

2018
ANNUAL REPORT

Message to Shareholders

2018 was not the year we had hoped it would be, particularly at Dorel Juvenile and Dorel Sports. We missed the mark in a number of areas and, in so doing, disappointed you, our shareholders. We can blame industry challenges such as the changing retail environment, the way people shop, input costs and foreign exchange fluctuations. Toys"R"US, Kmart and Sears were among the retailer casualties of these changes. Like all consumer product companies, Dorel is not immune to these very real issues, but we must deal head-on with them. All of these new realities impact our businesses in different ways and require a unique approach to ensure the long-term success of each.

BUILDING ON SUCCESSES

We are committed to taking the necessary action to improve Dorel and to re-build value for our shareholders. We have excellent assets. Dorel Home has developed a model of sustained ecommerce success, continuously growing its business with major on-line retailers and widening its product platform with more higher margin products in new categories. Traditionally not a branded business, Dorel Home has taken significant steps in that direction over the past couple of years with labels such as Little Seeds, Novogratz and most recently CosmoLiving. This is presenting excellent opportunities. In addition, last October the segment acquired the assets and operations of U.K.-based Alphason, a designer and distributor of award-winning home office and audio-visual furniture. We will use this base to expand and to provide strong logistics support with a distribution hub to serve and grow our European business. Additional Dorel Home product has already been made available through Alphason's network and Europe is poised for growth.

We have also upped our game in product development. Both Dorel Juvenile and Dorel Sports have not only succeeded with excellent innovation, but both businesses have also increased their speed-to-market. New juvenile products are gaining traction. Notwithstanding this, there were hiccups in 2018, some beyond our control, others self-inflicted. Measures are underway to address this. Dorel Sports has made several changes which are proving beneficial. The year has started off well. There has been significant improvement at Cannondale, due partly to the development of new innovative e-bikes to address the European market. We are optimistic that modifications at Pacific Cycle will result in a better 2019.

OPTIMIZING OPERATIONS

A comprehensive global restructuring program is in the process of being launched to evaluate our global footprint and to optimize our operations. Dorel is taking important steps to ensure that we can be competitive for the long-term, as we have done with the on-line business of Dorel Home. This means making some tough but necessary decisions. As well as optimizing our global footprint, the program will assess our business processes and related enabling technologies to identify long-term cost savings and other efficiencies. We are not looking of selling major assets such as divisions, but we are looking to do things more efficiently. The implementation of this endeavour will be on-going throughout 2019 with the benefits expected to begin later this year, extending into future years. We are confident this will lead to improved performance, cost savings and enhanced long-term returns for shareholders.

DIVIDEND

As we announced in March, Dorel has adjusted the dividend from the annual US\$1.20 a share to US\$0.60 a share. We recognize that a market-competitive dividend is important to shareholders, as is maintaining Dorel's long-term strategy of investing in new product development as well as reducing our leverage. We have tried to strike a balance with this move. The reduction in the dividend will allow Dorel to retain approximately US\$19.5 million annually in cash, which will be used to enhance our financial position and give us additional flexibility to increase long-term value. The Board of Directors will continue to assess potential future dividend levels on a quarterly basis.

This is an important stage in the evolution of the consumer products industry and Dorel is leading the change. 2019 will be a year of stabilization. We expect improved adjusted operating profit in all business segments with expanding product lines, e-commerce innovations and improved efficiencies. The implementation of the global restructuring program is expected to result in on-going cost savings. We're excited about the year ahead.

This will be a busy year and all employees worldwide must make it a productive one. I thank you for your past efforts, and I now ask each of you to do your part to meaningfully contribute to this new direction. I thank our Board of Directors for their guidance during this challenging period. Their collective wisdom in helping to establish this plan is greatly appreciated. My sincerest gratitude is to our shareholders. I ask that you do not give up on us. Things will improve.



Martin Schwartz

President & Chief Operating Officer



**MANAGEMENT'S DISCUSSION AND ANALYSIS
AND CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 30, 2018 AND 2017



DOREL INDUSTRIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of financial conditions and results of operations ("MD&A") should be read in conjunction with the Consolidated Financial Statements for Dorel Industries Inc. ("Dorel" or "the Company") as at and for the years ended December 30, 2018 and 2017 ("the Consolidated Financial Statements"), as well as with the notes to the Consolidated Financial Statements. All financial information contained in this MD&A and in the Company's Consolidated Financial Statements are in US dollars, unless indicated otherwise, and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"), using the US dollar as the reporting currency.

The audited annual Consolidated Financial Statements and this MD&A were reviewed by the Company's Audit Committee and were approved and authorized for issuance by its Board of Directors. This MD&A is current as at March 14, 2019.

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

Note: All tabular figures are in thousands of US dollars except per share amounts or otherwise specified.

1. CORPORATE OVERVIEW

The Company's head office is based in Westmount, Québec, Canada. Established in 1962, the Company operates in twenty-five countries with sales made throughout the world and employs approximately 9,200 people. Dorel's ultimate goal is to produce innovative, quality products and satisfy consumer needs while achieving maximum financial results for its shareholders. It operates in three distinct reporting segments: Dorel Home, Dorel Juvenile and Dorel Sports. The Company's growth over the years has resulted from both increasing sales of existing businesses and by acquiring businesses.

a) Strategy

Dorel is a global organization, operating three distinct businesses in home products, juvenile products and bicycles. Dorel's strength lies in the diversity, innovation and quality of its products as well as the superiority of its brands. Dorel Home, with its comprehensive e-commerce platform, markets a wide assortment of domestically produced and imported furniture. Dorel Juvenile's powerfully branded products include global brands Maxi-Cosi, Quinny and Tiny Love, complemented by regional brands such as Safety 1st, Bébé Confort, Cosco and Infanti. Dorel Sports brands include Cannondale, Schwinn, GT, Mongoose, Caloi and IronHorse.

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

Dorel's channels of distribution vary by segment, but overall, its largest customers are major retail chains and Internet retailers. The retail chains include mass merchant discount chains, department stores, club format outlets and hardware/home centers while the Internet retailers consist of both mass merchant sites such as Walmart.com and pure Internet retailers such as Amazon. Within Dorel Juvenile, sales are also made to independent boutiques and juvenile specialty stores. In Dorel Sports, the Independent Bike Dealers ("IBD") network is a significant channel, along with sporting goods chains. Dorel also owns and operates approximately 100 retail stores in Chile and Peru, as well as several factory outlet retail locations in Europe and Australia.

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

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

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

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

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

These brands, and the fact that Dorel has a wide range of other brand names, allow for product and price differentiation within the same product categories. Product development is a significant element of Dorel's past and future growth. Dorel has invested heavily in this area, focusing on innovation, quality, safety and speed to market with several design and product development centers. Over the past five years, Dorel has spent on average over \$40.8 million per year on new product development.

b) Operating segments

Dorel Home

Dorel Home participates in the approximately \$105 billion North American furniture and mattress industry. Dorel ranks in the top five of North American furniture manufacturers and marketers and has a strong foothold in both North American manufacturing and importation of furniture, with a significant portion of its supply coming from its own manufacturing facilities and the balance through sourcing efforts in Asia. Dorel is also the number two manufacturer of Ready-to-Assemble ("RTA") furniture in North America. Products are distributed from Dorel's North American manufacturing locations as well as from several distribution facilities. In 2018, the Dorel Home segment accounted for 31% of Dorel's total revenue.

Dorel Home consists of five operating divisions. They are Ameriwood Home ("Ameriwood"), Cosco Home & Office ("Cosco"), Dorel Home Products ("DHP"), Dorel Asia ("Dorel Living") and Dorel Home Europe. Ameriwood specializes in domestically manufactured RTA furniture and is headquartered in Wright City, Missouri. Ameriwood's manufacturing and distribution facilities are located in Tiffin, Ohio, Savannah, Georgia, Dowagiac, Michigan, and Cornwall, Ontario. Ameriwood also has an import division, Altra Furniture ("Altra"). Altra is also located in Wright City, Missouri and designs and imports furniture mainly within the home entertainment and home office categories. Cosco is located in Columbus, Indiana and the majority of its sales consist of folding furniture, step stools, hand trucks, specialty ladders and outdoor furniture. DHP, located in Montréal, Québec, manufactures futons and baby mattresses and imports futons, bunk beds, mattresses and other accent furniture. Dorel Living specializes in sourcing upholstery and a full range of wooden goods

from Asia including children's furniture, dining room products and accessories such as toddler beds and cribs for distribution throughout North America. Dorel Home Europe is located in the United Kingdom and designs and distributes furniture mainly in the home office and audio-visual categories, and includes the recently acquired Alphason brand. Major distribution facilities are also located in Québec, California and Georgia.

With its continued expansion into on-line sales in 2018, Dorel Home grew revenue by approximately 2%, recording its highest year in sales to date. Dorel Home has significant market share within its product categories and has a strong presence with its customer base. Sales are concentrated with Internet retailers, mass merchants, warehouse clubs, home centers and office and electronic superstores. On-line sales represent a significant portion of Dorel Home revenue and Dorel Home has made many investments in this channel. Dorel Home markets its products under generic retail house brands as well as under a range of branded products including: Ameriwood, Altra, System Build, Ridgewood, DHP, Dorel Fine Furniture, Dorel Living, Signature Sleep, Cosmo Living, Novagratz, Little Seeds, Baby Relax, Cosco and Alphason. Dorel Home has many competitors including Sauder Manufacturing and Whalen Furniture in the RTA category, Mecor in the folding furniture category, Tricam in step stools, Werner in ladders and Zinus in mattresses.

Dorel Juvenile

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

The Maxi-Cosi, Quinny and Tiny Love brands are sold globally in most of Dorel Juvenile's markets. Other brands such as Safety 1st, Bébé Confort, Cosco, Mother's Choice and Infanti are strong regional brands and Dorel Juvenile is able to address all price points with its range of brands and products. In addition, sales are made under licensed brands such as Disney, principally in North America. Sales are also made to customers under their own unique house brand names. Dorel Juvenile has divisions in North America, Europe, Latin America, China, Israel, Australia and New Zealand. In total, Dorel Juvenile sells product to over 115 countries around the world. In 2018, the Dorel Juvenile segment accounted for 35% of Dorel's total revenue.

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

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

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

In Europe, Dorel sells the majority of its products across the mid-level to high-end price points. With Dorel's well-recognized brand names, superior designs and product quality, the majority of European sales are to large European juvenile product retail chains, Internet retailers, independent boutiques and specialty stores. Dorel is one of the leading juvenile products companies in Europe, competing with others such as Britax, Chicco, Joie and Cybex (a subsidiary of Goodbaby International Holdings Limited), as well as several smaller companies.

In Latin America, Dorel Juvenile has operating locations in Brazil, Chile, Peru and Mexico. Dorel Juvenile Brazil, one of the largest juvenile products companies in the country, manufactures car seats locally and imports other juvenile products, such as strollers. Brands sold in Brazil include local brands Infanti and Voyage, as well as Dorel's international

brands such as Safety 1st, Cosco, Maxi-Cosi and Quinny. Dorel Juvenile Chile has operations in Chile and Peru and also sells to customers based in Bolivia and Argentina. Dorel Juvenile Chile operates approximately 95 retail locations in Chile and Peru and sells multiple ranges of juvenile products and toys, including non-Dorel owned brands. The majority of these stores are under the Baby Infanti banner. The principal Dorel brand sold by Dorel Juvenile Chile is Infanti, sold across multiple products and price ranges, with a focus on opening to mid-price points. Effective in 2019, Dorel Juvenile Chile will distribute products to Colombia, Panama and other Caribbean countries through a local distributor as Dorel intends to close its operations in those jurisdictions.

In Asia, Dorel serves the Chinese market through its Dorel Juvenile China domestic operation based in Shanghai and sells mostly the Maxi-Cosi and Safety 1st brands. Dorel Juvenile China's factory headquarters are in Zhongshan and comprises two manufacturing facilities that supply all Dorel divisions, as well as third-party customers outside of China. Dorel Juvenile Australia assembles and/or distributes its products under both global brands and local brand Mother's Choice, and serves Australia and New Zealand with sales to both large retailers and specialty stores. The greater East Asian market is serviced via a network of third party distributors. Tiny Love, based in Tel Aviv, Israel is recognized as an innovator in the developmental toy category, which comprises products such as activity gyms, mobiles, light gear and toys designed specifically for babies and toddlers. As one of Dorel's global brands, Tiny Love sells products in more than 50 countries worldwide, both through Dorel subsidiaries and via a worldwide distributor network.

Dorel Sports

Dorel Sports participates in a worldwide marketplace that totals approximately \$49 billion in retail sales annually. This includes bicycles, children's electric ride-ons, jogging strollers, electric bikes and bicycle trailers, as well as related parts and accessories. The breakdown of bicycle industry sales around the world is approximately 64% in the Asia-Pacific region, 20% in Europe and 12% in North America, with the balance in the rest of the world. Bicycles are sold in the mass merchant channel, at IBDs as well as in sporting goods chains. During 2018, Dorel divested its performance apparel line of business to focus on its core strategic businesses of bikes, parts and accessories and electric ride-ons and sold the SUGOI and Sombrio brands. In 2018, the Dorel Sports segment accounted for 34% of Dorel's total revenue.

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

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

Dorel Sports' worldwide headquarters is in Wilton, Connecticut. There are also significant operations in Madison, Wisconsin as well as São Paulo, Brazil. In addition, distribution centers are located in California, Georgia and Illinois. European operations are headquartered in Oldenzaal, Netherlands with operations in Switzerland and the United Kingdom. Globally, there are sales and distribution companies based in Japan and Chile. In Australia, sales are made through a third-party distributor. There is a sourcing operation based in Taiwan established to oversee Dorel Sports' Far East supplier base and logistics chain, ensuring that the Company's products are produced to meet the exacting quality standards that are required.

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

under the InStep and Schwinn brands and children's electric ride-ons are sold mainly under Kid Trax as well as certain licenses.

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

2. SIGNIFICANT EVENTS IN 2018

Long-term debt and dividend updates

Dorel is currently reviewing its refinancing options with its financial advisors and will pursue what it believes to be the best alternative. In this regard, Dorel is in the process of refinancing its \$120.0 million convertible debentures maturing on November 30, 2019, although there can be no assurance that it will be able to successfully complete such refinancing. On March 8, 2019, Dorel amended its revolving bank loans and term loan agreement to facilitate the compliance with its covenants in light of the last twelve months results of operations, and to permit additional financing from other lenders to refinance and repay the convertible debentures. The amendment also extends the maturity date to July 1, 2021 if the convertible debentures are repaid or refinanced by May 30, 2019. If the convertible debentures have not been repaid or refinanced, the maturity remains on May 30, 2019. On March 14, 2019, Dorel announced that it will adjust its dividend from the current annual \$1.20 a share to \$0.60 for the upcoming year. Given the convertible debentures are not yet repaid or refinanced, as such, the convertible debentures, the revolving bank loans and term loan were all classified as current as at December 30, 2018. In the event the Company's convertible debentures are not repaid or refinanced by May 30, 2019, the revolving bank loans and term loan will become due in full on May 30, 2019. In addition, if the Company is not able to meet its quarterly debt covenant requirements, the revolving bank loans and term loan will become due in full at the date of non-compliance. While the Company does not have arranged financing to repay the revolving bank loans and term loan on May 30, 2019 or if covenants are not met, the Company has various alternatives available should these scenarios arise, such as further adjusting its current dividend policy to meet quarterly covenants or converting the convertible debentures into shares to avoid the revolving bank loans and term loan becoming due in full on May 30, 2019. Accordingly, the Company does not expect a liquidity problem in the foreseeable future, however no assurance can be provided. Assessing the Company's liquidity including expected future compliance with covenants requires judgment. Refer to "Financial Condition, Liquidity and Capital Resources" section of this MD&A.

Impairment losses on goodwill, intangible assets and property, plant and equipment

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

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

Impairment loss recorded on Toys"R"Us' trade accounts receivable

On March 15, 2018, Toys"R"Us, Inc. ("Toys"R"Us"), one of the Company's customers, announced that it had filed a motion seeking Bankruptcy Court approval to begin the process of conducting an orderly wind-down of its U.S. business and liquidation of inventory in all of its U.S. stores. In August 2018, the Bankruptcy Court approved the Toys"R"Us settlement agreement with its creditors and lenders. As part of the settlement agreement reached, the Company received approximately 22 cents on the dollar. Considering these events, the Company had determined that the trade accounts receivable from this customer were at risk of collection. Accordingly, the Company recorded an impairment loss of \$3.8 million for the year ended December 30, 2017 and an additional \$12.5 million for the year ended December 30, 2018 with respect to these trade accounts receivable from Toys"R"Us U.S. Of the \$12.5 million, \$2.1 million (fourth quarter ended December 30, 2017 – nil) was within Dorel Home, \$3.8 million (fourth quarter ended December 30, 2017 –

\$0.7 million) was within Dorel Juvenile and \$6.6 million (fourth quarter ended December 30, 2017 – \$3.1 million) was within Dorel Sports. These amounts represented management's best estimate of potential losses arising from non-payment based on information available at that time. As at December 30, 2018, \$4.6 million was received under the settlement agreement and in total, Dorel had a remaining balance of trade accounts receivable from Toys“R”Us U.S. amounting to \$0.3 million (net of impairment loss allowance).

Sale of Sugoi and Sombrio brands

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

Acquisition of UK-based Alphason

On October 1, 2018, Dorel Home acquired the assets and operations of UK-based Alphason for a purchase price of \$3.1 million (GBP 2.4 million) of which a balance of sale of \$0.2 million (GBP 0.1 million) remains to be paid. Established some 30 years ago, Alphason designs and distributes award-winning home office and audio-visual furniture. The Alphason brand is well known in the UK and is sold at several large independent retailers across the country. This acquisition is highly strategic and Dorel will use this base to expand and to provide strong logistics support with a distribution hub to serve and grow Dorel's European business, including the North American e-commerce partners, many of whom have been growing in Europe and have been asking Dorel Home to support this growth.

3. OPERATING RESULTS

(All tabular figures are in thousands of US dollars, except per share amounts)

a) Non-GAAP financial measures

As a result of impairment losses on goodwill, intangible assets and property plant and equipment, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt incurred in 2018 and 2017, the Company is including in this MD&A the following non-GAAP financial measures: “adjusted cost of sales”, “adjusted gross profit”, “adjusted operating profit”, “adjusted finance expenses”, “adjusted income before income taxes”, “adjusted income taxes expense”, “adjusted tax rate”, “adjusted net income”, “adjusted earnings per basic and diluted share” and “adjusted diluted weighted average number of shares outstanding”. The Company believes that this results in a more meaningful comparison of its core business performance between the periods presented. These non-GAAP financial measures do not have a standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers. Contained within this MD&A are reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with GAAP.

