluding future interest payments but including accrued interest:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Bank indebtedness	\$ 1,987	\$ 1,987	\$ –	\$ –	\$ –
Long-term debt – revolving bank loans	257,000	257,000	–	–	–
Other long-term debt	92,583	65,508	27,075	–	–
Accounts payable and accrued liabilities	337,889	337,889	–	–	–
Foreign exchange contracts	395	395	–	–	–
Interest rate swaps	790	790	–	–	–
Balance of sales payable	220	220	–	–	–
Other long term liabilities	25,139	–	15,287	9,852	–
Total	<u>\$ 716,003</u>	<u>\$ 663,789</u>	<u>\$ 42,362</u>	<u>\$ 9,852</u>	<u>–</u>

The Company’s only derivative financial liabilities as at December 30, 2009 were foreign exchange contracts and interest rate swaps, for which notional amounts, maturities, average exchange rates and the carrying and fair values are disclosed under “Foreign Exchange Risk” and “Interest Rate Risk”.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14 – FINANCIAL INSTRUMENTS – (Cont'd)

Capital Risk Management

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

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

The Company monitors its capital structure using the ratio of indebtedness to adjusted earnings before interest, taxes, depreciation and amortization, restructuring costs and extraordinary or unusual items ("adjusted EBITDA"), which it aims to maintain at less than 3.0:1. The terms of the unsecured notes and the revolving credit facility permit the Company to exceed this limit under certain circumstances. This ratio is calculated as follows: indebtedness/ adjusted EBITDA. Indebtedness is equal to the aggregate of bank indebtedness, long-term debt (including obligations under capital leases), guarantees (including all letters of credit and standby letters of credit), contingent considerations and balance of sales. Adjusted EBITDA is based on the last four quarters ending on the same date as the balance sheet date used to compute the indebtedness. The indebtedness to adjusted EBITDA as at December 30, 2009 and 2008 was as follows:

	December 30,	
	2009	2008
Bank indebtedness	\$ 1,987	\$ 4,398
Current portion of long-term debt	322,508	8,879
Long-term debt	27,075	450,704
Guarantees	17,248	16,505
Contingent considerations (Note 13)	18,895	966
Balance of sale payable	220	1,100
Indebtedness	\$ 387,933	\$ 482,552

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14 – FINANCIAL INSTRUMENTS – (Cont'd)*Capital Risk Management (Cont'd)*

	For the trailing four quarters ended December 30, (1)	
	2009	2008
Net income	\$ 108,233	\$ 112,948
Interest, net	16,390	24,860
Income taxes expense	21,145	19,160
Depreciation and amortization	49,238	46,511
Restructuring costs	135	943
Adjusted EBITDA	\$ 195,141	\$ 204,422
Indebtedness to adjusted EBITDA ratio	1.99:1	2.36:1

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

There were no changes in the Company's approach to capital management during the periods. Under the unsecured notes and revolving credit facility, the Company is subject to certain covenants, including maintaining certain financial ratios. During the years ended December 30, 2009 and 2008, the Company is in compliance with these covenants.

DOREL INDUSTRIES INC.

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NOTE 15 – PENSION & POST RETIREMENT BENEFIT PLANS

Pension Benefits

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

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

	December 30,	
	2009	2008
Accrued benefit obligations:		
Balance, beginning of year	\$ 39,182	\$ 37,466
Current service cost	1,281	1,314
Interest cost	2,355	2,230
Acquisitions	283	–
Amendments	–	1,005
Participant contributions	401	315
Benefits paid	(1,649)	(2,637)
Effect of exchange rates	193	(489)
Actuarial (gain) / loss	1,301	(22)
Balance, end of year	43,347	39,182
Plan assets		
Fair value, beginning of year	23,648	29,984
Actual return on plan assets	2,744	(5,607)
Employer contributions	3,313	2,036
Participant contributions	401	315
Benefits paid	(1,649)	(2,637)
Effect of exchange rates	40	(215)
Additional charges	(289)	(228)
Fair value, end of year	28,208	23,648
Funded status - plan deficit	(15,139)	(15,534)
Unamortized actuarial loss	15,510	16,384
Unamortized transitional obligation	93	102
Unamortized past service costs	1,729	2,072
Net amount recognized	<u>\$ 2,193</u>	<u>\$ 3,024</u>

DOREL INDUSTRIES INC.