Free cash flow is also a non-GAAP financial measure and is defined as cash provided by operating activities less dividends paid, shares repurchased, net additions to property, plant and equipment and to intangible assets including net proceeds from disposals of assets held for sale. The Company considers free cash flow to be an important indicator of the financial strength and performance of its business, because it shows how much cash is available after capital expenditures to repay debt and to reinvest in its business, to pursue business acquisitions, and/or to redistribute to its shareholders. Dorel believes this measure is commonly used by investors and analysts when valuing a business and its underlying assets.

b) Impairment losses on goodwill, intangible assets and property plant and equipment, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt

Reconciliation of non-GAAP financial measures

Fourth Quarters Ended December 30,										
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Impairment loss on goodwill, restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	683,546	100.0	-	683,546	100.0	677,052	100.0	-	677,052	100.0
Cost of sales	540,499	79.1	(487)	540,012	79.0	515,604	76.2	438	516,042	76.2
GROSS PROFIT	143,047	20.9	487	143,534	21.0	161,448	23.8	(438)	161,010	23.8
Selling expenses	56,807	8.3	-	56,807	8.3	58,929	8.7	-	58,929	8.7
General and administrative expenses	53,200	7.9	-	53,200	7.9	60,087	8.9	-	60,087	8.9
Research and development expenses	10,482	1.5	-	10,482	1.5	8,039	1.2	-	8,039	1.2
Impairment loss on trade and other receivables	3,018	0.4	-	3,018	0.4	4,263	0.6	-	4,263	0.6
Restructuring and other costs	3,016	0.4	(3,016)	-	-	4,138	0.6	(4,138)	-	-
Impairment losses on goodwill, intangible assets and property, plant and equipment	501,446	73.3	(501,446)	-	-	19,929	2.9	(19,929)	-	-
OPERATING PROFIT (LOSS)	(484,922)	(70.9)	504,949	20,027	2.9	6,063	0.9	23,629	29,692	4.4
Finance expenses	8,626	1.3	-	8,626	1.3	8,222	1.2	-	8,222	1.2
INCOME (LOSS) BEFORE INCOME TAXES	(493,548)	(72.2)	504,949	11,401	1.6	(2,159)	(0.3)	23,629	21,470	3.2
Income taxes expense (recovery)	(49,650)	(7.3)	50,753	1,103	0.1	3,975	0.6	227	4,202	0.6
Tax rate	10.1%			9.7%		(184.1%)			19.6%	
NET INCOME (LOSS)	(443,898)	(64.9)	454,196	10,298	1.5	(6,134)	(0.9)	23,402	17,268	2.6
EARNINGS (LOSS) PER SHARE										
Basic	(13.68)		14.00	0.32		(0.19)		0.72	0.53	
Diluted	(13.68)		13.99	0.31		(0.19)		0.72	0.53	
SHARES OUTSTANDING										
Basic - weighted average	32,439,189			32,439,189		32,426,326			32,426,326	
Diluted - weighted average	32,439,189			32,747,791		32,426,326			32,706,760	

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in net income (loss) from 2017 to 2018 are summarized as follows:

Fourth Quarters Ended December 30,			
Change			
	Reported	Impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs	Adjusted
	\$	\$	\$
Dorel Home (decrease)	(3,569)	252	(3,317)
Dorel Juvenile (decrease)	(251,447)	243,493	(7,954)
Dorel Sports (decrease)	(238,629)	237,575	(1,054)
OPERATING PROFIT (DECREASE)	(493,645)	481,320	(12,325)
(Increase) in finance expenses	(404)	-	(404)
Decrease in corporate expenses	2,660	-	2,660
Decrease in income taxes expense	53,625	(50,526)	3,099
NET INCOME (DECREASE)	(437,764)	430,794	(6,970)

The causes of these variations are discussed as part of the consolidated operating review.

Reconciliation of non-GAAP financial measures

	Years Ended December 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Impairment loss on goodwill, restructuring and other costs	Adjusted	% of revenue
\$	%	\$	\$	%	\$	%	\$	\$	%	
TOTAL REVENUE	2,619,513	100.0	-	2,619,513	100.0	2,577,668	100.0	-	2,577,668	100.0
Cost of sales	2,054,721	78.4	(2,258)	2,052,463	78.4	1,965,917	76.3	(260)	1,965,657	76.3
GROSS PROFIT	564,792	21.6	2,258	567,050	21.6	611,751	23.7	260	612,011	23.7
Selling expenses	233,772	8.9	-	233,772	8.9	233,106	9.0	-	233,106	9.0
General and administrative expenses	200,041	7.7	-	200,041	7.7	220,773	8.6	-	220,773	8.6
Research and development expenses	37,819	1.4	-	37,819	1.4	31,065	1.2	-	31,065	1.2
Impairment loss on trade and other receivables	16,425	0.6	-	16,425	0.6	7,622	0.3	-	7,622	0.3
Restructuring and other costs	16,609	0.6	(16,609)	-	-	11,814	0.4	(11,814)	-	-
Impairment losses on goodwill, intangible assets and property, plant and equipment	525,639	20.2	(525,639)	-	-	19,929	0.8	(19,929)	-	-
OPERATING PROFIT (LOSS)	(465,513)	(17.8)	544,506	78,993	3.0	87,442	3.4	32,003	119,445	4.6
Finance expenses	32,650	1.2	-	32,650	1.2	43,248	1.7	(10,475)	32,773	1.2
INCOME (LOSS) BEFORE INCOME TAXES	(498,163)	(19.0)	544,506	46,343	1.8	44,194	1.7	42,478	86,672	3.4
Income taxes expense (recovery)	(53,820)	(2.0)	60,679	6,859	0.3	16,753	0.6	2,964	19,717	0.8
Tax rate	10.8%			14.8%		37.9%			22.7%	
NET INCOME (LOSS)	(444,343)	(17.0)	483,827	39,484	1.5	27,441	1.1	39,514	66,955	2.6
EARNINGS (LOSS) PER SHARE										
Basic	(13.70)		14.92	1.22		0.85		1.22	2.07	
Diluted	(13.70)		14.91	1.21		0.84		1.21	2.05	
SHARES OUTSTANDING										
Basic - weighted average	32,438,645			32,438,645		32,409,551			32,409,551	
Diluted - weighted average	32,438,645			32,727,662		32,665,713			32,665,713	

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in net income (loss) from 2017 to 2018 are summarized as follows:

	Years Ended December 30,		
	Change		
	Reported	Impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs	Adjusted
	\$	\$	\$
Dorel Home (decrease)	(7,909)	252	(7,657)
Dorel Juvenile (decrease)	(297,112)	263,385	(33,727)
Dorel Sports (decrease)	(250,910)	248,866	(2,044)
OPERATING PROFIT (DECREASE)	(555,931)	512,503	(43,428)
Decrease in finance expenses other than the remeasurement of forward purchase agreement liabilities and the loss on early extinguishment of long-term debt	123	-	123
Decrease in remeasurement of forward purchase agreement liabilities	276	(276)	-
Decrease in loss on early extinguishment of long-term debt	10,199	(10,199)	-
Decrease in corporate expenses	2,976	-	2,976
Decrease in income taxes expense	70,573	(57,715)	12,858
NET INCOME (DECREASE)	(471,784)	444,313	(27,471)

The causes of these variations are discussed as part of the consolidated operating review.

The detail of impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt recorded are presented below:

	Fourth Quarters Ended December 30,		Years Ended December 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Write-down of long-lived assets	-	-	-	368
Inventory markdowns (reversals)	487	(239)	2,258	242
Recorded within gross profit	487	(239)	2,258	610
Employee severance and termination benefits	2,976	3,880	6,796	8,098
Accelerated depreciation and write-down of long-lived assets	-	1,916	7,962	1,916
Net losses from the disposals of assets held for sale	-	9	-	631
Curtailments gain on net pension defined benefit liabilities	(170)	(1,908)	(170)	(1,908)
Other associated costs	(42)	241	1,769	3,077
Recorded within a separate line in the consolidated income statements	2,764	4,138	16,357	11,814
Total restructuring costs	3,251	3,899	18,615	12,424
Other costs recorded within gross profit	-	(199)	-	(350)
Acquisition-related costs	252	-	252	-
Recorded within a separate line in the consolidated income statements	252	-	252	-
Total other costs	252	(199)	252	(350)
Total restructuring and other costs	3,503	3,700	18,867	12,074
Impairment losses on goodwill, intangible assets and property, plant and equipment	501,446	19,929	525,639	19,929
Loss on remeasurement of forward purchase agreement liabilities	-	-	-	276
Loss on early extinguishment of long-term debt	-	-	-	10,199
Total restructuring and other costs, impairment losses on goodwill, intangible assets and property, plant and equipment, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt before income taxes ⁽¹⁾	504,949	23,629	544,506	42,478
Total restructuring and other costs, impairment losses on goodwill, intangible assets and property, plant and equipment, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt after income taxes	454,196	23,402	483,827	39,514
Total impact on diluted earnings (loss) per share	(13.99)	(0.72)	(14.91)	(1.21)
⁽¹⁾ Includes non-cash amounts of:	501,763	19,707	535,321	22,871

Impairment losses on goodwill, intangible assets and property, plant and equipment

During the second quarter of 2018, as Dorel Juvenile – Latin America’s business continued to face a decline in sales and profitability as a result of changes in the market and consumer behaviour, assumptions on projected earnings and cash flows growth for Dorel Juvenile – Latin America CGU were revised. As a result, during the second quarter of 2018, the Company recorded impairment charges on customer relationships of \$8.9 million and trademarks of \$15.3 million (Infanti brand) for a total of \$24.2 million, as it has concluded that the recoverable amount based on the value in use was less than the carrying amount of the CGU.

In addition, due to the recent sustained decline in Dorel's stock price during 2018, which caused Dorel's market capitalization to be significantly lower than the carrying amount of its net assets, assumptions on projected earnings and cash flows growth were revised for the majority of its CGUs during the fourth quarter of 2018. The latest projections include, among other things, the impacts of the recently announced tariffs on Chinese imports, other inflation and market conditions for Dorel's CGUs, more conservative expectations of future revenues and margins compared to prior periods' expectations related to certain trademarks within the CGUs, as well as projected benefits from Dorel's past restructuring plans. Furthermore, Dorel applied higher risk adjusted discount rates to the projected cash flows of its CGUs for discounted cash flow estimates and/or higher discount to derive the multiples used for fair value determination, which reduced the recoverable amounts of each of Dorel's CGUs, except the Dorel Home CGU, below their carrying values. As a result, Dorel recorded the following impairment charges during the fourth quarter of 2018:

	Fourth quarter ended December 30, 2018					Total
	Goodwill	Trademarks	Customer relationships	Software licenses	Property, plant and equipment	
	\$	\$	\$	\$	\$	\$
Dorel Juvenile – North America	66,826	-	-	-	-	66,826
Dorel Juvenile – Europe	143,615	29,170	11,534	-	-	184,319
Dorel Juvenile – Brazil	695	1,063	926	-	-	2,684
Dorel Juvenile – Australia	-	2,717	-	-	-	2,717
Dorel Juvenile – China	7,677	-	-	-	-	7,677
Dorel Sports – Mass markets	134,821	9,059	-	-	-	143,880
Dorel Sports – Independent bike dealers (IBD)	-	53,108	-	931	5,971	60,010
Dorel Sports – Caloi	-	32,206	1,127	-	-	33,333
Total	353,634	127,323	13,587	931	5,971	501,446

In relation to the above impairment charges, some deferred tax liabilities were reversed representing \$62.9 million while some deferred tax assets in different entities could no longer be considered recoverable and were derecognized representing \$13.0 million for an overall net deferred tax impact of \$49.9 million.

Restructuring costs

Dorel Juvenile segment

For the fourth quarter of 2018, Dorel Juvenile segment recorded restructuring costs of \$3.3 million under its restructuring plan. These initiatives are expected to generate profitable sales growth by improving agility with a more market-focused approach to reduce costs and better react to trends in the juvenile industry. The \$3.3 million expenses incurred during the quarter included \$2.9 million of employee severance and termination benefits, \$0.2 million of non-cash curtailment gain on net pension defined benefit liabilities and \$0.6 million of non-cash inventory markdowns.

For the year ended December 30, 2018, Dorel Juvenile segment recorded restructuring costs of \$6.8 million including \$0.6 million of non-cash inventory markdowns, \$6.1 million of employee severance and termination benefits, \$0.2 million of non-cash curtailment gain on net pension defined benefit liabilities and \$0.3 million of other associated costs.

These restructuring initiatives were completed in the fourth quarter of 2018. Total costs related to these restructuring initiatives were \$42.9 million, including \$13.3 million of non-cash charges related to the write-down of long-lived assets and net losses from the remeasurement and disposals of assets held for sale, \$3.1 million of non-cash inventory markdowns, \$3.3 million of curtailment gain on net pension defined benefit liabilities, \$24.8 million of employee severance and termination benefits and \$5.0 million of other associated costs. There are no significant expected remaining costs associated with this restructuring initiative.

Dorel Sports segment

In the second quarter of 2018, the Company announced it was divesting its performance apparel line of business to focus on its core strategic businesses of bikes, parts and accessories and electric ride-ons and had sold the SUGOI and Sombrio brands. As a result of the sale of the performance apparel line of business, nil and \$11.8 million were recorded for the fourth quarter and the year ended December 30, 2018, respectively as restructuring costs. There are no significant expected remaining costs associated with this restructuring initiative.

c) Selected financial information

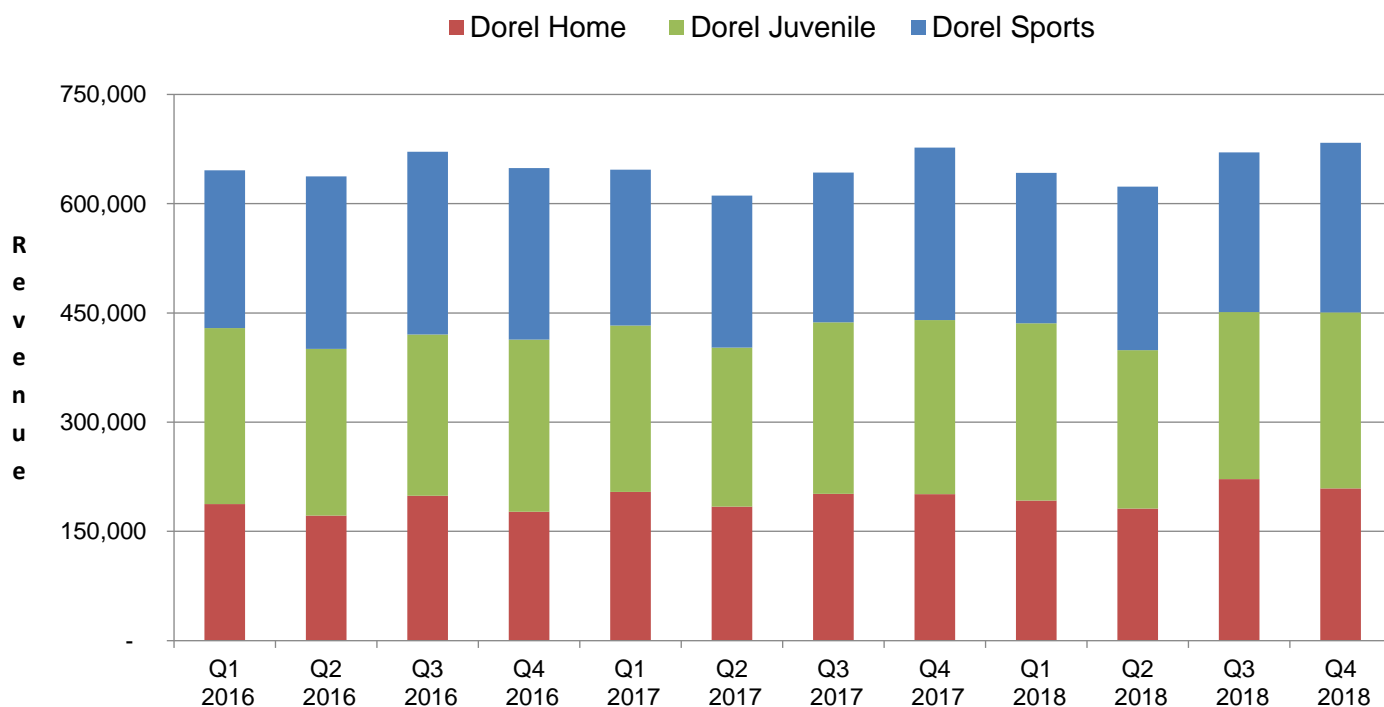
Variations in total revenue across the Company's segments for the fourth quarters and years ended December 30:

	Fourth Quarters Ended December 30,				Years Ended December 30,			
	2018	2017 ⁽¹⁾	Change		2018	2017 ⁽¹⁾	Change	
	\$	\$	\$	%	\$	\$	\$	%
Dorel Home	209,262	200,975	8,287	4.1	804,447	790,619	13,828	1.7
Dorel Juvenile	241,598	239,306	2,292	1.0	932,060	921,669	10,391	1.1
Dorel Sports	232,686	236,771	(4,085)	(1.7)	883,006	865,380	17,626	2.0
TOTAL REVENUE	683,546	677,052	6,494	1.0	2,619,513	2,577,668	41,845	1.6

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

Seasonality

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



Selected financial information from the consolidated income statement for the quarters ended:

	2018				2017 ⁽¹⁾			
	Dec. 30	Sep. 30	Jun. 30	Mar. 31	Dec. 30	Sep. 30	Jun. 30	Mar. 31
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	683,546	670,437	623,244	642,286	677,052	642,634	611,270	646,712
Net income (loss)	(443,898)	9,594	(14,768)	4,729	(6,134)	13,294	11,440	8,841
Per share - Basic	(13.68)	0.30	(0.46)	0.15	(0.19)	0.41	0.35	0.27
Per share - Diluted	(13.68)	0.29	(0.46)	0.14	(0.19)	0.41	0.35	0.27
Adjusted net income	10,298	10,988	12,656	5,542	17,268	14,538	12,444	22,705
Per share - Basic	0.32	0.34	0.39	0.17	0.53	0.45	0.38	0.70
Per share - Diluted	0.31	0.34	0.39	0.17	0.53	0.44	0.38	0.69 ⁽²⁾
After-tax impact of impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt on the diluted earnings (loss) per share for the quarter	(13.99)	(0.05)	(0.85)	(0.03)	(0.72)	(0.03)	(0.03)	(0.42)

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

⁽²⁾ As at March 31, 2017, the convertible debentures were included in the calculation of the adjusted diluted earnings per share ("EPS") by adjusting the adjusted net income attributable to equity holders as well as the adjusted diluted weighted average number of shares outstanding as these debentures were deemed to be dilutive.

In the first quarter of 2017, the Company reported a net income of \$8.8 million or \$0.27 per diluted share due to restructuring and others costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt for a net amount of \$0.42 per diluted share. Adjusted net income was \$22.7 million for the first quarter or \$0.69 adjusted diluted EPS.

In the fourth quarter of 2017, the Company reported a net loss of \$6.1 million or \$0.19 per diluted share due to an impairment loss on goodwill and restructuring and others costs, for a net amount of \$0.72 per diluted share. Adjusted net income was \$17.3 million for the fourth quarter or \$0.53 adjusted diluted EPS.

In the second quarter of 2018, the Company reported a net loss of \$14.8 million or \$0.46 per diluted share due to an impairment loss on intangible assets and restructuring and other costs, for a net amount of \$0.85 per diluted share. Adjusted net income was \$12.7 million for the second quarter or \$0.39 adjusted diluted EPS.

In the fourth quarter of 2018, the Company reported a net loss of \$443.9 million or \$13.68 per diluted share due to impairment losses on goodwill, intangible assets and property, plant and equipment, as well as restructuring and other costs, for a net amount of \$13.99 per diluted share. Adjusted net income was \$10.3 million for the fourth quarter or \$0.31 adjusted diluted EPS.

Selected financial information from the consolidated income statement for the years ended December 30:

	2018		2017 ⁽¹⁾		2016 ⁽¹⁾	
	\$	% of revenue	\$	% of revenue	\$	% of revenue
Total revenue	2,619,513	100.0	2,577,668	100.0	2,603,185	100.0
Net income (loss)	(444,343)	(17.0)	27,441	1.1	(11,611)	(0.4)
Per share - Basic	(13.70)		0.85		(0.36)	
Per share - Diluted	(13.70)		0.84		(0.36)	
Adjusted net income	39,484	1.5	66,955	2.6	58,251	2.2
Per share - Basic	1.22		2.07		1.80	
Per share - Diluted	1.21		2.05		1.79	
After-tax impact of impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt on the diluted earnings (loss) per share for the year	(14.91)		(1.21)		(2.15)	
Cash dividends declared per share	1.20		1.20		1.20	

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

d) Consolidated operating review

For the fourth quarter of 2018, Dorel's revenue increased by \$6.5 million, or 1.0%, to \$683.5 million and organic revenue increased by approximately 3.2%, after removing the variation of foreign exchange rates year-over-year. When also removing the impact on revenue related to the divestment of the performance apparel line of business (SUGOI), organic revenue rose by approximately 3.6%. In Dorel Home, the increase in revenue is explained by higher sales to on-line retailers as e-commerce channel represented 59% of total segment gross sales compared to 58% in 2017. In Dorel Juvenile, the increase in revenue is explained mainly by Dorel Juvenile U.S. and Dorel Juvenile Brazil increased sales, partly offset by challenges in the Chilean market. In Dorel Sports, the increase in organic revenue is explained mainly by growth at CSG and at Caloi in Brazil, partly offset by lower than expected holiday point-of-sales in Pacific Cycle.

For the full year, Dorel's revenue increased by \$41.8 million, or 1.6%, to \$2,619.5 million compared to \$2,577.7 million last year. Organic revenue increased by approximately 1.5% after removing the variation of foreign exchange rates year-over-year and by approximately 1.8% when also removing the impact on revenue related to the divestment of the performance apparel line of business during the second quarter of 2018. The increase in revenue and organic revenue explanations for the quarter are also valid for the full year, while Dorel Home e-commerce channel sales represented 56% of total segment gross sales compared to 52% in 2017.

Gross profit for the fourth quarter declined by 290 basis points to 20.9% from 23.8% in 2017 and adjusted gross profit declined by 280 basis points to 21.0% from 23.8% last year when excluding restructuring and other costs. For the year, both gross profit and adjusted gross profit declined by 210 basis points to 21.6%, from 23.7% in 2017, mainly due to higher input costs in all three segments. Dorel Home and Dorel Sports gross profit was also impacted by a less favourable product mix and Dorel Juvenile gross profit was also impacted by price reductions that were put in place to protect shelf space on existing items.

Selling expenses for the fourth quarter decreased by \$2.1 million, or 3.6%, to \$56.8 million from \$58.9 million in the prior year and by 40 basis points as a percentage of revenue. The decrease in the quarter was mainly attributable to reduced sponsorship costs at CSG and the savings due to the exit of the apparel line of business in the second quarter of 2018 in Dorel Sports. For the full year, selling expenses remained comparable to 2017.

General and administrative expenses declined in the fourth quarter by \$6.9 million, or 11.5%, to \$53.2 million and by 100 basis points as a percentage of revenue. For the year, these expenses decreased by \$20.7 million, or 9.4%, to \$200.0 million and by 90 basis points as a percentage of revenue. The majority of the decrease during the fourth quarter and the full year was attributable to lower product liability costs in Dorel Home and Dorel Sports, savings due to the decision to exit the performance apparel line of business in Dorel Sports, lower performance-based incentive costs at Dorel Juvenile and Dorel Home and cost saving initiatives across all segments. This was partly offset by increased

information technology expenses to support the growth of Dorel Home's on-line business and by higher product liability costs in Dorel Juvenile due to higher settlements and related legal costs.

Research and development expenses for the fourth quarter increased by \$2.4 million, or 30.4%, to \$10.5 million and by 30 basis points as a percentage of revenue. For the full year, these expenses increased by \$6.8 million, or 21.7%, to \$37.8 million and by 20 basis points as a percentage of revenue. The increases are mainly due to the greater number of new product projects resulting in higher spending and amortization at Dorel Juvenile.

Impairment loss on trade and other receivables was \$3.0 million for the fourth quarter of 2018 compared to \$4.3 million in 2017. For the full year, this impairment loss on trade and other receivables was \$16.4 million compared to \$7.6 million with the prior year. Following Toys"R"Us' announcement that it had filed a motion seeking Bankruptcy Court approval on March 15, 2018, Dorel recorded an impairment loss of \$3.8 million during the fourth quarter of 2017 and an additional \$12.5 million during the first quarter of 2018 with respect to the trade accounts receivable from Toys"R"Us U.S. Of the \$12.5 million, \$2.1 million (fourth quarter ended December 30, 2017 – nil) was within Dorel Home, \$3.8 million (fourth quarter ended December 30, 2017 – \$0.7 million) was within Dorel Juvenile and \$6.6 million (fourth quarter ended December 30, 2017 – \$3.1 million) was within Dorel Sports. During the third quarter of 2018, the Bankruptcy Court approved the Toys"R"Us settlement agreement with its creditors and lenders, and as part of the settlement agreement reached, Dorel received approximately 22 cents on the dollar. During the fourth quarter of 2018, Dorel recorded an additional impairment loss of \$2.1 million, as Dorel Sports' customer, Evans Cycles, entered administration in the United Kingdom.

As detailed above, due to the recent sustained decline in Dorel's stock price during 2018, which caused Dorel's market capitalization to be significantly lower than the carrying amount of its net assets, the Company recorded impairment losses on goodwill of \$353.6 million, on trademarks of \$127.3 million, on customer relationships of \$13.6 million, on software licenses of \$0.9 million and on property, plant and equipment of \$6.0 million for a total of \$501.4 million during the fourth quarter of 2018. Of the \$501.4 million recorded, \$264.2 million was within Dorel Juvenile and \$237.2 million was within Dorel Sports. For the full year, total impairment losses were \$525.6 million in 2018 compared with \$19.9 million in the prior year.

The Company reported an operating loss of \$484.9 million during the fourth quarter of 2018 compared to an operating profit of \$6.1 million in 2017. Excluding impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs, adjusted operating profit decreased by \$9.7 million to \$20.0 million. For the year, the Company reported an operating loss of \$465.5 million compared to an operating profit of \$87.4 million last year. Excluding impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs, adjusted operating profit for the year declined by \$40.5 million to \$79.0 million. For both periods, the adjusted operating profit declines were due to lower gross profit across all segments, partly offset by overall lower selling, general and administrative expenses. In addition, the decrease in adjusted operating profit for the year is also due to the increased research and development expenses for the year, mainly at Dorel Juvenile, and the additional impairment loss with respect to the trade accounts receivable from Toys"R"Us U.S. of \$12.5 million recorded in the first quarter of 2018 compared to \$3.8 million recorded in the fourth quarter of 2017.

Details of finance expenses are summarized below:

	Fourth Quarters Ended December 30,				Years Ended December 30,			
	2018	2017	Change		2018	2017	Change	
	\$	\$	\$	%	\$	\$	\$	%
Interest on long-term debt - including effect of cash flow hedge related to the interest rate swaps and the accreted interest related to long-term debt bearing interest at fixed rates	6,410	6,139	271	4.4	25,725	23,746	1,979	8.3
Remeasurement of forward purchase agreement liabilities	-	-	-	-	-	276	(276)	(100.0)
Amortization of deferred financing costs	298	(48)	346	720.8	1,096	1,152	(56)	(4.9)
Loss on early extinguishment of long-term debt	-	-	-	-	-	10,199	(10,199)	(100.0)
Other interest	1,918	2,131	(213)	(10.0)	5,829	7,875	(2,046)	(26.0)
TOTAL REPORTED	8,626	8,222	404	4.9	32,650	43,248	(10,598)	(24.5)
Adjustment due to remeasurement of forward purchase agreement liabilities	-	-	-	-	-	(276)	276	100.0
Adjustment due to loss on early extinguishment of long-term debt	-	-	-	-	-	(10,199)	10,199	100.0
TOTAL ADJUSTED	8,626	8,222	404	4.9	32,650	32,773	(123)	(0.4)

Finance expenses increased by \$0.4 million to \$8.6 million during the fourth quarter and decreased by \$10.6 million to \$32.7 million for the year from 2017 periods. The decrease of the finance expenses for the year is mainly due to the \$10.2 million loss on early extinguishment of the long-term debt following the prepayments of the Series "B" and "C" Senior Guaranteed Notes and the non-convertible debentures using the net proceeds from the term loan secured on March 24, 2017.

2017 full year finance expenses include the non-cash and non-taxable amounts related to the remeasurement of forward purchase agreement liabilities with respect to the past business acquisition of Caloi which represented for the first quarter of 2017 an expense of \$0.3 million. The remaining forward purchase agreement liability was fully repaid during the first quarter of 2017.

Adjusted finance expenses, which exclude the remeasurement of forward purchase agreement liabilities and the loss on early extinguishment of long-term debt, decreased by \$0.1 million, or 0.4%, to \$32.7 million for the year. Interest on long-term debt increased by \$0.3 million for the fourth quarter and increased by \$2.0 million for the year. The increase for the fourth quarter is explained by higher average interest rate compared to last year. The increase for the year is due to higher average long-term debt balances and higher year-to-date average interest rate of 5.1% compared to 4.8% in 2017. Other interest declined by \$0.2 million for the fourth quarter and by \$2.0 million for the year due to lower average bank indebtedness balances and by lower average interest rate on bank indebtedness.

The Company reported a loss before income taxes of \$493.5 million during the fourth quarter of 2018 compared to \$2.2 million last year. For the year, the loss before income taxes was \$498.2 million compared with an income before income taxes of \$44.2 million in 2017. Excluding impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs, adjusted income before income taxes declined by \$10.1 million to \$11.4 million for the quarter and declined by \$40.3 million to \$46.3 million for the full year.

During the fourth quarter of 2018, the net loss was \$443.9 million or \$13.68 per diluted share compared to \$6.1 million or \$0.19 per diluted share last year. For the year, these amounts represented a net loss of \$444.3 million or \$13.70 per diluted share and a net income of \$27.4 million or \$0.84 per diluted share respectively. Excluding impairment losses on goodwill, intangible assets and property, plant and equipment, as well as restructuring and other costs, adjusted net income for the quarter was \$10.3 million or \$0.31 per diluted share compared to \$17.3 million or \$0.53 per diluted share last year. Adjusted net income for the year declined by \$27.5 million to \$39.5 million from \$67.0 million in 2017 and represented, on an adjusted diluted EPS basis, \$1.21 in 2018 compared to \$2.05 last year. The liquidation of Toys"R"Us in the U.S. resulted in an impairment loss on trade and other receivables of \$12.5 million (\$9.4 million net of tax) in the first quarter of 2018, or \$0.29 per diluted share and also an impairment loss of \$3.8 million (\$2.8 million net of tax), or \$0.09 per diluted share in the fourth quarter of 2017. When also removing the impact of Toys"R"Us, adjusted net income for the fourth quarter in 2018 was \$10.3 million, or \$0.31 per diluted share compared to \$20.1 million, or \$0.62 per diluted share in 2017 and for the full year 2018, adjusted net income was \$48.9 million or \$1.50 per diluted share compared to \$69.8 million or \$2.14 per diluted share for the same period of 2017.

As a multi-national company, Dorel is resident in numerous countries and therefore subject to different tax rates in those various tax jurisdictions and by the interpretation and application of tax laws, as well as the application of income tax treaties between various countries. As such, significant variations can occur from year-to-year and between quarters within a given year. During the fourth quarter and year ended December 30, 2018, the Company's effective tax rates were 10.1% and 10.8%, respectively versus (184.1%) and 37.9% for the same periods in the prior year. Excluding income taxes on impairment losses on goodwill, intangible assets and property, plant and equipment, as well as restructuring and other costs, the Company's fourth quarter adjusted tax rate was 9.7% in 2018 and 19.6% in 2017. Excluding income taxes on impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs, remeasurement of forward purchase agreement liabilities and loss on early extinguishment of long-term debt, the adjusted tax rate for the year was 14.8% in 2018 versus 22.7% in 2017. Variations in the adjusted tax rate year-over-year for the fourth quarter and full year are explained largely due to changes in the jurisdictions in which the Company generated its income, including the impact related to the U.S. Tax Reform signed into law on December 22, 2017, effective as of January 1, 2018.

The components and variation in the Company's tax rate from 2017 to 2018 are summarized below:

	Years Ended December 30,			
	2018		2017 ⁽¹⁾	
	\$	%	\$	%
INCOME (LOSS) BEFORE INCOME TAXES	(498,163)	-	44,194	-
PROVISION FOR INCOME TAXES ⁽²⁾	(131,016)	26.3	11,623	26.3
ADD (DEDUCT) EFFECT OF:				
Difference in statutory tax rates of foreign subsidiaries	10,933	(2.2)	3,520	8.0
Non-recognition of tax benefits related to tax losses and temporary differences	20,344	(4.1)	5,142	11.6
Tax incentives	(888)	0.2	(1,979)	(4.5)
Non-deductible forward purchase agreement liabilities	-	-	94	0.2
Non-deductible impairment of goodwill	53,414	(10.7)	5,640	12.8
Permanent differences	(6,593)	1.3	(6,214)	(14.1)
Tax rate changes ⁽³⁾	(1,174)	0.2	(3,910)	(8.8)
Foreign exchange and other - net	1,160	(0.2)	2,837	6.4
TOTAL INCOME TAXES	(53,820)	10.8	16,753	37.9

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

⁽²⁾ The applicable statutory tax rates are 26.3% for the years ended December 30, 2018 and 2017. The Company's applicable tax rate is the Canadian combined rate applicable in the jurisdictions in which the Company operates.

⁽³⁾ For December 30, 2017, a tax benefit of \$4.853 million relates to the U.S. Tax Reform signed into law on December 22, 2017, which reduces the U.S. federal corporate income tax rate from 35% to 21%, effective as of January 1, 2018. The U.S. Tax Reform introduces other important changes to U.S. corporate income tax laws, which did not significantly impact the Company.

	Years Ended December 30,			
	2018		2017 ⁽¹⁾	
	\$	%	\$	%
ADJUSTED INCOME BEFORE INCOME TAXES	46,343	-	86,672	-
PROVISION FOR INCOME TAXES ⁽²⁾	12,188	26.3	22,795	26.3
ADD (DEDUCT) EFFECT OF:				
Difference in statutory tax rates of foreign subsidiaries	(1,203)	(2.6)	4,125	4.8
Non-recognition of tax benefits related to tax losses and temporary differences	5,781	12.5	2,537	2.9
Tax incentives	(888)	(1.9)	(1,979)	(2.3)
Permanent differences	(8,478)	(18.3)	(6,677)	(7.7)
Tax rate changes ⁽³⁾	(1,174)	(2.5)	(3,910)	(4.5)
Foreign exchange and other - net	633	1.3	2,826	3.2
TOTAL ADJUSTED INCOME TAXES	6,859	14.8	19,717	22.7

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

⁽²⁾ The applicable statutory tax rates are 26.3% for the years ended December 30, 2018 and 2017. The Company's applicable tax rate is the Canadian combined rate applicable in the jurisdictions in which the Company operates.

⁽³⁾ For December 30, 2017, a tax benefit of \$4.853 million relates to the U.S. Tax Reform signed into law on December 22, 2017, which reduces the U.S. federal corporate income tax rate from 35% to 21%, effective as of January 1, 2018. The U.S. Tax Reform introduces other important changes to U.S. corporate income tax laws, which did not significantly impact the Company.

e) Segmented operating review

Segmented figures are presented in Note 31 of the Company's Consolidated Financial Statements. Further reporting segment detail is presented below.