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NOTE 15 – PENSION & POST RETIREMENT BENEFIT PLANS – (Cont'd)

Pension Benefits (Cont'd)

	December 30,	
	2009	2008
The net amount recognized consists of the following:		
Accrued benefit asset:	\$ 8,390	\$ 8,354
Accrued benefit liability	(6,197)	(5,330)
Net amount recognized	<u>\$ 2,193</u>	<u>\$ 3,024</u>

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

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

	December 30,	
	2009	2008
Accrued benefit obligation, end of year	\$ 43,347	\$ 39,182
Fair value of plan assets, end of year	\$ 28,208	\$ 23,648

DOREL INDUSTRIES INC.

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NOTE 15 – PENSION & POST RETIREMENT BENEFIT PLANS – (Cont'd)

Pension Benefits (Cont'd)

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

	December 30,	
	2009	2008
Current service cost	\$ 1,281	\$ 1,314
Interest cost	2,355	2,230
Actual return on plan assets	(2,744)	5,607
Amendments	–	1,005
Actuarial (gain) / loss	<u>1,301</u>	<u>(22)</u>
Cost before adjustments to recognize the long-term nature of the plans	2,193	10,134
Difference between actual and expected return on plan assets	1,135	(7,796)
Difference between actuarial loss on accrued benefit obligation and the amount recognized	(213)	436
Difference between amortization of past service costs and actual amendments for the year	342	(775)
Amortization of transition obligation	<u>10</u>	<u>10</u>
Pension expense	<u>\$ 3,467</u>	<u>\$ 2,009</u>

Under the Company's defined contribution plans, total expense was \$1,712 (2008 – \$1,576). Total cash payments for employee future benefits for 2009, consisting of cash contributed by the Company to its funded plans, cash contributed to its defined contribution plans and benefits paid directly to beneficiaries for unfunded plans, was \$6,083 (2008 – \$4,310).

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 15 – PENSION & POST RETIREMENT BENEFIT PLANS – (Cont'd)

Post-Retirement Benefits

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

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

	December 30,	
	2009	2008
Accrued benefit obligations:		
Balance, beginning of year	\$ 13,493	\$ 13,113
Current service cost	311	239
Interest cost	791	726
Benefits paid	(1,057)	(698)
Actuarial (gain) / loss	(56)	113
Balance, end of year	\$ 13,482	\$ 13,493
Plan assets:		
Employer contributions	1,057	698
Benefits paid	(1,057)	(698)
Fair value, end of year	\$ –	\$ –
Funded status-plan deficit	\$ (13,482)	\$ (13,493)
Unamortized actuarial (gain)/loss	(1,634)	(1,649)
Unamortized past service costs	374	400
Accrued benefit liability	<u>\$ (14,742)</u>	<u>\$ (14,742)</u>

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

	December 30,	
	2009	2008
Current service cost	\$ 311	\$ 239
Interest cost	791	726
Actuarial (gain)/loss	(56)	113
Cost (benefit) before adjustments to recognize the long-term nature of the plans	1,046	1,078
Difference between actuarial (gain)/loss on accrued benefit obligation and the amount recognized	(15)	(414)
Difference between amortization of past service costs and actual amendments for the year	26	26
Net benefit plan expense	<u>\$ 1,057</u>	<u>\$ 690</u>

DOREL INDUSTRIES INC.

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NOTE 15 – PENSION & POST RETIREMENT BENEFIT PLANS – (Cont'd)

Assumptions

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

	Pension Benefits		Post Retirement Benefits	
	2009	2008	2009	2008
Discount rate	5.78%	5.98%	6.00%	6.25%
Rate of compensation increase	2.06%	2.22%	n/a	n/a

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

	Pension Benefits		Post Retirement Benefits	
	2009	2008	2009	2008
Discount rate	5.98%	6.03%	6.25%	6.50%
Expected long-term return on plan assets	7.47%	7.86%	n/a	n/a
Rate of compensation increase	2.22%	2.30%	n/a	n/a

The measurement date used for plan assets and pension benefits and the measurement date used for post-retirement benefits was December 30 for both 2009 and 2008. The most recent actuarial valuations for the pension plans and post-retirement benefit plans are dated January 1st, 2009. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1st, 2009, and the next required valuation will be as of January 1st, 2010.

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

	2009	2008
Equity securities	53%	42%
Debt securities	31%	36%
Other	16%	22%
	100%	100%

The assumed health care cost trend used for measurement of the accumulated postretirement benefit obligation is 8% in 2010, decreasing gradually to 5% in 2013 and remaining at that level thereafter. Assumed health care cost trends have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost	\$ 201	\$ (152)
Effect on post-retirement benefit obligation	\$ 2,127	\$ (1,643)

Other

Certain of the Company's subsidiaries have elected to act as self-insurer for certain costs related to all active employee health and accident programs. The expense for the year ended December 30, 2009 was \$8,856 (2008 – \$7,473) under this self-insured benefit program.

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NOTE 16 – CAPITAL STOCK

The capital stock of the Company is as follows:

Authorized

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

An unlimited number of Class "A" Multiple Voting Shares without nominal or par value, convertible at any time at the option of the holder into Class "B" Subordinate Voting Shares on a one-for-one basis.

An unlimited number of Class "B" Subordinate Voting Shares without nominal or par value, convertible into Class "A" Multiple Voting Shares, under certain circumstances, if an offer is made to purchase the Class "A" shares.

Details of the issued and outstanding shares are as follows:

	December 30,			
	2009		2008	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Class "A" Multiple Voting Shares				
Balance, beginning of year	4,229,710	\$ 1,793	4,427,744	\$ 1,913
Converted from Class "A" to Class "B" (1)	(200)	(1)	(198,034)	(120)
Balance, end of year	<u>4,229,510</u>	<u>\$ 1,792</u>	<u>4,229,710</u>	<u>\$ 1,793</u>
Class "B" Subordinate Voting Shares				
Balance, beginning of year	29,172,482	\$175,629	28,969,448	\$175,358
Converted from Class "A" to Class "B" (1)	200	1	198,034	120
Issued under stock option plan (2)	–	–	5,000	151
Repurchase and cancellation of shares (3)	(432,880)	(2,606)	–	–
Balance, end of year	<u>28,739,802</u>	<u>\$173,024</u>	<u>29,172,482</u>	<u>\$175,629</u>
TOTAL CAPITAL STOCK		<u><u>\$174,816</u></u>		<u><u>\$177,422</u></u>

(1) During the year, the Company converted 200 (2008 –198,034) Class "A" Multiple Voting Shares into Class "B" Subordinate Voting Shares at an average rate of \$0.58 per share (2008 – \$0.61 per share).

(2) In 2008, the Company incurred tax costs amounting to \$4 as a result of stock option transactions. The cost has been debited to capital stock and is not reflected in the current income tax provision.

(3) In 2009, the Company filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to repurchase for cancellation outstanding Class "B" Subordinate Voting Shares on the open market. As approved by the TSX, the Company is authorized to purchase up to 1,458,624 Class "B" Subordinate Voting Shares (representing 5% of its issued and outstanding Class "B" Subordinate Voting Shares at the time of the bid) during the period of March 20, 2009 to March 19, 2010, or until such earlier time as the bid is completed or terminated at the option of the Company. Any shares the Company purchases under this bid will be purchased on the open market plus brokerage fees through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under this bid will be cancelled. In accordance with its normal course issuer bid, the Company repurchased during the year, a total of 432,880 Class "B" Subordinate Voting Shares for a cash consideration of \$10,504. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

DOREL INDUSTRIES INC.

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NOTE 17 – STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Stock option plans

Under various plans, the Company may grant stock options on the Class "B" Subordinate Voting Shares at the discretion of the Board of Directors, to senior executives and certain key employees. The exercise price is the market price of the securities at the date the options are granted. Of the 6,000,000 Class "B" Subordinate Voting Shares initially reserved for issuance, 3,456,000 were available for issuance under the share option plans as at December 30, 2009. Options granted vest according to a graded schedule of 25% per year commencing a day after the end of the first year, and options outstanding expire no later than the year 2014.