Dorel Home

Reconciliation of non-GAAP financial measures

	Fourth Quarters Ended December 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Other costs	Adjusted	% of revenue	Reported	% of revenue	Other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	209,262	100.0	-	209,262	100.0	200,975	100.0	-	200,975	100.0
Cost of sales	175,802	84.0	-	175,802	84.0	162,277	80.7	-	162,277	80.7
GROSS PROFIT	33,460	16.0	-	33,460	16.0	38,698	19.3	-	38,698	19.3
Selling expenses	6,923	3.3	-	6,923	3.3	6,814	3.4	-	6,814	3.4
General and administrative expenses	7,739	3.7	-	7,739	3.7	9,799	4.9	-	9,799	4.9
Research and development expenses	993	0.5	-	993	0.5	1,032	0.5	-	1,032	0.5
Impairment loss on trade and other receivables (reversal)	58	-	-	58	-	(11)	-	-	(11)	-
Other costs	252	0.1	(252)	-	-	-	-	-	-	-
OPERATING PROFIT	17,495	8.4	252	17,747	8.5	21,064	10.5	-	21,064	10.5

	Years Ended December 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Other costs	Adjusted	% of revenue	Reported	% of revenue	Other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	804,447	100.0	-	804,447	100.0	790,619	100.0	-	790,619	100.0
Cost of sales	671,598	83.5	-	671,598	83.5	649,069	82.1	-	649,069	82.1
GROSS PROFIT	132,849	16.5	-	132,849	16.5	141,550	17.9	-	141,550	17.9
Selling expenses	26,186	3.3	-	26,186	3.3	25,945	3.3	-	25,945	3.3
General and administrative expenses	29,886	3.6	-	29,886	3.6	33,642	4.2	-	33,642	4.2
Research and development expenses	4,241	0.5	-	4,241	0.5	3,859	0.5	-	3,859	0.5
Impairment loss on trade and other receivables	2,112	0.3	-	2,112	0.3	23	-	-	23	-
Other costs	252	0.1	(252)	-	-	-	-	-	-	-
OPERATING PROFIT	70,172	8.7	252	70,424	8.8	78,081	9.9	-	78,081	9.9

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in operating profit from 2017 to 2018 are summarized as follows:

	Fourth Quarters Ended December 30,					Years Ended December 30,				
	Change									
	Reported	Other costs	Adjusted	Reported	Other costs	Adjusted				
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	8,287	4.1	-	8,287	4.1	13,828	1.7	-	13,828	1.7
Cost of sales	13,525	8.3	-	13,525	8.3	22,529	3.5	-	22,529	3.5
GROSS PROFIT	(5,238)	(13.5)	-	(5,238)	(13.5)	(8,701)	(6.1)	-	(8,701)	(6.1)
Selling expenses	109	1.6	-	109	1.6	241	0.9	-	241	0.9
General and administrative expenses	(2,060)	(21.0)	-	(2,060)	(21.0)	(3,756)	(11.2)	-	(3,756)	(11.2)
Research and development expenses	(39)	(3.8)	-	(39)	(3.8)	382	9.9	-	382	9.9
Impairment loss on trade and other receivables	69	627.3	-	69	627.3	2,089	9,082.6	-	2,089	9,082.6
Other costs	252	100.0	(252)	-	-	252	100.0	(252)	-	-
OPERATING PROFIT	(3,569)	(16.9)	252	(3,317)	(15.7)	(7,909)	(10.1)	252	(7,657)	(9.8)

Dorel Home's fourth quarter revenue increased by \$8.3 million, or 4.1%, to \$209.3 million from \$201.0 million last year. Revenue for the full year increased by \$13.8 million, or 1.7%, to \$804.4 million from \$790.6 million in 2017. On-line sales were the highest ever recorded in the segment's history driven by continued growth in sales to on-line retailers

and to the direct-to-consumers Internet business. For the fourth quarter and full year, e-commerce sales represented 59% and 56% of total segment gross sales compared to 58% and 52% respectively for the comparable periods in 2017.

Gross profit, at 16.0% in the fourth quarter and 16.5% for the full year, decreased by 330 and 140 basis points respectively over last year's fourth quarter and year-to-date periods. A major component of the margin decline was the potential impact of further U.S. tariffs on Chinese-sourced product that were expected on January 1, 2019. As in many industries, purchases were accelerated into 2018. The resultant increased demand for overseas containers drove higher transportation costs and higher inventories meant an increase in warehousing and other overheads. In addition, product mix was less favourable with a higher proportion of lower margin product sales. Warehouse and distribution costs were higher than last year for both the quarter and the full year due to the segment's additional overall warehouse footprint, higher wage costs and increased inventory levels in advance of expected tariffs.

Selling, general and administrative and research and development expenses declined by \$2.0 million, or 11.3%, during the fourth quarter and by \$3.1 million, or 4.9%, for the year representing decreases of 1.3% for the quarter and 0.6% for the year as a percentage of revenue. The decreases for both the quarter and the full year were primarily due to reduced product liability costs and lower performance-based incentive costs, partly offset by increased information technology expenses to support the growth of Dorel Home's on-line business.

Impairment loss on trade and other receivables remained comparable to 2017 for the fourth quarter and grew by \$2.1 million for the full year. The year-to-date increase is explained by the impairment loss of \$2.1 million with respect to the trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018.

Dorel Home's operating profit for the quarter decreased by \$3.6 million, or 16.9%, to \$17.5 million from \$21.1 million in 2017. Excluding Alphason's acquisition-related costs, adjusted operating profit decreased by \$3.3 million to \$17.7 million, which was explained by lower gross profit partly offset by reduced operating expenses. For the year, operating profit declined by \$7.9 million, or 10.1%, to \$70.2 million. While removing Alphason's acquisition-related costs, adjusted operating profit was \$70.4 million, a decrease of \$7.7 million, or 9.8%, from last year mainly due to lower gross profit and the impairment loss on trade accounts receivable from Toys"R"Us U.S. recorded in the first quarter of 2018 partly offset by reduced operating expenses.

Dorel Juvenile

Reconciliation of non-GAAP financial measures

	Fourth Quarters Ended December 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Impairment losses on goodwill and intangible assets, restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Impairment loss on goodwill, restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	241,598	100.0	-	241,598	100.0	239,306	100.0	-	239,306	100.0
Cost of sales	180,172	74.6	(552)	179,620	74.3	168,661	70.5	(281)	168,380	70.4
GROSS PROFIT	61,426	25.4	552	61,978	25.7	70,645	29.5	281	70,926	29.6
Selling expenses	28,809	11.9	-	28,809	11.9	29,532	12.3	-	29,532	12.3
General and administrative expenses	22,347	9.3	-	22,347	9.3	25,087	10.6	-	25,087	10.6
Research and development expenses	8,175	3.4	-	8,175	3.4	5,634	2.3	-	5,634	2.3
Impairment loss on trade and other receivables	916	0.4	-	916	0.4	988	0.4	-	988	0.4
Restructuring and other costs	2,708	1.0	(2,708)	-	-	3,780	1.6	(3,780)	-	-
Impairment losses on goodwill and intangible assets	264,223	109.4	(264,223)	-	-	19,929	8.3	(19,929)	-	-
OPERATING PROFIT (LOSS)	(265,752)	(110.0)	267,483	1,731	0.7	(14,305)	(6.0)	23,990	9,685	4.0

	Years Ended December 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Impairment losses on goodwill and intangible assets, restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Impairment loss on goodwill, restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	932,060	100.0	-	932,060	100.0	921,669	100.0	-	921,669	100.0
Cost of sales	687,899	73.8	(639)	687,260	73.7	646,408	70.1	(1,575)	644,833	70.0
GROSS PROFIT	244,161	26.2	639	244,800	26.3	275,261	29.9	1,575	276,836	30.0
Selling expenses	117,915	12.7	-	117,915	12.7	116,275	12.6	-	116,275	12.6
General and administrative expenses	82,759	8.9	-	82,759	8.9	91,707	9.9	-	91,707	9.9
Research and development expenses	28,283	3.0	-	28,283	3.0	21,893	2.4	-	21,893	2.4
Impairment loss on trade and other receivables	5,102	0.5	-	5,102	0.5	2,493	0.3	-	2,493	0.3
Restructuring and other costs	6,192	0.7	(6,192)	-	-	10,358	1.1	(10,358)	-	-
Impairment losses on goodwill and intangible assets	288,416	30.9	(288,416)	-	-	19,929	2.2	(19,929)	-	-
OPERATING PROFIT (LOSS)	(284,506)	(30.5)	295,247	10,741	1.2	12,606	1.4	31,862	44,468	4.8

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in operating profit (loss) from 2017 to 2018 are summarized as follows:

	Fourth Quarters Ended December 30,					Years Ended December 30,				
	Change									
	Reported	%	Impairment losses on goodwill and intangible assets, restructuring and other costs	Adjusted	%	Reported	%	Impairment losses on goodwill and intangible assets, restructuring and other costs	Adjusted	%
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	2,292	1.0	-	2,292	1.0	10,391	1.1	-	10,391	1.1
Cost of sales	11,511	6.8	(271)	11,240	6.7	41,491	6.4	936	42,427	6.6
GROSS PROFIT	(9,219)	(13.0)	271	(8,948)	(12.6)	(31,100)	(11.3)	(936)	(32,036)	(11.6)
Selling expenses	(723)	(2.4)	-	(723)	(2.4)	1,640	1.4	-	1,640	1.4
General and administrative expenses	(2,740)	(10.9)	-	(2,740)	(10.9)	(8,948)	(9.8)	-	(8,948)	(9.8)
Research and development expenses	2,541	45.1	-	2,541	45.1	6,390	29.2	-	6,390	29.2
Impairment loss on trade and other receivables	(72)	(7.3)	-	(72)	(7.3)	2,609	104.7	-	2,609	104.7
Restructuring and other costs	(1,072)	(28.4)	1,072	-	-	(4,166)	(40.2)	4,166	-	-
Impairment losses on goodwill and intangible assets	244,294	1,225.8	(244,294)	-	-	268,487	1,347.2	(268,487)	-	-
OPERATING PROFIT (LOSS)	(251,447)	(1,757.8)	243,493	(7,954)	(82.1)	(297,112)	(2,356.9)	263,385	(33,727)	(75.8)

Dorel Juvenile's fourth quarter revenue increased by \$2.3 million, or 1.0%, to \$241.6 million from \$239.3 million in 2017, which was negatively impacted by less favourable foreign exchange rates as the organic revenue increase was approximately 4.1%. Full year revenue increased by \$10.4 million, or 1.1%, to \$932.1 million from \$921.7 million. Excluding the impact of varying foreign exchange rates year-over-year, the year-to-date organic revenue increase was approximately 0.4% as year-to-date foreign exchange rates have been more favourable. Dorel Juvenile U.S. sales

growth continued into the fourth quarter. Sales improvements continued from new product introductions and at major customers as they benefited from the absence of Toys“R”Us stores. In Dorel Juvenile Brazil, new product launches coupled with growth in on-line sales contributed to the growth in revenue for both the quarter and the full year.

Sales in Europe in Euro were flat for the quarter as sales from new products, including strollers and cars seats under the Maxi-Cosi brand, were offset by decreases in other brands. For the full year, sales in Europe in Euro were slightly down, mainly due to the issues implementing a Warehouse Management System (WMS) in the second quarter of 2018 and price reductions that were put in place to protect shelf space on existing items. In Chile, revenue in local currency declined significantly due to continued local challenges and management there is focused on right-sizing its retail footprint and product offering.

Gross profit for the fourth quarter and the full year was 25.4% and 26.2%, respectively, while adjusted gross profit for the quarter and the full year was 25.7% and 26.3%, respectively, when excluding restructuring and other costs. This represented declines of 410 basis points for the quarter and 370 basis points for the year. On an adjusted basis, the declines represented 390 basis points for the quarter and 370 basis points for the year. In Europe, in anticipation of new model introductions to come in 2019, price reductions were put in place to protect shelf space on existing items which decreased margins in the quarter. In Chile, price discounting continued to achieve critical holiday sales and lower inventories as it exits certain categories as part of its process to right-size the business. Several markets have been forced to raise prices as the steady increase in the US dollar and higher input costs, such as resin, have reduced margins.

Selling expenses for the fourth quarter decreased by \$0.7 million, or 2.4%, and by 0.4% as a percentage of revenue. Selling expenses for the full year increased by \$1.6 million, or 1.4%, and by 0.1% as a percentage of revenue. The increase for the year is mainly explained by the impact of foreign exchange rate variations year-over-year.

General and administrative expenses decreased by \$2.7 million, or 10.9%, for the quarter and by 1.3% as a percentage of revenue. General and administrative expenses decreased by \$8.9 million, or 9.8%, for the year and by 1.0% as a percentage of revenue. The decrease for the quarter and the full year is mainly due to lower performance-based incentive costs and cost reductions in response to lower gross profit, partly offset by higher product liability costs due to higher settlements and related legal costs.

Research and development expenses for the fourth quarter increased by \$2.5 million, or 45.1%, and by 1.1% as a percentage of revenue. Research and development expenses for the full year increased by \$6.4 million, or 29.2%, and by 0.6% as a percentage of revenue. The increases are due to the greater number of new product projects resulting in higher spending and amortization.

The impairment loss on trade and other receivables for the fourth quarter was comparable with 2017. For the year, the impairment loss was \$5.1 million in 2018 compared to \$2.5 million last year. The increase for the year is mainly explained by the impairment loss of \$3.8 million with respect to the trade accounts receivable from Toys“R”Us U.S. recorded in the first quarter of 2018 compared with \$0.7 million recorded in the fourth quarter of 2017.

As the recent sustained decline in Dorel’s stock price during 2018 caused Dorel’s market capitalization to be significantly lower than the carrying amount of its net assets, Dorel Juvenile recorded the following impairment charges during the fourth quarter of 2018, as a result of Dorel’s revision of assumptions on projected earnings and cash flow growth for the majority of its CGUs as mentioned earlier:

	Fourth quarter ended December 30, 2018			
	Goodwill	Trademarks	Customer relationships	Total
	\$	\$	\$	\$
Dorel Juvenile – North America	66,826	-	-	66,826
Dorel Juvenile – Europe	143,615	29,170	11,534	184,319
Dorel Juvenile – Brazil	695	1,063	926	2,684
Dorel Juvenile – Australia	-	2,717	-	2,717
Dorel Juvenile – China	7,677	-	-	7,677
Total	218,813	32,950	12,460	264,223

Also, during the second quarter of 2018, Dorel Juvenile recorded impairment charges on customer relationships of \$8.9 million and trademarks of \$15.3 million (Infanti brand) for a total of \$24.2 million, as assumptions on projected earnings

and cash flows growth for Dorel Juvenile – Latin America CGU were revised due to Dorel Juvenile – Latin America’s business continuing to face a decline in sales and profitability as a result of changes in the market and consumer behavior.

Operating loss increased by \$251.4 million to \$265.8 million during the fourth quarter of 2018. When excluding impairment losses on goodwill and intangible assets, restructuring and other costs, adjusted operating profit decreased by \$8.0 million to \$1.7 million from \$9.7 million in 2017 mainly due to lower gross profit. Removing the impact of the 2017 fourth quarter impairment loss on trade accounts receivable from Toys“R”Us U.S. of \$0.7 million, the comparative fourth quarter adjusted operating profit was \$10.4 million a year ago. Operating loss increased by \$297.1 million to \$284.5 million for the year, while excluding impairment losses on goodwill and intangible assets, restructuring and other costs, adjusted operating profit decreased by \$33.7 million to \$10.7 million in the same period a year ago. When excluding the impairment loss on trade accounts receivable from Toys“R”Us U.S. of \$3.8 million and \$0.7 million recorded in the first quarter of 2018 and in the fourth quarter of 2017, respectively, adjusted operating profit was \$14.5 million for the year compared to \$45.2 million last year which is mainly explained by the decrease of 370 basis points in the adjusted gross profit as detailed above.

Dorel Sports

Reconciliation of non-GAAP financial measures

	Fourth Quarters Ended December 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	232,686	100.0	-	232,686	100.0	236,771	100.0	-	236,771	100.0
Cost of sales	184,525	79.3	65	184,590	79.3	184,666	78.0	719	185,385	78.3
GROSS PROFIT	48,161	20.7	(65)	48,096	20.7	52,105	22.0	(719)	51,386	21.7
Selling expenses	20,956	9.0	-	20,956	9.0	22,150	9.4	-	22,150	9.4
General and administrative expenses	18,652	8.0	-	18,652	8.0	18,393	7.7	-	18,393	7.7
Research and development expenses	1,314	0.6	-	1,314	0.6	1,373	0.6	-	1,373	0.6
Impairment loss on trade and other receivables	2,044	0.9	-	2,044	0.9	3,286	1.4	-	3,286	1.4
Restructuring and other costs	56	-	(56)	-	-	358	0.1	(358)	-	-
Impairment losses on goodwill, intangible assets and property, plant and equipment	237,223	101.9	(237,223)	-	-	-	-	-	-	-
OPERATING PROFIT (LOSS)	(232,084)	(99.7)	237,214	5,130	2.2	6,545	2.8	(361)	6,184	2.6

	Years Ended December 30,									
	2018					2017 ⁽¹⁾				
	Reported	% of revenue	Impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs	Adjusted	% of revenue	Reported	% of revenue	Restructuring and other costs	Adjusted	% of revenue
	\$	%	\$	\$	%	\$	%	\$	\$	%
TOTAL REVENUE	883,006	100.0	-	883,006	100.0	865,380	100.0	-	865,380	100.0
Cost of sales	695,224	78.7	(1,619)	693,605	78.6	670,440	77.5	1,315	671,755	77.6
GROSS PROFIT	187,782	21.3	1,619	189,401	21.4	194,940	22.5	(1,315)	193,625	22.4
Selling expenses	88,876	10.1	-	88,876	10.1	89,197	10.3	-	89,197	10.3
General and administrative expenses	66,159	7.5	-	66,159	7.5	72,105	8.4	-	72,105	8.4
Research and development expenses	5,295	0.6	-	5,295	0.6	5,313	0.6	-	5,313	0.6
Impairment loss on trade and other receivables	9,211	1.0	-	9,211	1.0	5,106	0.6	-	5,106	0.6
Restructuring and other costs	10,165	1.2	(10,165)	-	-	1,456	0.1	(1,456)	-	-
Impairment losses on goodwill, intangible assets and property, plant and equipment	237,223	26.9	(237,223)	-	-	-	-	-	-	-
OPERATING PROFIT (LOSS)	(229,147)	(26.0)	249,007	19,860	2.2	21,763	2.5	141	21,904	2.5

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation.