The Company's stock option plan is as follows:

	December 30,			
	2009		2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	2,253,750	\$ 31.67	2,308,750	\$ 31.92
Granted	1,086,500	16.35	160,000	30.83
Exercised	—	—	(5,000)	30.96
Expired	(506,750)	33.46	(51,000)	36.89
Cancelled	(294,500)	29.07	(159,000)	32.39
Options outstanding, end of year	<u>2,539,000</u>	<u>\$ 26.27</u>	<u>2,253,750</u>	<u>\$ 31.67</u>
Total exercisable, end of year	<u>775,000</u>	<u>\$ 31.54</u>	<u>1,048,500</u>	<u>\$ 32.35</u>

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NOTE 17 – STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS – (Cont'd)

Stock option plans (Cont'd)

A summary of options outstanding at December 30, 2009 is as follows:

Range of Exercise Prices	Total Outstanding			Total Exercisable	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price
\$16.05 - \$30.70	1,141,500	\$ 20.03	4.12	45,000	\$ 30.22
\$30.96 - \$34.49	<u>1,397,500</u>	<u>31.36</u>	<u>2.38</u>	<u>730,000</u>	<u>31.62</u>
	<u>2,539,000</u>	<u>\$ 26.27</u>	<u>3.16</u>	<u>775,000</u>	<u>\$ 31.54</u>

Total compensation cost recognized in income for employee stock options for the year amounts to \$3,480 (2008 – \$4,125), and was credited to contributed surplus.

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

	<u>2009</u>	<u>2008</u>
Risk-free interest rate	1.91%	3.21%
Dividend yield	3.27%	1.62%
Expected volatility	37.11%	27.05%
Expected life	4.49	4.50

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NOTE 17 – STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS – (Cont'd)

Directors' Deferred Share Unit Plan

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

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

Of the 75,000 DSU's authorized for issuance under the plan, 18,939 were available for issuance under the DSU plan as at December 30, 2009. During the year, 14,896 additional DSU's were issued (2008 – 11,120) and \$328 (2008 – \$306) was expensed and credited to contributed surplus. An additional 945 DSU's were issued (2008 – 585) for dividend equivalents and \$22 (2008 – \$16) was charged to retained earnings and credited to contributed surplus. As at December 30, 2009, 56,061 (2008 – 40,220) DSU's are outstanding with related contributed surplus amounting to \$1,500 (2008 – \$1,150).

Executive Deferred Share Unit Plan

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

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

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NOTE 17 – STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS – (Cont'd)

Executive Deferred Share Unit Plan (Cont'd)

Of the 750,000 DSU's authorized for issuance under the plan, 723,768 were available for issuance under the EDSU Plan as at December 30, 2009. During the year, 25,846 (2008 – nil) DSU's were issued for bonus paid and \$401 (2008 – nil) credited to contributed surplus. An additional 386 (2008 – nil) DSU's were issued for dividend equivalents and \$10 (2008 – nil) was charged to retained earnings and credited to contributed surplus. As at December 30, 2009, 26,232 DSU's are outstanding with related contributed surplus amounting to \$411 (2008 – nil).

NOTE 18 – ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash Flow Hedges	Cumulative Translation Adjustment	Total
Balance as at December 30, 2007	\$ –	\$ 106,871	\$ 106,871
Change during the year	–	(23,732)	(23,732)
Balance as at December 30, 2008	–	83,139	83,139
Change during the year	895	11,331	12,226
Balance as at December 30, 2009	\$ 895	\$ 94,470	\$ 95,365

DOREL INDUSTRIES INC.

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NOTE 19 – COMMITMENTS AND GUARANTEES

- a) The Company has entered into long-term operating lease agreements for buildings and equipment that expire at various dates through the year 2028. Rent expense was \$30,671 and \$27,554 in 2009 and 2008, respectively. Future minimum lease payments exclusive of additional charges, are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2010	\$ 28,675
2011	26,168
2012	21,600
2013	14,442
2014	9,956
Thereafter	<u>22,476</u>
	<u>\$ 123,317</u>

- b) The Company has entered into various licensing agreements for the use of certain brand names on its products. Under these agreements, the Company is required to pay royalties as a percentage of sales with minimum royalties of \$6,199 due in fiscal 2010 and \$3,547 due in fiscal 2011 and 2012 combined.
- c) As at December 30, 2009, the Company has capital expenditure commitments of approximately \$4,662 and commercial letters of credit outstanding totalling \$60.
- d) In the normal course of business, the Company enters into agreements that may contain features which meet the definition of a guarantee:
- The Company granted irrevocable standby letters of credit issued by highly rated financial institutions to various third parties to indemnify them in the event the Company does not perform its contractual obligations, such as payment of product liability claims, lease and licensing agreements, duties and workers compensation claims. As at December 30, 2009, standby letters of credit outstanding totalled \$16,779. As many of these guarantees will not be drawn upon, these amounts are not indicative of future cash requirements. No material loss is anticipated by reason of such agreements and guarantees and no amounts have been accrued in the Company's consolidated financial statements with respect to these guarantees. The Company has determined that the fair value of the non-contingent obligations requiring performance under the guarantees in the event that specified events or conditions occur approximate the cost of obtaining the letters of credit.
 - The Company has provided a financing provider the right, upon customer default on payment to this financing provider, to sell back certain new products to the Company at predetermined prices. The maximum exposure with respect to this guarantee as at December 30, 2009 is \$409. Should the Company be required to act under such agreement, it is expected that no material loss would result after consideration of possible resell recoveries. Historically, the Company has not made any payments under such vendor financing agreement and the estimated exposure have been accrued in the Company's consolidated financial statements with respect to this guarantee.

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NOTE 20 – CONTINGENCIES

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

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

In 2006, anti-dumping duties in the amount of \$4,472 were imposed upon the Company by the United States Department of Commerce ("DOC"). These duties pertain to certain metal furniture imported from China into the United States that was subject to anti-dumping duties during the period between December 3, 2001 through May 31, 2003. In relation to this charge the Company had a pending claim against a major international law firm. That claim relates to a breach of professional duty by the law firm for its failure to timely file a request for an administrative review by the DOC of the duties imposed. During the fourth quarter of 2009, an agreement was reached with this law firm that resulted in a gain of \$6,400 being recorded in cost of sales.

NOTE 21 – PRODUCT LIABILITY

The Company insures itself to mitigate its product liability exposure.

The estimated product liability exposure was calculated by an independent actuary based on historical sales volumes, past claims history and management and actuarial assumptions. The estimated exposure includes incidents that have occurred, as well as incidents anticipated to occur on units sold prior to December 30, 2009. Significant assumptions used in the actuarial model include management's estimates for pending claims, product life cycle, discount rates, and the frequency and severity of product incidents.

As at December 30, 2009, the Company's recorded liability amounts to \$25,480 (2008 – \$23,087), which represents the Company's total estimated exposure related to current and future product liability incidents.

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NOTE 22 – INCOME TAXES

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

	December 30,			
	2009		2008	
PROVISION FOR INCOME TAXES	\$ 39,531	30.8%	\$ 41,188	31.2%
ADD (DEDUCT) EFFECT OF:				
Difference in effective tax				
rates of foreign subsidiaries	(13,591)	(10.6)	(20,666)	(15.7)
Recovery of income taxes arising from				
the use of unrecorded tax benefits	(5,415)	(4.2)	(5,498)	(4.1)
Change in valuation allowance	(2,599)	(2.0)	1,100	0.8
Non-deductible stock options	1,071	0.8	1,440	1.1
Other non-deductible items	(36)	–	1,893	1.4
Change in future income taxes				
resulting from changes in tax rates	1,023	0.8	179	0.1
Effect of foreign exchange	672	0.5	(1,221)	(0.9)
Other - Net	458	0.3	743	0.6
	<u>21,113</u>	<u>16.4%</u>	<u>\$ 19,158</u>	<u>14.5%</u>

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NOTE 22 – INCOME TAXES – (Cont'd)