The principal changes in operating profit (loss) from 2017 to 2018 are summarized as follows:

	Fourth Quarters Ended December 30,						Years Ended December 30,					
	2017			2018			2017			2018		
	Reported	Change		Reported	Change		Reported	Change		Reported	Change	
	\$	%	\$	\$	%	\$	%	\$	\$	%	\$	%
TOTAL REVENUE	(4,085)	(1.7)	-	(4,085)	(1.7)	17,626	2.0	-	17,626	2.0	-	-
Cost of sales	(141)	(0.1)	(654)	(795)	(0.4)	24,784	3.7	(2,934)	21,850	3.3	(2,934)	(12.5)
GROSS PROFIT	(3,944)	(7.6)	654	(3,290)	(6.4)	(7,158)	(3.7)	2,934	(4,224)	(2.2)	(2,934)	(16.7)
Selling expenses	(1,194)	(5.4)	-	(1,194)	(5.4)	(321)	(0.4)	-	(321)	(0.4)	-	-
General and administrative expenses	259	1.4	-	259	1.4	(5,946)	(8.2)	-	(5,946)	(8.2)	-	-
Research and development expenses	(59)	(4.3)	-	(59)	(4.3)	(18)	(0.3)	-	(18)	(0.3)	-	-
Impairment loss on trade and other receivables	(1,242)	(37.8)	-	(1,242)	(37.8)	4,105	80.4	-	4,105	80.4	-	-
Restructuring and other costs	(302)	(84.4)	302	-	-	8,709	598.1	(8,709)	-	-	-	-
Impairment losses on goodwill, intangible assets and property, plant and equipment	237,223	100.0	(237,223)	-	-	237,223	100.0	(237,223)	-	-	-	-
OPERATING PROFIT (LOSS)	(238,629)	(3,646.0)	237,575	(1,054)	(17.0)	(250,910)	(1,152.9)	248,866	(2,044)	(9.3)	248,866	(9.3)

Dorel Sports' fourth quarter revenue declined by \$4.1 million, or 1.7%, to \$232.7 million from \$236.8 million last year. When excluding the negative impact of varying foreign exchange rates year-over-year, the organic revenue increased by approximately 1.3%, and when also removing the impact of the divestment of the performance apparel line of business (SUGOI) in the second quarter of 2018, the organic revenue increased by approximately 2.6% for the quarter. CSG posted double-digit organic revenue growth, mainly in the European market and in the U.S. sporting goods channel due to innovation in model-year 2019 products including the e-bike product category. Caloi delivered double-digit organic revenue growth in the quarter, although it was flat in US dollar terms due to unfavourable foreign exchange rates variations. The organic revenue growth was driven by a stronger product mix. Pacific Cycle's revenue decreased due to lower than expected mass channel holiday point-of-sales on bikes and interactive battery powered ride-ons.

For the year, Dorel Sports' revenue increased by \$17.6 million, or 2.0%, to \$883.0 million and the organic revenue increased by approximately 2.6%, after excluding the foreign exchange rates fluctuations year-over-year. The organic revenue increased by approximately 3.4% when also excluding the impact of the divestment of the performance line of business in the second quarter of 2018. This growth is mainly explained by the same reasons as in the quarter.

Gross profit for the fourth quarter declined by 130 basis points to 20.7% and adjusted gross profit was also 20.7% when excluding restructuring and other costs, representing a decrease of 100 basis points compared to 2017. Gross profit for the year declined by 120 basis points to 21.3% from 22.5% and when excluding restructuring and other costs, adjusted gross profit declined by 100 basis points to 21.4% from 22.4%. The primary drivers of the margin compression were increased input costs and an unfavourable sales mix at Pacific Cycle and increased material costs related to the weakened Brazilian Real at Caloi.

Selling expenses for the fourth quarter decreased by \$1.2 million, or 5.4%, to \$21.0 million from \$22.2 million and by 40 basis points as a percentage of revenue, mainly driven by lower sponsorship costs at CSG, savings due to the exit of the performance apparel line of business, partly offset by higher marketing expenses due to new product launches at Pacific Cycle. For the full year, selling expenses decreased by \$0.3 million, or 0.4%, to \$88.9 million.

General and administrative expenses for the fourth quarter of 2018 remained comparable to 2017 while for the full year, these expenses declined by \$5.9 million, or 8.2%, to \$66.2 million and by 90 basis points as a percentage of revenue. The decrease for the year is mainly due to lower product liability costs, savings due to the decision to exit the performance apparel line of business and other cost savings from previous restructuring activities.

Research and development expenses for the fourth quarter and for the year were comparable year-over-year.

Impairment loss on trade and other receivables was \$2.0 million for the fourth quarter of 2018 compared to \$3.3 million in 2017. For the full year, the impairment loss on trade and other receivables was \$9.2 million compared to \$5.1 million in 2017. As mentioned above, an impairment loss of \$3.1 million was recorded during the fourth quarter of 2017 and an additional \$6.6 million was recorded in the first quarter of 2018 with respect to the trade accounts receivable from Toys"R"Us U.S. as a result of its motion seeking Bankruptcy Court approval filed which was announced on March 15, 2018. During the fourth quarter of 2018, Dorel Sports recorded an additional impairment loss of \$2.1 million, as one of its customer, Evans Cycles, entered administration in the United Kingdom.

Following Dorel's revision of assumptions on projected earnings and cash flow growth for the majority of its CGUs due to the recent sustained decline in Dorel's stock price during 2018, Dorel Sports recorded the following impairment charges during the fourth quarter of 2018:

	Fourth quarter ended December 30, 2018					Total
	Goodwill	Trademarks	Customer relationships	Software licenses	Property, plant and equipment	
	\$	\$	\$	\$	\$	\$
Dorel Sports – Mass markets	134,821	9,059	-	-	-	143,880
Dorel Sports – Independent bike dealers (IBD)	-	53,108	-	931	5,971	60,010
Dorel Sports – Caloi	-	32,206	1,127	-	-	33,333
Total	134,821	94,373	1,127	931	5,971	237,223

Dorel Sports' operating loss for the fourth quarter was \$232.1 million compared with an operating profit of \$6.5 million in 2017. Adjusted operating profit for the fourth quarter decreased by \$1.1 million, or 17.0%, to \$5.1 million when excluding impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs. Removing the impact of the 2017 fourth quarter impairment loss on trade accounts receivable from Toys“R”Us U.S. of \$3.1 million, the comparative fourth quarter adjusted operating profit was \$9.3 million a year ago. For the year, the operating loss was \$229.1 million compared to an operating profit of \$21.8 million in 2017. Excluding impairment losses on goodwill, intangible assets and property, plant and equipment, restructuring and other costs, adjusted operating profit declined by \$2.0 million, or 9.3%, to \$19.9 million. When also excluding the impairment loss on trade accounts receivable from Toys“R”Us U.S. of \$6.6 million and \$3.1 million recorded in the first quarter of 2018 and in the fourth quarter of 2017, respectively, adjusted operating profit for the year was \$26.5 million compared to \$25.0 million last year, which is mainly explained by lower overall operating costs partly offset by lower gross profit.

4. FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

a) Selected information from the consolidated statement of financial position

	As at December 30,		
	2018	2017 ⁽¹⁾	2016 ⁽¹⁾
	\$	\$	\$
Total assets	1,733,506	2,229,707	2,172,632
<u>Non-current liabilities excluding current portion:</u>			
Long-term debt	4,119	433,760	355,118
Provisions	2,950	2,953	1,681
Written put option and forward purchase agreement liabilities	12,002	23,464	26,325
Other financial liabilities	2,137	1,338	1,115
Other liabilities	8,641	11,157	13,302
<u>Other:</u>			
Current portion of long-term debt and bank indebtedness	483,048	71,896	100,628
Current portion of forward purchase agreement liabilities	-	-	7,500
Total	512,897	544,568	505,669

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

The decrease in total assets of \$496.2 million as at December 30, 2018 from December 30, 2017 is mainly explained by the 2018 impairment losses on goodwill, intangible assets and property, plant and equipment of \$525.6 million offset by overall higher inventory levels.

As the convertible debentures are maturing on November 30, 2019, they have been classified as current as at December 30, 2018. In addition, given that the convertible debentures were not repaid or refinanced as at December 30, 2018 and as at the date of issuance of the Consolidated Financial Statements, and Dorel's intentions related thereto, the revolving bank loans and term loan were also classified as current as at December 30, 2018. Refer to subsection "Contractual obligations" for further information.

b) Working capital

Certain of the Company's ratios are as follows:

	As at December 30,	
	2018	2017⁽¹⁾
Debt ⁽²⁾ to equity	0.84	0.46
# of days in receivables	57	60
# of days in inventory	113	110
# of days in payables	80	67

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

⁽²⁾ Debt is defined as bank indebtedness plus long-term debt.

The net working capital position declined by 13 days to 90 days as at December 30, 2018 compared to 103 days as at December 30, 2017. This was mainly due to an increase in trade and other payables of \$93.2 million to \$533.6 million as at December 30, 2018 from \$440.4 million as at December 30, 2017. The increase in trade and other payables was partially offset by an inventory increase of \$43.0 million, or 7.3%, to \$635.2 million as at December 30, 2018 compared to December 30, 2017. Inventory levels in the Dorel Sports and Dorel Home segments increased through the latter months of 2018 in anticipation of potential tariff increases in the U.S. as well as to support 2019 expected sales growth. Trade and other payables increased in Dorel Sports due to the timing of model year 2019 inventory and higher sales expectations at Pacific Cycle. The increase in trade and other payables in Dorel Home was due to the timing of inventory receipts in anticipation of potential tariff increases that were due to be implemented on January 1, 2019.

The increase in debt to equity ratio as at December 30, 2018 is mainly due to the impact on the Company's equity of the significant impairment losses on goodwill, intangible assets and property, plant and equipment recorded during the fourth quarter of 2018.

c) Cash flow

For the year, cash flow provided by operating activities increased by \$52.9 million to \$110.3 million compared to \$57.4 million reported in 2017.

	Source (Use) of cash		
	2018	2017⁽¹⁾	Change
	\$	\$	\$
Net income (loss) adjusted by items not involving cash	124,829	163,701	(38,872)
Trade and other receivables	(2,396)	8,754	(11,150)
Inventories	(60,321)	(23,730)	(36,591)
Other financial assets	84	(629)	713
Prepaid expenses	370	(3,851)	4,221
Other assets	(2,400)	(4,571)	2,171
Trade and other payables	102,936	(13,757)	116,693
Net pension and post-retirement defined benefit liabilities	(3,056)	(3,833)	777
Provisions, other financial liabilities and other liabilities	(3,361)	(23,468)	20,107
Net changes in balances related to operations	31,856	(65,085)	96,941
Net income taxes and interest paid	(46,411)	(41,222)	(5,189)
CASH PROVIDED BY OPERATING ACTIVITIES	110,274	57,394	52,880

⁽¹⁾ The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

Free cash flow, a non-GAAP financial measure, was \$20.2 million in 2018 versus \$(23.6) million in 2017 as follows:

	2018	2017 ⁽¹⁾	Change
	\$	\$	\$
CASH PROVIDED BY OPERATING ACTIVITIES	110,274	57,394	52,880
Less:			
Dividends paid	(38,926)	(38,895)	(31)
Shares repurchased	-	-	-
Additions to property, plant & equipment and proceeds from disposals of assets held for sale - net	(30,224)	(21,047)	(9,177)
Additions to intangible assets	(20,969)	(21,054)	85
FREE CASH FLOW⁽²⁾	20,155	(23,602)	43,757

(1) "Free cash flow" is a non-GAAP financial measure and is defined as cash provided by operating activities less dividends paid, shares repurchased, net additions to property, plant and equipment and to intangible assets including net proceeds from disposals of assets held for sale (see note in the non-GAAP financial measures section).

(2) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated.

The free cash flow increase in 2018 was due to the positive change in cash provided by operating activities offset in part by the net proceeds of \$15.0 million received in 2017 related to the disposals of assets held for sale which did not occur in 2018. The increase in cash provided by operating activities is explained mainly by increased trade and other payables reduced by the increase in inventories as noted above.

The Company's net debt position, defined as long-term debt and bank indebtedness less cash and cash equivalents was \$447.9 million as at December 30, 2018, a decrease of \$20.9 million compared to \$468.8 million as at December 30, 2017 due to the increase in cash provided by operating activities. For further discussion on Dorel's liquidity position as at December 30, 2018, refer to subsection "Contractual obligations".

d) Contractual obligations

	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
	\$	\$	\$	\$	\$
Bank indebtedness	50,098	50,098	-	-	-
Long-term debt - revolving bank loans and term loan repayments ⁽¹⁾	313,528	313,528	-	-	-
Convertible debentures repayments	120,000	120,000	-	-	-
Other long-term debt repayments	5,736	1,617	3,356	552	211
Future minimum lease payments exclusive of additional charges	225,463	46,461	73,479	43,798	61,725
Trade and other payables	533,608	533,608	-	-	-
Foreign exchange contracts	113	113	-	-	-
Written put option liabilities	12,002	-	-	12,002	-
Other financial liabilities	2,137	-	754	880	503
Capital addition purchase commitments	6,098	6,098	-	-	-
Expenditure commitments related to marketing	5,900	2,950	2,950	-	-
Minimum royalties payments under licensing agreements	2,053	1,839	184	30	-
Total contractual obligations	1,276,736	1,076,312	80,723	57,262	62,439

(1) The maturity date of the revolving bank loans and the term loan is the earlier of (i) July 1, 2020 and (ii) May 30, 2019 if the convertible debentures have not been repaid or refinanced, in cash or shares of Dorel. Consistent with the classification in Dorel's consolidated statement of financial position as at December 30, 2018, Dorel has included the remaining contractual maturities under the revolving bank loans and term loan as less than one year.

Bank indebtedness

As at December 30, 2018, Dorel had available bank lines of credit amounting to approximately \$111.4 million of which \$50.1 million have been used. The availability of these funds are dependent on Dorel continuing to meet the financial covenants of its credit agreements.

Revolving bank loans and term loan

Given that the convertible debentures were not repaid or refinanced as at December 30, 2018 and as at the date of issuance of the Consolidated Financial Statements, and Dorel's intentions related thereto, the revolving bank loans and term loan were classified as current as at December 30, 2018.

Under the revolving bank loans and term loan, Dorel is subject to certain covenants, including maintaining certain financial ratios. The convertible debentures also have a cross-default covenant. The availability of the funds under the revolving bank loans, including the accordion feature, are dependent on Dorel continuing to meet the financial covenants of its credit agreements. If Dorel is not able to meet its quarterly debt covenant requirements, the revolving bank loans and term loan will become due in full at the date of non-compliance. The covenants do not permit Dorel to use funds under its revolving bank loans to repay the convertible debentures as at December 30, 2018. During the fourth quarter of 2018, certain of Dorel's borrowing covenant requirements were amended as Dorel was uncertain that all requirements would have been met as at December 30, 2018. Accordingly, as at December 30, 2018, Dorel was compliant with all its modified borrowing covenant requirements, and the revolving bank loans and term loan were not due on demand on December 30, 2018.

Subsequent to year-end on March 8, 2019, Dorel amended its revolving bank loans and term loan agreement to facilitate the compliance with its covenants in light of the last twelve months results of operations, and to permit additional financing from other lenders to refinance and repay the convertible debentures. The amendment also extends the maturity date to July 1, 2021 if the convertible debentures are repaid or refinanced by May 30, 2019. If the convertible debentures have not been repaid or refinanced, the maturity remains on May 30, 2019. On March 14, 2019, Dorel announced that it will adjust its dividend from the current annual \$1.20 a share to \$0.60 for the upcoming year.

In the event Dorel's convertible debentures are not repaid or refinanced by May 30, 2019, the revolving bank loans and term loan will become due in full on May 30, 2019. In addition, if the Company is not able to meet its quarterly debt covenant requirements, the revolving bank loans and term loan will become due in full at the date of non-compliance.

As such, there is a risk that Dorel will encounter difficulties in meeting its current obligations under the revolving bank loans and term loan that may become due before July 1, 2020 (as amended to July 1, 2021 on March 8, 2019). While Dorel does not have arranged financing to repay the revolving bank loans and term loan on May 30, 2019 or if covenants are not met, Dorel has various alternatives available should these scenarios arise, such as further adjusting its current dividend policy to meet quarterly covenants or converting the convertible debentures into shares to avoid the revolving bank loans and term loan becoming due in full on May 30, 2019. Accordingly, Dorel does not expect a liquidity problem in the foreseeable future, however no assurance can be provided. Assessing Dorel's liquidity including expected future compliance with covenants requires judgment.

While management believes that future cash flows from operations and availability under existing/renewed banking arrangements will be adequate to support the Company's financial liabilities, achievement of future results from operations and therefore meeting bank covenants determining the timing of repayments of its revolving bank loans and term loan is outside the Company's control.

As at December 30, 2018, the term loan as well as the revolving bank loans are secured by certain of Dorel's trade accounts receivable, inventories, property, plant and equipment and intangible assets, with a carrying value of \$252.2 million, \$472.6 million, \$76.8 million and \$27.9 million, respectively.

Convertible debentures

The convertible debentures are direct, subordinated, unsecured obligations of Dorel and are ranking equally with one another and with all other existing and future unsecured indebtedness of Dorel other than the revolving bank loans and the term loan.

The convertible debentures are convertible at any time at the holder's option into Dorel's Class "B" Subordinate Voting Shares at a conversion price of \$46.75 per share. This represents a conversion rate of 21.3904 Class "B" Subordinate Voting Shares per \$1 principal amount of Debentures. Upon conversion, holders will be entitled to receive accrued and unpaid interest.

On or after November 30, 2018 and prior to the maturity date, on November 30, 2019, subject to specified conditions and notice, Dorel may, at its option, redeem the convertible debentures, in whole or in part, from time to time at the par value plus accrued and unpaid interest. On redemption or maturity, Dorel may, at its option and subject to regulatory approval, elect to satisfy its obligation to pay all or a portion of the principal amount by issuing a number of Class "B" Subordinate Voting Shares of Dorel determined by dividing the principal amount by 95% of the current market price of the shares on the redemption date. If it elects to do so, it must provide the holders with a minimum 40 days redemption notice.

Written put option liabilities

The written put option included in non-current liabilities pertain to certain of Dorel's business acquisitions or incorporation of subsidiaries. In these cases, where Dorel holds less than 100% of the shares, Dorel has entered into agreements with the non-controlling interest holders for the purchase of the balance of the shares at some future point. Under the terms of these agreements, the purchase price of these shares is a formulaic variable price which is mainly based on earnings level in future periods.

Other considerations

As new product development is vital to the continued success of Dorel, the Company must make capital investments in research and development, moulds and other machinery, equipment and technology. It is expected that Dorel will invest approximately \$57 million in 2019 to meet its new product development and other growth objectives. Dorel expects its existing operations to be able to generate sufficient cash flow to provide for this and other requirements as they arise throughout the year. However, given Dorel's current liquidity position, Dorel may need to reduce or change the timing of its expected capital investments during 2019 as part of its capital management strategy to ensure it will have sufficient liquidity to meet its obligations as they become due.

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

The Company does not have significant contractual commitments beyond those reflected in the consolidated statement of financial position, the commitments listed in Note 25 to the Consolidated Financial Statements or those listed in the table above.