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

	December 30,	
	2009	2008
Capital and operating loss carryforwards	\$ 26,185	\$ 22,645
Deferral of partnership gain	(406)	–
Employee pensions and post-retirement	3,878	3,631
Other long-term liabilities	243	308
Accounts receivable	6,178	7,928
Inventories	9,681	11,671
Accrued expenses	20,213	18,463
Stock options	1,148	725
Derivatives	(915)	(3,110)
Property, plant and equipment	(24,981)	(22,509)
Intangible assets	(83,816)	(82,769)
Goodwill	(20,514)	(18,388)
Prepaid expenses	(64)	(88)
Valuation allowance	(2,310)	(4,900)
Foreign exchange and other	(202)	(432)
	<u>\$ (65,682)</u>	<u>\$ (66,825)</u>

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

	December 30,	
	2009	2008
Short-term future income tax assets	\$ 38,042	\$ 37,342
Long-term future income tax assets (Note 9)	25,345	10,420
Short-term future income tax liabilities	(85)	(2,713)
Long-term future income tax liabilities	(128,984)	(111,874)
	<u>\$ (65,682)</u>	<u>\$ (66,825)</u>

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NOTE 22 – INCOME TAXES – (Cont'd)

As at December 30, 2009, the Company has \$284 of capital losses with no expiry and \$86,638 of operating loss carryforwards, of which \$9,710 will expire between 2017 and 2019 and \$36,648 will expire between 2025 and 2029. The remaining \$40,280 has no expiration date. The Company also has unclaimed expenses available to reduce federal income tax amounting to \$910 and expiring between 2010 and 2014. The Company recognized a future income tax asset for all of these unused tax losses and other available income tax reductions but used a valuation allowance to reduce the related future income tax asset to the amount that is more likely than not to be realized. As limitations on the utilization of these tax assets may apply, the Company has provided a valuation allowance in the amount of \$2,310 as at December 30, 2009 for the full value of the capital losses and unclaimed expenses and for a portion of the operating loss carryforwards.

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

NOTE 23 – EARNINGS PER SHARE

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

	December 30,	
	2009	2008
Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares	33,232,606	33,398,544
Dilutive effect of stock options and deferred share units	<u>167,934</u>	<u>348</u>
Weighted average number of diluted shares	<u>33,400,540</u>	<u>33,398,892</u>
Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings per share calculation	<u>1,551,395</u>	<u>2,278,710</u>

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NOTE 24 – STATEMENT OF CASH FLOWS

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

	December 30,	
	2009	2008
Accounts receivable	\$ (27,312)	\$ 28,223
Inventories	113,630	(121,027)
Prepaid expenses	(378)	677
Accounts payable, accruals and other liabilities	(39,437)	22,105
Income taxes	1,156	(8,485)
Total	<u>\$ 47,659</u>	<u>\$ (78,507)</u>

Details of business acquisitions:

	December 30,	
	2009	2008
Acquisition of businesses (Note 4)	\$ (23,643)	\$ (231,591)
Cash acquired (Note 4)	290	4,493
	(23,353)	(227,098)
Balance of sale (paid)	1,692	908
	<u>\$ (21,661)</u>	<u>\$ (226,190)</u>

The components of cash and cash equivalents are:

	December 30,	
	2009	2008
Cash	\$ 17,525	\$ 15,408
Short-term investments	2,322	1,558
Cash and cash equivalents	<u>\$ 19,847</u>	<u>\$ 16,966</u>

DOREL INDUSTRIES INC.

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NOTE 24 – STATEMENT OF CASH FLOWS – (Cont'd)

Supplementary disclosure:

	December 30,	
	2009	2008
Interest paid	\$ (14,173)	\$ (19,542)
Income taxes paid	\$ (26,639)	\$ (27,221)
Income taxes received	\$ 5,284	\$ 1,660

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

	December 30,	
	2009	2008
Acquisition of property, plant and equipment financed by accounts payable and accrued liabilities	\$ 1,085	\$ 763
Acquisition of intangible assets financed by accounts payable and accrued liabilities	\$ 130	\$ 140

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NOTE 25 – SEGMENTED INFORMATION

The Company's significant business segments include:

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

The accounting policies used to prepare the information by business segment are the same as those used to prepare the consolidated financial statements of the Company as described in Note 2.

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

Geographic Segments – Origin

	December 30,			
	Total Revenue		Property, plant and equipment and Goodwill	
	2009	2008	2009	2008
Canada	\$ 247,878	\$ 248,107	\$ 51,336	\$ 42,413
United States	1,191,755	1,195,382	371,596	378,604
Europe	540,269	593,309	278,455	273,396
Other foreign countries	160,212	145,082	21,716	4,669
Total	<u>\$2,140,114</u>	<u>\$2,181,880</u>	<u>\$ 723,103</u>	<u>\$ 699,082</u>

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NOTE 25 – SEGMENTED INFORMATION – (Cont'd)

Industry Segments

	December 30,							
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2009	2008	2009	2008	2009	2008	2009	2008
Total Revenue	\$ 2,140,114	\$ 2,181,880	\$ 995,014	\$ 1,073,722	\$ 681,366	\$ 656,613	\$ 463,734	\$ 451,545
Cost of sales (Note 2)	1,634,570	1,670,481	720,517	764,042	527,627	505,809	386,426	400,630
Selling, general and administrative expenses	291,962	294,338	149,135	154,164	106,209	101,886	36,618	38,288
Depreciation & amortization (Note 2)	27,227	26,415	20,776	20,041	5,009	4,708	1,442	1,666
Research and development costs	17,184	13,245	11,948	7,928	2,684	2,336	2,552	2,981
Restructuring costs (Note 3)	104	726	104	710	–	–	–	16
Earnings from Operations	169,067	176,675	<u>\$ 92,534</u>	<u>\$ 126,837</u>	<u>\$ 39,837</u>	<u>\$ 41,874</u>	<u>\$ 36,696</u>	<u>\$ 7,964</u>
Interest	16,375	22,123						
Corporate expenses	24,345	22,539						
Income taxes	21,113	19,158						
Net income	<u>\$ 107,234</u>	<u>\$ 112,855</u>						
Total Assets	<u>\$ 1,969,655</u>	<u>\$ 2,003,459</u>	<u>\$ 999,808</u>	<u>\$ 986,021</u>	<u>\$ 756,557</u>	<u>\$ 771,468</u>	<u>\$ 213,290</u>	<u>\$ 245,970</u>
Additions to property, plant and equipment – net	<u>\$ 21,893</u>	<u>\$ 26,423</u>	<u>\$ 13,297</u>	<u>\$ 18,504</u>	<u>\$ 6,763</u>	<u>\$ 3,997</u>	<u>\$ 1,833</u>	<u>\$ 3,922</u>

Total Assets

	December 30,	
	2009	2008
Total assets for reportable segments	\$ 1,969,655	\$ 2,003,459
Corporate assets	32,525	27,014
Total Assets	<u>\$ 2,002,180</u>	<u>\$ 2,030,473</u>

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NOTE 25 – SEGMENTED INFORMATION – (Cont'd)

Goodwill

The continuity of goodwill by industry segment is as follows:

December 30,								
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2009	2008	2009	2008	2009	2008	2009	2008
Balance, beginning of year	\$ 540,187	\$ 525,235	\$ 343,155	\$ 350,848	\$ 165,860	\$ 143,215	\$ 31,172	\$ 31,172
Additions (Note 4)	9,943	23,611	4,860	–	5,083	22,645	–	–
Contingent considerations (Notes 4 and 13)	16,155	–	13,583	966	2,572	–	–	–
Foreign exchange	3,539	(8,659)	3,520	(8,659)	19	–	–	–
Balance, end of year	\$ 569,824	\$ 540,187	\$ 365,118	\$ 343,155	\$ 173,534	\$ 165,860	\$ 31,172	\$ 31,172

Concentration of Credit Risk

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

	Canada		United States		Foreign	
	2009	2008	2009	2008	2009	2008
Juvenile	0.8%	1.5%	7.3%	7.5%	1.4%	1.3%
Recreational/Leisure	– %	– %	8.4%	8.1%	– %	– %
Home furnishings	4.7%	2.3%	6.7%	7.4%	2.1%	2.3%