As detailed in Note 21 of the Consolidated Financial Statements, an amount of \$29.5 million pertains to the Company's pension and post-retirement benefit plans. In 2019, contributions expected to be paid for funded plans and benefits expected to be paid for unfunded plans under these plans will amount to approximately \$3.6 million.

e) Off-balance sheet arrangements

In addition to the contractual obligations listed above, the Company has certain off-balance sheet arrangements and commitments that have financial implications, specifically standby letters of credit and other guarantees. Off-balance sheet arrangements are described in Note 25 to the Consolidated Financial Statements.

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

f) Derivative financial instruments

The Company is exposed to interest rate fluctuations, related primarily to its revolving bank loans and its term loan, for which amounts drawn are subject to LIBOR, Euribor, Canadian 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 of exchanging variable rates for fixed rates for an extended period of time. All other long-term debts have fixed interest rates and are therefore not exposed to cash flow interest rate risk.

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

In the normal course of business, Dorel is subject to other various risks relating primarily to foreign exchange risk. In order to mitigate the effects of changes in foreign exchange rates on its revenue, its expenses and its cash flows, from time to time, the Company uses various derivative financial instruments such as swaps, options, futures and forward contracts to hedge against adverse fluctuations in foreign currency rates. The Company's main source of foreign exchange rate risk resides in sales and purchases of goods denominated in currencies other than the functional currency of each of Dorel's entities. Dorel's financial debt mainly consists of long-term debt issued in US dollars, for which no foreign currency hedging is required. Most of short-term lines of credit, overdrafts and long-term debt commonly used by Dorel's entities are in the currency of the borrowing entity and therefore carry no foreign exchange rate risk. Inter-company loans/borrowings are economically hedged as appropriate, whenever they present a net exposure to foreign exchange rate risk and some are used to hedge net investments in their foreign subsidiaries. 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 financial position date, the impact of which is reported as a foreign exchange gain or loss in the consolidated income statements.

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

The fair values, average rates and notional amounts of derivatives and the fair values and carrying amounts of financial instruments are disclosed in Note 19 of the Consolidated Financial Statements.

5. CRITICAL ACCOUNTING ESTIMATES

The Consolidated Financial Statements have been prepared in accordance with IFRS. The preparation of these consolidated financial statements requires using judgments, which includes making estimates and assumptions at the date of the Consolidated Financial Statements that affect the reported amounts of assets and liabilities, related amounts of revenue and expenses, and disclosure of contingent assets and contingent liabilities. A complete list of all significant accounting policies is listed in Note 4 to the Consolidated Financial Statements.

The Company believes the following are the most critical estimates and related judgments that affect Dorel's results as presented herein and that would have the most material effect on the Consolidated Financial Statements should these accounting estimates change materially or be applied in a different manner:

Basis of preparation of the Consolidated Financial Statements: At each reporting period, management assesses the basis of preparation of the consolidated financial statements. The Company's Consolidated Financial Statements for the year ended December 30, 2018 have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Refer to Liquidity Risk section of Note 19 in the Consolidated Financial Statements, which explains that assessing Dorel's liquidity including expected future compliance with covenants requires judgment. There is a risk that the revolving bank loans and term loan become due on May 30, 2019 or that the quarterly covenants will not be met, and the Company does not have arranged financing to repay the revolving bank loans and term loan were those events to occur.

Goodwill and intangible assets with indefinite useful lives: Goodwill is tested for impairment annually (on October 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets. The Company defines its CGUs based on the way it internally monitors and derives economic benefits from the acquired goodwill.

Intangible assets with indefinite useful lives are those for which there is no foreseeable limit to their useful economic life as they arise from contractual or other legal rights that can be renewed without significant cost and are the subject of continuous marketing support. Trademarks acquired as part of business acquisitions

and registered trademarks are considered to have an indefinite useful life. Trademarks with indefinite useful lives are tested for impairment at the CGU level annually (on October 31) and when circumstances indicate that the carrying value may be impaired.

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount which requires the use of judgment. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. In determining fair value less costs of disposal, an appropriate valuation model is used. Differences in estimates could affect whether goodwill or intangible assets with indefinite useful lives are in fact impaired and the dollar amount of that impairment. Dorel assesses the uncertainty of these estimates by making sensitivity analysis.

Written put and call options and forward purchase agreements: Judgment is used to determine whether there are written put and call options or forward purchase agreements in place in certain newly incorporated subsidiaries or business acquisitions when there is a non-controlling shareholder. Management's judgment impacts whether the call option is accounted for separately or not from the put option or combined as one instrument and whether the remeasurement of the instrument is accounted for as other equity or as finance expenses.

Product liability: The Company insures itself to mitigate its product liability exposure. The estimated product liability exposure requires the use of judgment and is discounted and 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 products sold prior to the reporting date. 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. The Company reviews periodically its recorded product liability provisions and any adjustment is recorded in general and administrative expenses.

Income taxes: The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes relate to the expected future tax consequences of differences between the carrying amount of assets and liabilities for financial reporting purposes in the consolidated statement of financial position and their corresponding tax values using the enacted or substantively enacted income tax rate, which are expected to be in effect for the year in which the differences are expected to reverse.

A deferred tax asset is recorded when it is probable that it will be realized in the future. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing on the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Revenue recognition – sales returns and other customer programs: At contract inception, the Company estimates customer programs and incentive offerings that give rise to variable consideration by using either the expected value or the most likely amount, depending on which method the Company expects to better

predict the amount of consideration to which it will be entitled. The estimates are based on various assumptions including agreements with comparable customers, past experience with customers and/or products, and other relevant factors. The amount of revenue recognized is adjusted for expected returns, which are estimated by management based on the historical data for the related types of goods sold. Actual results can differ from management's estimates.

Impairment loss allowance for trade accounts receivable: The Company recognizes an impairment loss allowance for expected credit losses on trade accounts receivable, using a probability-weighted estimate of credit losses. In its assessment, management estimates the expected credit losses based on actual credit loss experience and informed credit assessment, taking into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

Inventory valuation: The Company regularly reviews inventory quantities on hand and records a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, damaged, if they have become obsolete, or if their selling prices or estimated forecast of product demand declines. If actual market conditions are less favourable than previously projected, or if liquidation of the inventory no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions may be required.

6. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Company has adopted IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments*, as at December 31, 2017. The Company has also adopted amendments to IFRS 2, *Classification and Measurement of Share-Based Payment Transactions* and IFRIC 23, *Uncertainty over Income Tax Treatments*, on December 31, 2017.

Further information can be found in Note 3 of the Consolidated Financial Statements.

7. FUTURE ACCOUNTING CHANGES

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board ("IASB") or the IFRS Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the year ended December 30, 2018 and have not been applied in preparing the Consolidated Financial Statements. The following standards and amendments to standards have been issued by the IASB with effective dates in the future that have been determined by management to impact the Consolidated Financial Statements:

IFRS 16 – Leases
Annual Improvements to IFRS Standards 2015-2017 Cycle
Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The most significant impact identified will be the adoption of IFRS 16 as this standard will affect primarily the accounting for Dorel's operating leases. Dorel is currently finalizing its assessment of the impact of the adoption of this standard on its Consolidated Financial Statements. Based on the assessments undertaken to date, Dorel estimates that it will recognize additional lease liability of approximately \$195.0 million and related right-of-use assets of \$165.0 million as at December 31, 2018. In addition, Dorel's land use rights will be reclassified as right-of-use assets upon adoption of IFRS 16. Dorel is continuing its review of the related tax impact upon adoption of IFRS 16. The actual impact of adopting IFRS 16 may change once Dorel completes its detailed analysis.

Further information on these modifications can be found in Note 5 of the Consolidated Financial Statements.

8. MARKET RISKS AND UNCERTAINTIES

General Economic Conditions

In its more than 50 years history, the Company has experienced several economic downturns and its products have proven to be ones that consumers continue to purchase in varying economic conditions. In 2018, in most of its markets, the retail environment could be characterized as challenging. The dominant share of the market represented by Dorel's retail partners, together with changes in consumer shopping patterns, has contributed to dominant retailers and Internet companies that have strong negotiating power with suppliers. Other trends are for retailers and Internet companies to import products directly from foreign sources and to source and sell products under their own private label brands,

typically at lower prices, that compete with Dorel's products. As a result, the majority of the Company's retail chains and Internet retailers continued to emphasize price competitiveness as their primary focus. To provide these retail partners with value over and above competitive pricing, Dorel continued to invest in new product development and various brand support initiatives. The combination of these market influences has created an intensely competitive environment resulting in downward pricing pressures, the need for powerful brands and the on-going introduction of innovative new products.

In Dorel Home, Dorel concentrates exclusively on value priced items and sells the majority of its products through the mass merchant and Internet sales distribution channels. During difficult economic times, when shopping for furniture, consumers are likely to spend less and tend to avoid furniture store outlets and shop at the mass merchants for reasonably priced items.

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

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

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

Product Costs and Supply

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

Raw material cost fluctuations were highlighted by resin price increases in both the U.S. and Europe in 2018 while particle board prices remained stable in North America. Crude oil pricing remains volatile for 2019 and U.S. resin prices are expected to decrease in 2019. Particle board prices are expected to remain stable in 2019.

The Company's suppliers of components and finished goods experienced higher input material costs in 2018. The Chinese currency ("RMB") depreciated approximately 5% in 2018. Labour costs in China continue to increase at a rate of approximately 5% per year.

Container freight costs are expected to remain volatile in 2019 due to on-going industry consolidation and implications surrounding global trade. Current expectations are for container prices to increase in the single digits in 2019. International air costs are expected to decline as capacity continues to exceed supply and domestic trucking rates are expected to remain stable.

The Company's level of profitability is impacted by its ability to manage these various input costs and adjust pricing to its customers as required. In addition, Dorel relies on its suppliers to provide quality products on a timely basis and has always prided itself on establishing successful long-term relationships both domestically and overseas. The Company remains committed to actively working with its supplier base to ensure that the flow of product is not interrupted. Should

input costs increase dramatically or should major existing vendors be unable to supply Dorel, it could have an adverse effect on the Company going forward.

Foreign Currency Fluctuations

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

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

Throughout 2018, the weakening of the Euro, Pound Sterling and Brazilian Real against the US dollar had a transactional and translational net negative impact on Dorel Juvenile's and Dorel Sports' operating profit.

The Company uses swaps, options, futures and forward contracts to hedge against these adverse fluctuations in foreign currency rates. Further details on the Company's hedging strategy and the impact in the year can be found in Note 19 to the Consolidated Financial Statements. Significant changes in the value of the US dollar can greatly affect the Company's future earnings.

Concentration of Revenue

For the year ended December 30, 2018, one customer accounted for more than 10% of the Company's total revenue, at 28.9% of Dorel's total revenue. In 2017, this customer accounted for 27.2% of total revenue. As at December 30, 2018, this customer accounted for 21.6% of the Company's total trade accounts receivable balance while in 2017, it accounted for 16.1%. Dorel does not have long-term contracts with its customers, and as such revenues are dependent upon Dorel's continued ability to deliver attractive products at a reasonable price, combined with high levels of service. There can be no assurance that Dorel will be able to sell to such customers on an economically advantageous basis in the future or that such customers will continue to buy from Dorel.

Customer and Credit Risk

The majority of the Company's revenue is derived from sales to major retail chains and Internet retailers. The remainder of Dorel's sales are made mostly to specialty juvenile stores and IBDs. To minimize credit risk, the Company conducts on-going credit reviews and maintains credit insurance on selected accounts. Should certain of these major retailers have financial difficulty and/or cease operations, there could be a material short-term adverse effect on the Company's consolidated results of operations. As an example, Toys"R"Us' financial difficulty that resulted in its bankruptcy and subsequent liquidation of its inventories in 2018 had a negative impact on the Company's financial results of 2018 and 2017. In the long term, the Company believes that should certain retailers cease to exist, consumers will shop at competitors where Dorel's products are generally also sold. However, in the event that some of the other Company's major customers face financial difficulties and/or cease operations, this could adversely affect the Company's future earnings.

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

Product Liability

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

Income Taxes

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

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

Product and Brand Development

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

Regulatory Environment

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

Liquidity and Access to Capital Resources

Dorel requires continued access to capital markets to support its activities. Part of the Company's long-term strategy is to grow through the acquisition of complementary businesses that it believes will enhance the value of the Company for its shareholders. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow from operations. While management believes that future cash flows from operations and availability under existing/renewed banking arrangements will be adequate to support the Company's financial liabilities, achievement of future results from operations and therefore meeting bank covenants determining the timing of repayments of its revolving bank loans and term loan is outside the Company's control. In the event the Company's convertible debentures are not repaid or refinanced by May 30, 2019, the revolving bank loans and term loan will become due in full on May 30, 2019. In addition, if the quarterly covenants will not be met, the revolving bank loans and term loan will become due in full at the date of non-compliance. On March 14, 2019, Dorel announced that it will adjust its dividend from the current annual \$1.20 a share to \$0.60 for the upcoming year. While Dorel does not have arranged financing to repay the revolving bank loans and term loan on May 30, 2019 or if covenants are not met, Dorel has various alternatives available should these scenarios arise, such as further adjusting its current dividend policy to meet quarterly covenants or converting the convertible debentures into shares to avoid the revolving bank loans and term loan becoming due in full on May 30, 2019. Accordingly, the Company does not expect a liquidity problem in the foreseeable future, however no assurance can be provided.

On redemption or maturity of its \$120.0 million convertible debentures, Dorel may, at its option and subject to regulatory approval, elect to satisfy its obligation to pay all or a portion of the principal amount of its convertible debentures by

issuing a number of Class “B” Subordinate Voting Shares determined by dividing the principal amount by 95% of the current market price of the shares on the redemption date. Converting the convertible debentures at the current market price of the shares could cause existing shareholders to suffer significant dilution. The Company could have to exercise this option if it is unable to refinance its \$120.0 million convertible debentures by May 30, 2019, to avoid the revolving bank loans and term loan becoming due in full on May 30, 2019.

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

Reliance on information technology systems

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

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

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

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

Valuation of Goodwill and Other Intangible Assets

As part of its annual impairment tests, the value of goodwill and other indefinite useful life intangible assets are subject to significant assumptions, such as future expected cash flows and assumed discount and weighted average cost of capital rates. In addition, the value of customer relationships recognized includes significant assumptions in reference to customer attrition rates and useful lives. Should current market conditions adversely affect the Company’s expectations of future results, this could result in additional non-cash impairment being recognized at some point in the future. Additionally, in the current market environment, some of the other assumptions could be impacted by factors beyond the Company’s control including interest rates, cost of capital, tax rates, credit ratings, foreign exchange rates, inflation and industry growth. More conservative risk assumptions could also materially affect these valuations and could require a downward adjustment in the value of these intangible assets in the future.

The Company performs its impairment tests of goodwill and intangible assets with indefinite useful lives (trademarks) during the fourth quarter or more frequently if an impairment indicator is triggered. After taking into consideration the impairment losses on goodwill and intangible assets recorded in the second quarter of 2018 and the fourth quarter of 2017, and the recent sustained decline in Dorel’s stock price during 2018, which were explained in section 3 “Operating Results” of this MD&A, the Company completed a reconciliation of the sum of the estimated fair values of its CGUs to its market capitalization. The Company’s market capitalization was determined by multiplying the number of Class “A” Multiple Voting Shares and Class “B” Subordinate Voting Shares outstanding as at October 31, 2018 by the market price of the Company’s total shares as at October 31, 2018. The accounting principles regarding goodwill acknowledge that the observed market prices of individual trades of a company’s stock (and thus its computed market capitalization) may

not be representative of the fair value of the company as a whole. The Company believes that market capitalization alone does not capture the fair value of the business as a whole, or the substantial value that an acquirer would obtain from its ability to obtain control of the business. The amount of the control premium in excess of the Company's market capitalization requires significant judgment and the Company has observed recent market transactions as a guide to establish a range of reasonably possible control premiums to estimate the Company's fair value. The Company also considers the following qualitative items that cannot be accurately quantified and are based upon the beliefs of management, but provide additional support for the explanation of the remaining difference between the estimated fair value of the Company's CGUs and its market capitalization:

- The Company's stock has relatively low trading volume; and
- Previously unseen pressures are in place given the global financial and economic crises.

As described above, the Company's share price and control premium are significant factors in assessing the Company's fair value for purposes of the goodwill impairment assessment. The Company's share price can be affected by, among other things, changes in industry or market conditions, including the effect of competition, changes in the Company's results of operations, and changes in its forecasts or market expectations relating to future results. In 2018, the Company's closing share price has fluctuated significantly between a high of CA\$33.00 and a low of CA\$15.34. As a result of the recent sustained decline in Dorel's stock price during 2018, the Company recorded significant impairment losses in the fourth quarter of 2018 driven by revision of assumptions on projected earnings and cash flow growth for the majority of the Company's CGUs as mentioned earlier. The Company will continue to monitor market trends in the business, the related expected cash flows and the calculation of market capitalization for purposes of identifying possible indicators of impairment. Should the Company's market capitalization decline further or the Company has other indicators of impairment, the Company would be required to perform an impairment test. Additionally, the Company would then be required to review its remaining non-financial assets for impairment. The carrying amounts of most of the Company's CGUs approximate their recoverable amount since an impairment loss was recorded as a result of the impairment tests performed during the fourth quarter of 2018. Therefore, any deterioration of key assumptions used could cause the carrying value of those CGUs to be above their recoverable amount and result in further impairment.

9. OTHER INFORMATION

The designation, number and amount of each class and series of the Company's shares outstanding as at March 13, 2019 are as follows:

- An unlimited number of preferred shares without nominal or par value, issuable in series and fully paid;
- An unlimited number of Class "A" Multiple Voting Shares without nominal or par value, convertible at any time at the option of the holder into Class "B" Subordinate Voting Shares on a one-for-one basis; and
- An unlimited number of Class "B" Subordinate Voting Shares without nominal or par value, convertible into Class "A" Multiple Voting Shares, under certain circumstances, if an offer is made to purchase the Class "A" shares.

Details of the issued and outstanding shares are as follows:

Class A		Class B		Total
Number	\$('000)	Number	\$('000)	\$('000)
4,188,475	1,767	28,250,714	201,546	203,313

Outstanding Deferred Share Units, cash-settled Restricted Share Units, cash-settled Share Appreciation Rights and cash-settled Performance Share Units are disclosed in Note 23 to the Company's Consolidated Financial Statements. There were no significant changes to these values in the period between the year-end and the date of the preparation of this MD&A.

10. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures (“DC&P”)

National Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings”, issued by the Canadian Securities Administrators requires that the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) certify that they are responsible for establishing and maintaining DC&P for the Company, that DC&P have been designed and are effective in providing reasonable assurance that material information relating to the Company is made known to them, that they have evaluated the effectiveness of the Company’s DC&P, and that their conclusions about the effectiveness of those DC&P at the end of the period covered by the relevant annual filings have been disclosed by the Company.

Under the supervision of and with the participation of management, including the President and Chief Executive Officer and Executive Vice-president, Chief Financial Officer and Secretary, management has evaluated the design and operating effectiveness of the Company’s DC&P as at December 30, 2018 and have concluded that those DC&P were appropriately designed and operating effectively in ensuring that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

Internal controls over financial reporting (“ICFR”)

National Instrument 52-109 also requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for the Company, that the design and operation of the internal controls are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards, and that the Company has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its ICFR.

During 2018, management evaluated the Company’s ICFR to ensure that their design and operation are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards. Management has used the Internal Control – Integrated Framework (2013) to evaluate the effectiveness of ICFR, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Under the supervision of and with the participation of management, including the President and Chief Executive Officer and Executive Vice-president, Chief Financial Officer and Secretary, management has evaluated the ICFR as at December 30, 2018 and have concluded that those internal controls were appropriately designed and were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards.

Changes in DC&P and ICFR

The Company has selected a global lease accounting software to gather its lease information and to quantify the required components of IFRS 16. The Company is finalizing the process of implementing this lease accounting software throughout its locations, and developing new reports to capture information required for presentation and disclosure under IFRS 16. Accordingly, internal controls processes and procedures are currently being put in place and updated in order to ensure proper ICFR, and DC&P are being updated to capture information required for presentation and disclosure under IFRS 16.

Limitation on scope of design

The Company has limited the scope of its DC&P and ICFR to exclude controls, policies and procedures of a business acquired not more than 365 days before the last day of the period covered by the annual filing. The Company elected to exclude the Alphason business acquired as allowed by National Instrument 52-109 and in accordance with practices accepted by the Autorités des Marchés Financiers.

The table below presents the summary financial information included in the Company's Consolidated Financial Statements for the excluded acquired business:

Alphason	
Selected financial information from the income statement	
	October 1 - December 30, 2018
	\$
Total revenue	1,813
Operating loss ⁽¹⁾	(478)

⁽¹⁾ Includes the acquisition-related costs incurred since the beginning of the year.

Alphason	
Selected financial information from the statement of financial position	
	As at December 30, 2018
	\$
Total current assets	3,556
Total non-current assets	2,101
Total current liabilities	1,183
Total non-current liabilities	2,109

11. LOCAL STATUTORY DISCLOSURE REQUIREMENTS

Brazilian regulatory legislation requires that Caloi publish statutory financial statements in its local market due to the tax benefit received by the division. As such, the following summary financial information of Caloi is provided in the table below:

Caloi Norte S.A.	
Selected financial information from the income statement	
	Year ended December 30, 2018
	\$
Total revenue	84,281
Operating loss ⁽¹⁾	(29,903)

Caloi Norte S.A.	
Selected financial information from the statement of financial position	
	As at December 30, 2018
	\$
Total current assets	55,438
Total non-current assets	18,540
Total current liabilities	46,871
Total non-current liabilities	907

⁽¹⁾ Includes impairment loss on intangible assets of \$33,333

12. CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Forward-looking statements made in this MD&A are based on a number of assumptions that the Company believed were reasonable on the day it made the forward-looking statements. Factors that could cause actual results to differ materially from the Company’s expectations expressed in or implied by the forward-looking statements include: general economic conditions; changes in product costs and supply channels; foreign currency fluctuations; customer and credit risk, including the risk resulting from the liquidation and reorganization of Toys“R”Us referred to in this MD&A and the concentration of revenues with a small number of customers; costs associated with product liability; changes in income tax legislation or the interpretation or application of those rules; the continued ability to develop products and support brand names; changes in the regulatory environment; continued access to capital resources, including compliance with covenants, and the related costs of borrowing; debt refinancing; failure related to information technology systems; changes in assumptions in the valuation of goodwill and other intangible assets and future decline in market capitalization; and there being no certainty that the Company’s dividend current policy will be maintained. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking statements are discussed in the Company’s annual MD&A and Annual Information Form filed with the applicable Canadian securities regulatory authorities. The risk factors outlined in the previously-mentioned documents are specifically incorporated herein by reference.

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

DOREL INDUSTRIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 30, 2018 AND 2017



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Dorel Industries Inc.

Opinion

We have audited the consolidated financial statements of Dorel Industries Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 30, 2018 and December 30, 2017
- the consolidated income statements for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 30, 2018 and December 30, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



The engagement partner on the audit resulting in this auditors' report is Dominique Hamel.

Montréal, Canada

March 14, 2019

*CPA auditor, CA, public accountancy permit No. A119178

DOREL INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 30, 2018 and 2017
(All figures in thousands of US dollars)

	As at December 30, 2018	As at December 30, 2017 (1)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 29)	\$ 39,272	\$ 36,841
Trade and other receivables (Note 19)	410,773	425,736
Inventories (Note 9)	635,153	592,136
Other financial assets	139	553
Income taxes receivable	14,284	12,035
Prepaid expenses	24,734	26,593
Other assets (Note 13)	13,770	13,747
	<u>1,138,125</u>	<u>1,107,641</u>
Assets held for sale (Note 7)	<u>8,464</u>	<u>8,481</u>
	<u>1,146,589</u>	<u>1,116,122</u>
NON-CURRENT ASSETS		
Property, plant and equipment (Note 10)	185,794	199,026
Intangible assets (Notes 11 and 12)	259,580	442,626
Goodwill (Notes 12 and 31)	76,416	438,072
Deferred tax assets (Note 27)	57,674	26,159
Other financial assets	506	550
Other assets (Note 13)	6,947	7,152
	<u>586,917</u>	<u>1,113,585</u>
	<u>\$ 1,733,506</u>	<u>\$ 2,229,707</u>

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

See accompanying notes.

DOREL INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 30, 2018 and 2017
(All figures in thousands of US dollars)

	As at December 30, 2018	As at December 30, 2017 (1)
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 14)	\$ 50,098	\$ 58,229
Trade and other payables (Note 15)	533,608	440,410
Other financial liabilities	113	4,546
Income taxes payable	10,370	14,338
Long-term debt (Note 17)	432,950	13,667
Provisions (Note 18)	40,124	43,475
Other liabilities (Note 13)	11,916	11,150
	<u>1,079,179</u>	<u>585,815</u>
NON-CURRENT LIABILITIES		
Long-term debt (Note 17)	4,119	433,760
Net pension and post-retirement defined benefit liabilities (Note 21)	29,515	35,237
Deferred tax liabilities (Note 27)	13,860	43,832
Provisions (Note 18)	2,950	2,953
Written put option liabilities (Note 16)	12,002	23,464
Other financial liabilities	2,137	1,338
Other liabilities (Note 13)	8,641	11,157
	<u>73,224</u>	<u>551,741</u>
EQUITY		
Share capital (Note 22)	203,313	203,300
Contributed surplus	28,555	27,557
Accumulated other comprehensive loss	(105,819)	(70,205)
Other equity	17,350	5,888
Retained earnings	437,704	925,611
	<u>581,103</u>	<u>1,092,151</u>
	<u>\$ 1,733,506</u>	<u>\$ 2,229,707</u>
EVENT AFTER THE REPORTING DATE (Note 17)		
LIQUIDITY RISK (Note 19)		
COMMITMENTS AND GUARANTEES (Note 25)		
CONTINGENCIES (Note 26)		

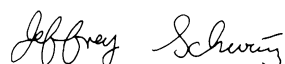
(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

See accompanying notes.

ON BEHALF OF THE BOARD



DIRECTOR



DIRECTOR

DOREL INDUSTRIES INC.
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017
(All figures in thousands of US dollars, except per share amounts)

	2018	2017 (1)
Sales	\$ 2,618,082	\$ 2,576,004
Licensing and commission income	<u>1,431</u>	<u>1,664</u>
TOTAL REVENUE (Note 31)	2,619,513	2,577,668
Cost of sales (Notes 6, 9 and 21)	<u>2,054,721</u>	<u>1,965,917</u>
GROSS PROFIT	564,792	611,751
Selling expenses	233,772	233,106
General and administrative expenses	200,041	220,773
Research and development expenses	37,819	31,065
Impairment loss on trade and other receivables (Note 19)	16,425	7,622
Restructuring and other costs (Note 6)	16,609	11,814
Impairment losses on goodwill, intangible assets and property, plant and equipment (Notes 10, 11 and 12)	<u>525,639</u>	<u>19,929</u>
OPERATING PROFIT (LOSS)	(465,513)	87,442
Finance expenses (Note 30)	<u>32,650</u>	<u>43,248</u>
INCOME (LOSS) BEFORE INCOME TAXES	(498,163)	44,194
Income taxes (Note 27)		
Current	11,037	14,918
Deferred	<u>(64,857)</u>	<u>1,835</u>
	<u>(53,820)</u>	<u>16,753</u>
NET INCOME (LOSS)	\$ (444,343)	\$ 27,441
EARNINGS (LOSS) PER SHARE (Note 28)		
Basic	<u>\$ (13.70)</u>	<u>\$ 0.85</u>
Diluted	<u>\$ (13.70)</u>	<u>\$ 0.84</u>

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation. See Note 3.

See accompanying notes.

DOREL INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017
(All figures in thousands of US dollars)

	2018	2017 (1)
NET INCOME (LOSS)	\$ (444,343)	\$ 27,441
OTHER COMPREHENSIVE INCOME (LOSS):		
Items that are or may be reclassified subsequently to net income:		
<u>Cumulative translation account:</u>		
Net change in unrealized foreign currency gains (losses) on translation of net investments in foreign operations, net of tax of nil	(38,979)	40,342
Net gains (losses) on hedge of net investments in foreign operations, net of tax of nil (Note 19)	(4,436)	12,809
	<u>(43,415)</u>	<u>53,151</u>
<u>Net changes in cash flow hedges:</u>		
Net change in unrealized gains (losses) on derivatives designated as cash flow hedges	2,553	(9,363)
Reclassification to net income	79	267
Reclassification to the related non-financial asset	1,703	1,053
Deferred income taxes (Note 27)	(1,124)	1,949
	<u>3,211</u>	<u>(6,094)</u>
Items that will not be reclassified to net income:		
<u>Defined benefit plans:</u>		
Remeasurements of the net pension and post-retirement defined benefit liabilities (Note 21)	6,141	(43)
Deferred income taxes (Note 27)	(1,551)	(3,379)
	<u>4,590</u>	<u>(3,422)</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(35,614)	43,635
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ <u>(479,957)</u>	\$ <u>71,076</u>

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

See accompanying notes.

DOREL INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017
(All figures in thousands of US dollars)

	Attributable to equity holders of the Company							
	Share Capital	Contributed Surplus	Accumulated other comprehensive income (loss)			Other Equity	Retained Earnings	Total Equity
			Cumulative Translation Account	Cash Flow Hedges	Defined Benefit Plans			
Balance as at December 30, 2016 (1)	\$ 202,400	\$ 27,139	\$ (102,629)	\$ 2,852	\$ (14,063)	\$ 3,027	\$ 937,373	\$ 1,056,099
<i>Total comprehensive income:</i>								
Net income	-	-	-	-	-	-	27,441	27,441
Other comprehensive income (loss)	-	-	53,151	(6,094)	(3,422)	-	-	43,635
	-	-	53,151	(6,094)	(3,422)	-	27,441	71,076
Reclassification from contributed surplus due to settlement of deferred share units (Notes 22 and 23)	900	(1,074)	-	-	-	-	-	(174)
Share-based payments (Note 23)	-	1,184	-	-	-	-	-	1,184
Remeasurement of written put option liabilities (Note 16)	-	-	-	-	-	2,861	-	2,861
Dividends on common shares (Note 22)	-	-	-	-	-	-	(38,895)	(38,895)
Dividends on deferred share units (Note 23)	-	308	-	-	-	-	(308)	-
Balance as at December 30, 2017 (1)	\$ 203,300	\$ 27,557	\$ (49,478)	\$ (3,242)	\$ (17,485)	\$ 5,888	\$ 925,611	\$ 1,092,151
Adjustment on initial application of IFRS 15 (net of tax) (Note 3)	-	-	-	-	-	-	(497)	(497)
Adjustment on initial application of IFRS 9 (net of tax) (Note 3)	-	-	-	-	-	-	(3,758)	(3,758)
Adjusted balance as at December 31, 2017	\$ 203,300	\$ 27,557	\$ (49,478)	\$ (3,242)	\$ (17,485)	\$ 5,888	\$ 921,356	\$ 1,087,896
<i>Total comprehensive loss:</i>								
Net loss	-	-	-	-	-	-	(444,343)	(444,343)
Other comprehensive income (loss)	-	-	(43,415)	3,211	4,590	-	-	(35,614)
	-	-	(43,415)	3,211	4,590	-	(444,343)	(479,957)
Reclassification from contributed surplus due to settlement of deferred share units (Notes 22 and 23)	13	(20)	-	-	-	-	-	(7)
Share-based payments (Note 23)	-	635	-	-	-	-	-	635
Remeasurement of written put option liabilities (Note 16)	-	-	-	-	-	11,462	-	11,462
Dividends on common shares (Note 22)	-	-	-	-	-	-	(38,926)	(38,926)
Dividends on deferred share units (Note 23)	-	383	-	-	-	-	(383)	-
Balance as at December 30, 2018	\$ 203,313	\$ 28,555	\$ (92,893)	\$ (31)	\$ (12,895)	\$ 17,350	\$ 437,704	\$ 581,103

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

See accompanying notes.

DOREL INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017
(All figures in thousands of US dollars)

	2018	2017 (1)
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss)	\$ (444,343)	\$ 27,441
Items not involving cash:		
Depreciation and amortization (Notes 10 and 11)	50,406	50,145
Impairment losses on goodwill, intangible assets and property, plant and equipment (Notes 10, 11 and 12)	525,639	19,929
Unrealized losses (gains) arising on financial assets and financial liabilities classified as mandatorily at fair value through profit or loss	350	(394)
Share-based payments (Note 23)	158	348
Defined benefit pension and post-retirement costs (Note 21)	4,200	4,354
Loss (gain) on disposal of property, plant and equipment and intangible assets	(93)	628
Restructuring and other costs (Note 6)	9,682	1,249
Finance expenses (Note 30)	32,650	43,248
Income taxes expense (recovery) (Note 27)	(53,820)	16,753
Net changes in balances related to operations (Note 29)	31,856	(65,085)
Income taxes paid	(23,238)	(19,594)
Income taxes received	6,668	9,238
Interest paid	(30,291)	(31,327)
Interest received	450	461
CASH PROVIDED BY OPERATING ACTIVITIES	110,274	57,394
FINANCING ACTIVITIES		
Bank indebtedness	(2,041)	6,927
Increase of long-term debt	18,739	217,360
Repayments of long-term debt	(29,821)	(187,189)
Repayments of forward purchase agreement liabilities	-	(7,857)
Financing costs	(213)	(2,773)
Dividends on common shares (Note 22)	(38,926)	(38,895)
CASH USED IN FINANCING ACTIVITIES	(52,262)	(12,427)
INVESTING ACTIVITIES		
Acquisition of a business (Note 29)	(2,953)	-
Additions to property, plant and equipment (Notes 10 and 29)	(33,578)	(36,464)
Disposals of property, plant and equipment	3,354	390
Net proceeds from disposals of assets held for sale (Note 7)	-	15,027
Additions to intangible assets (Notes 11 and 29)	(20,969)	(21,054)
CASH USED IN INVESTING ACTIVITIES	(54,146)	(42,101)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,435)	2,092
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,431	4,958
Cash and cash equivalents, beginning of year	36,841	31,883
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 29)	\$ 39,272	\$ 36,841

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

See accompanying notes.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017 (All figures in thousands of US dollars)

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 Dorel Home, Dorel Juvenile and Dorel Sports segments. The principal markets for the Company’s products are the United States, Europe, Latin America, Canada and Asia. The principal activities of the Company are described in Note 31. The Company is incorporated and domiciled in Canada whose shares are traded on the Toronto Stock Exchange (“TSX”). The registered office is in Westmount, Québec.

NOTE 2 – STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION AND MEASUREMENT

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the International Accounting Standards Board (“IASB”), using the US dollar as the reporting currency. The US dollar is the functional currency of the Canadian parent company. All financial information is presented in US dollars and has been rounded to the nearest thousand, unless otherwise indicated.

The consolidated financial statements have been prepared on a historical basis except for:

- derivative financial instruments which are measured at fair value;
- written put option and forward purchase agreement liabilities which are measured at fair value;
- share-based compensation arrangements which are measured in accordance with IFRS 2, *Share-Based Payment*;
- assets held for sale which are measured at the lower of their carrying amount or fair value less costs to sell;
- identifiable assets acquired and liabilities assumed in connection with a business combination which are measured at fair value at acquisition date;
- net pension and post-retirement defined benefit liabilities which are measured as the net total of plan assets measured at fair value less the discounted present value of the defined benefit obligations; and
- product liability which is measured at its discounted present value.

These consolidated financial statements were authorized by the Company’s Board of Directors for issue on March 14, 2019.

NOTE 3 – CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

a) IFRS 15 – Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18, *Revenue*, IAS 11, *Constructions Contracts*, and related interpretations.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application, i.e. December 31, 2017. Accordingly, the cumulative effect of initially applying IFRS 15 has been recognized as an adjustment to the opening balance of retained earnings as at December 31, 2017 and the information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017
(All figures in thousands of US dollars)

NOTE 3 – CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

a) *IFRS 15 – Revenue from Contracts with Customers (continued)*

The impact of these changes are to recognize a decrease in sales for expected returned goods (with a corresponding refund liability) and a related decrease of cost of sales (with a corresponding right to recover returned goods, within “Inventories”). Under previous standards, a provision for warranty was recorded for the expected cost of returned goods (refer to notes 9, 15 and 18).

The following table summarizes the impact, net of tax, of transition to IFRS 15 on opening balance of retained earnings as at December 31, 2017.

Increase (decrease)	Impact of adopting IFRS 15 as at December 31, 2017
Sales with a right of return	\$ (596)
Related tax	99
Impact as at December 31, 2017	<u>\$ (497)</u>

There was no material impact on the Company’s consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income (loss) and consolidated statement of cash flows for the year ended December 30, 2018.

b) *IFRS 9 – Financial Instruments*

IFRS 9, *Financial Instruments*, sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 does not require restatement of comparative periods and was adopted as at December 31, 2017.

As a result of the adoption of IFRS 9, the Company adopted consequential amendments to IAS 1, *Presentation of Financial Statements*, which requires impairment of financial assets to be presented in a separate line item in the Company’s consolidated income statements. As a result, the Company reclassified impairment losses amounting to \$7,622, recognized under IAS 39, from general and administrative expenses to impairment loss on trade and other receivables in the consolidated income statement for the year ended December 30, 2017. The Company also adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures*, which are applied to disclosures for 2018, but generally have not been applied to comparative information.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules and classifications in IAS 39. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017
(All figures in thousands of US dollars)

NOTE 3 – CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

b) *IFRS 9 – Financial Instruments (continued)*

i. Classification and measurement of financial assets and financial liabilities (continued)

The following table summarizes the classification and measurement changes for the Company’s financial assets and liabilities as a result of the adoption of IFRS 9, except for derivative financial instruments. Classification assessments have been made on the basis of the facts and circumstances that existed at the date of initial application. The classification and measurement rules of IFRS 9 did not result in any measurement adjustments to our financial assets and liabilities.

	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Other financial assets	Loans and receivables	Amortized cost
Financial liabilities		
Bank indebtedness	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Other financial liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

ii. Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (“ECL”) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments not held at fair value through profit and loss. Under IFRS 9, credit losses are recognized earlier than under IAS 39, impairment losses are generally expected to increase and become more volatile.

The ECLs were calculated based on actual credit loss experience and informed credit assessment, including forward-looking information.

The following tables summarizes the impact, net of tax, of transition to IFRS 9 on opening balance of retained earnings and the impact on the impairment loss allowance as at December 31, 2017.

Increase (decrease)	Impact of adopting IFRS 9’s impairment model as at December 31, 2017
Recognition of expected credit losses under IFRS 9	\$ (3,933)
Related tax	<u>175</u>
Impact on retained earnings as at December 31, 2017	<u>\$ (3,758)</u>

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NOTE 3 – CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

b) *IFRS 9 – Financial Instruments (continued)*

ii. Impairment of financial assets (continued)

	Impact of adopting IFRS 9's impairment model as at December 31, 2017
Impairment loss allowance as at December 30, 2017 under IAS 39	\$ 18,115
Additional impairment loss recognized as at December 31, 2017 on:	
Trade accounts receivable	1,582
Other receivables	2,351
Impairment loss allowance as at December 31, 2017 under IFRS 9	\$ 22,048

The following table provides information about the exposure to credit risk and ECLs for trade accounts receivable as at December 31, 2017:

	Weighted- average loss rate	Trade accounts receivable - gross	Impairment loss allowance	Trade accounts receivable - net
Current (not past due)	2.0%	\$ 343,225	\$ (6,775)	\$ 336,450
Past due 0-30 days	1.2%	42,852	(502)	42,350
Past due 31-60 days	1.7%	12,738	(218)	12,520
Past due 61-90 days	8.5%	5,328	(451)	4,877
Past due over 90 days	38.3%	30,650	(11,751)	18,899
		\$ 434,793	\$ (19,697)	\$ 415,096

iii. Hedge accounting

The Company has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The adoption of IFRS 9 did not result in any changes in the eligibility for hedge accounting and the accounting for the derivative financial instruments designated as effective hedging instruments at the transition date. Overall, the adoption of IFRS 9 did not have a material impact on the Company's hedge accounting.

We have reviewed our significant accounting policies as described in Note 4, for classification and measurement, including impairment loss allowance of financial instruments, derivative financial instruments and hedging relationships to align them with IFRS 9.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017 (All figures in thousands of US dollars)

NOTE 3 – CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

c) *Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions*

On June 20, 2016, the IASB issued amendments to IFRS 2, *Share-Based Payment*, clarifying how to account for certain types of share-based payment transactions.

The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company adopted the amendments to IFRS 2 for the annual period beginning on December 31, 2017. The adoption of these amendments did not have an impact on the Company's consolidated financial statements.

d) *IFRIC 23 – Uncertainty over Income Tax Treatments*

On June 7, 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments* (the "Interpretation"). The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Interpretation requires an entity to:

- Contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- Reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- Measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

The Company adopted the Interpretation for the annual period beginning on December 31, 2017. The adoption of this Interpretation did not have an impact on the Company's consolidated financial statements.

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES

Except for the change in significant accounting policies described above in Note 3, the accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements of all years presented and have been applied consistently by the Company's entities. Certain comparative amounts in the consolidated financial statements have been reclassified in order to conform to the 2018 financial statement presentation.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017 (All figures in thousands of US dollars)

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 30, 2018. The Company consolidates a 100% interest in all its material subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Company is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), exposure, or rights to, variable returns from its involvement with the investee and the ability to use its power over the investee to affect its returns. The financial statements of subsidiaries are prepared with the same reporting period of the Company. The accounting policies of subsidiaries have been changed when necessary to align them with the policies of the Company. All significant inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated in preparing the consolidated financial statements.

b) Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenue and expenses, and disclosure of contingent assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary and in any future periods affected. Actual results could differ from those estimates and such differences could be material. The most critical judgments and significant estimates and assumptions in applying the accounting policies are described below:

- *Basis of preparation of the consolidated financial statements:*

At each reporting period, management assesses the basis of preparation of the consolidated financial statements. These consolidated financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Refer to Liquidity Risk section of Note 19, which explains that assessing the Company's liquidity including expected future compliance with covenants requires judgment. There is a risk that the revolving bank loans and term loan become due on May 30, 2019 or that the quarterly covenants will not be met, and the Company does not have arranged financing to repay the revolving bank loans and term loan were those events to occur.

- *Goodwill and intangible assets with indefinite useful lives:*

Goodwill and intangible assets with indefinite useful lives are allocated to a cash generating unit (CGU) or group of CGUs and tested for impairment by comparing the carrying value of the CGU, including allocated goodwill and intangible assets, to the recoverable amount. The recoverable amount is defined as the higher of fair value less costs of disposal and value in use. Significant management estimates are required to determine both fair value and value in use. Estimates of fair value, selling costs or the discounted future cash flows related to the CGUs are required. Differences in estimates could affect whether goodwill or intangible assets with indefinite useful lives are in fact impaired and the dollar amount of that impairment.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Use of Estimates and Judgments (continued)

• *Written put and call options and forward purchase agreements:*

The Company uses judgment to determine whether there are written put and call options or forward purchase agreements in place in certain newly incorporated subsidiaries or business acquisitions when there is a non-controlling shareholder. Management's judgment impacts whether the call option is accounted for separately or not from the put option or combined as one instrument and whether the remeasurement of the instrument is accounted for as other equity or as finance expenses.

• *Provisions and contingent liabilities:*

A provision is recognized if the Company has a present legal or constructive obligation, as a result of past events, that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation for product liability, accrual of product warranties, liabilities for potential litigation claims and settlements. Management must use judgment in determining whether all of the above three conditions have been met to recognize a provision or whether a contingent liability is in existence at the reporting date.

Management formulates a reliable estimate for the obligation once the applicable criteria have been satisfied to recognize the liability. Management's estimate is based on the likelihood and timing of economic outflows, discount rates, historical experience, nature of provision, opinions of legal counsel and other advisors and if there is a claim amount. Provisions and contingencies can vary materially from management's initial estimate and affect future consolidated financial statements.

• *Income taxes:*

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

• *Revenue recognition: sales returns and other customer programs:*

At contract inception, the Company estimates customer programs and incentive offerings that give rise to variable consideration by using either the expected value or the most likely amount, depending on which method the Company expects to better predict the amount of consideration to which it will be entitled. The estimates are based on various assumptions including agreements with comparable customers, past experience with customers and/or products, and other relevant factors.

The amount of revenue recognized is adjusted for expected returns, which are estimated by management based on the historical data for the related types of goods sold. Actual results can differ from management's estimates.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Use of Estimates and Judgments (continued)

• *Impairment loss allowance for trade accounts receivable:*

The Company recognizes an impairment loss allowance for expected credit losses on trade accounts receivable, using a probability-weighted estimate of credit losses. In its assessment, management estimates the expected credit losses based on actual credit loss experience and informed credit assessment, taking into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

• *Inventory valuation:*

The Company regularly reviews inventory quantities on hand and records a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, damaged, if they have become obsolete, or if their selling prices or estimated forecast of product demand declines. If actual market conditions are less favourable than previously projected, or if liquidation of the inventory no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions may be required.

c) Revenue Recognition

Sales of Goods

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

Nature of Goods

The following is a description of the principal activities, separated by reporting segment, from which the Company generates its revenue.

- Dorel Home segment: principally generates revenue from the sale of ready-to-assemble furniture and home furnishings which include metal folding furniture, futons, children's furniture, step stools, hand trucks, ladders, outdoor furniture and other imported furniture items.
- Dorel Juvenile segment: principally generates revenue from the sale of children's accessories which include infant car seats, strollers, high chairs and infant health and safety aids.
- Dorel Sports segment: principally generates revenue from the sale of recreational and leisure products and accessories which include bicycles, jogging strollers, scooters and other recreational products.

The majority of the Company's contracts across all reporting segments are contracts with customers in which the sale of goods is the only performance obligation. The Company generally recognizes revenue at a point in time for all its reporting segments, when control over a product is transferred to a customer. This usually occurs either on shipment or delivery of the goods.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Revenue Recognition (continued)

Customer Programs and Incentive Offerings

Some contracts with customers provide customer programs and incentive offerings, including special pricing agreements, promotions, advertising allowances and other volume-based incentives. Such customer programs and incentive offerings give rise to variable consideration and are required to be estimated at contract inception by using either the expected value or the most likely amount, depending on which method the Company expects to better predict the amount of consideration to which it will be entitled. The estimates are based on various assumptions including agreements with comparable customers, past experience with customers and/or products, and other relevant factors. Revenue is recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Sales with a Right of Return

The Company grants rights of return of goods sold to certain customers. The revenue is reduced by the amount of expected returns, which are estimated based on historical data, and a related refund liability is recorded either within “Trade and other payables” if it is a financial liability (i.e. cash discounts or refunds offered) or within “Other liabilities” if it is not a financial liability (i.e. exchange of goods or store credits).

In addition, the Company recognizes a related asset for the right to recover returned goods within “Inventories”.

Licensing and Commission

When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the commission earned by the Company. The assessment is based on whether the Company controls the specific goods before transferring them to the end customer. Licensing and commission income is recognized based on the contract terms on an accrual basis.

Contract Liabilities

Contract liabilities primarily relate to the advance consideration received from customers, for which revenue is usually recognized on shipment or delivery of the goods. The contract liabilities are presented as current or non-current based on the timing of when the Company expects to recognize revenue, and are included within “Other liabilities”.

d) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid instruments with original maturities of three months or less.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017 (All figures in thousands of US dollars)

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Inventories

Inventories are measured 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;
- 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.
- transfers from other comprehensive income (loss) of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused the inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down.

f) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset, such as the purchase price or manufacturing cost, capitalized borrowing costs, as well as other costs incurred in bringing the asset to its present location and condition.

Property, plant and equipment are depreciated as follows:

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

When significant parts of a property, plant and equipment have different useful lives, they are accounted for as a separate component of the asset and depreciated over their useful lives as described above.

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of assets not yet in service, from the date they are ready for their intended use.

Assets not yet 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 statement of financial position date.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property, Plant and Equipment (continued)

Subsequent expenditures are capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. On-going repairs and maintenance are expensed as incurred.

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

g) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

h) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Internally generated intangible assets, excluding capitalized development and patent costs, are not capitalized and the expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The residual value, amortization period and amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end and adjusted prospectively, if applicable. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates which are accounted for prospectively.

Intangible assets with finite useful lives are amortized as follows:

	<u>Method</u>	<u>Useful lives</u>
Customer relationships	Straight-line	9 to 25 years
Supplier relationship	Straight-line	10 years
Patents	Straight-line	4 to 18 years
Land use rights	Straight-line	50 to 70 years
Software licenses	Straight-line	3 to 10 years
Research and development costs	Straight-line	2 to 5 years

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Intangible Assets (continued)

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which the expenditure relates. All other expenditures, including those on internally generated intangible assets are recognized in the consolidated income statement as incurred.

Trademarks

Trademarks acquired as part of business acquisitions and registered trademarks are considered to have an indefinite useful life. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, on October 31, or more frequently if an impairment indicator is identified, either individually or at the CGU level. Indefinite useful life intangible assets are those for which there is no foreseeable limit to their useful economic life as they arise from contractual or other legal rights that can be renewed without significant cost and are the subject of continuous marketing support. The assessment of indefinite useful life is reviewed each period to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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 all of the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during development.

Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project.

Following initial recognition of the deferred development costs as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Deferred development costs are expensed immediately if capitalized projects are not completed.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Business Combinations and Related Goodwill

Business Combinations and Related Goodwill

Business acquisitions are accounted for using the acquisition method as at the acquisition date, when control is transferred. The consideration transferred for the acquisition of a business is the fair value of the assets transferred, and any liability and equity interests issued by the Company on the date control of the acquired company is obtained. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally measured initially at their fair values at the acquisition date. The Company measures goodwill as the fair value for the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized immediately in the consolidated income statement as a gain from a bargain purchase. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Restructuring, transaction costs other than those associated with the issue of debt or equity securities, and other direct costs of a business combination are not considered part of the business acquisition transaction and are expensed as incurred.

Subsequent Recognition of Goodwill

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs or group of CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is not amortized but tested for impairment at least annually, on October 31, and upon occurrence of an indication of impairment.

Where goodwill forms part of a CGU and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operations when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

j) Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount which requires the use of judgment. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. The Company defines its CGUs based on the way it internally monitors and derives economic benefits from the acquired goodwill.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Impairment of Non-Financial Assets (continued)

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount immediately. Impairment losses are recognized in the consolidated income statements. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis but no lower than the individual assets' fair value.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The cash flows are derived from long-term plans generally for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The Company assesses the uncertainty of these estimates by making sensitivity analysis.

In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly-traded companies or other available fair value indicators. The Company assesses the uncertainty of these estimates by making sensitivity analysis.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. An impairment loss in respect of goodwill is not reversed in future periods.

The key assumptions used to determine the recoverable amount for the different CGUs are further explained in Note 12.

k) Assets Held for Sale

Assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell and are not depreciated while classified as held for sale. Assets held for sale are classified within this category if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets.

l) Costs Relating to Revolving Bank Loans

The Company incurred certain costs related to the revolving bank loans. 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 consolidated statement of financial position.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Foreign Currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company's subsidiaries at the average exchange rates for the period. The monetary items denominated in currencies other than the functional currency of a subsidiary are translated at the exchange rates prevailing at the statement of financial position date and translation gains and losses are included in the consolidated income statement. Non-monetary items denominated in foreign currencies other than the functional currency are translated at historical rates.

Foreign Currency Translation

The assets and liabilities of foreign operations, whose functional currency is not the US dollar, are translated into US dollars at the exchange rates in effect at the statement of financial position date. Revenue and expenses are translated at average exchange rates for the period. Differences arising from the exchange rate changes are included in other comprehensive income (loss) in the cumulative translation account.

On disposal of a foreign operation where control is lost, the cumulative amount of the exchange differences recognized in other comprehensive income (loss) relating to that particular foreign operation is recognized in the consolidated income statement as part of the gain or loss on disposal.

On the partial disposal of a subsidiary that includes a foreign operation where control is retained, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income (loss) is re-attributed to the non-controlling interest in that foreign operation.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and monetary items for which the settlement of which is planned but that have been designated as a hedge of the net investment in a foreign operation and to the extent the hedge is effective, are recognized in other comprehensive income (loss) in the cumulative translation account and reclassified from equity to the consolidated income statement on the disposal of the net investment.

n) Financial Instruments

All financial instruments, including derivatives, are recognized in the consolidated statement of financial position initially at fair value when the Company becomes a party to the contractual obligations of the instrument. Except for those incurred on the revolving bank loans, transaction costs that are directly attributable to the acquisition or issuance of financial instruments that are not subsequently recognized at fair value are added/deducted from the financial asset/liability and are amortized using the effective interest rate method over the expected life of the related asset/liability.

Offsetting of Financial Instruments

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

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial Instruments (continued)

Financial Assets

On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial asset measured at amortized cost:

A financial asset is subsequently measured at amortized cost using the effective interest method and net of any impairment loss if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets of the Company that are measured at amortized cost consist of cash and cash equivalents and trade and other receivables. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated income statement.

Financial assets measured at fair value:

Certain financial assets including debt investments and equity investments that are not held for trading are accounted for as fair value through other comprehensive income. The Company currently has no such financial instruments. All financial assets not classified as measured at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets at fair value through profit or loss are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the consolidated income statement. The Company currently has no such financial instruments.

Impairment of Financial Assets

Loss allowances for 'expected credit losses' ("ECLs") are measured on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *Lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure loss allowances for trade accounts receivable at an amount equal to lifetime ECLs.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial Instruments (continued)

Impairment of Financial Assets (continued)

The Company measures loss allowances for other receivables in accordance with the following model:

- When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, including forward-looking information.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as recovering inventory or the Company's credit insurance (if any); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

i. Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). The Company establishes an impairment loss allowance on a collective and individual assessment basis, by considering past events, current conditions and forecasts of future economic conditions. Collective assessment is carried out by grouping together trade accounts receivable with similar characteristics. ECLs are discounted at the effective interest rate of the financial asset.

ii. Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Examples of events that could occur are:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

It may not be possible to identify a single discrete event; instead, the combined effect of several events may have caused financial assets to become credit-impaired.

iii. Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables are presented separately in the consolidated income statements.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial Instruments (continued)

Impairment of Financial Assets (continued)

iv. Write-off

The gross carrying amount of a financial assets is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Derecognition of Financial Assets

Financial assets are derecognized when the Company's contractual rights to the cash flows from the respective assets have expired or the Company has transferred its rights to the cash flows from the respective assets and either (i) the Company has transferred substantially all of the risks and rewards of the assets or (ii) the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them. Any gain or loss on derecognition is recognized in the consolidated income statement.

Financial Liabilities and Equity Instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the Company classifies its financial liabilities as subsequently measured at either amortized cost or fair value.

Financial liabilities measured at amortized cost:

A financial liability is subsequently measured at amortized cost, using the effective interest method. The Company currently classifies bank indebtedness, trade and other payables, long-term debt bearing interest at variable and fixed rates and other financial liabilities as financial liabilities measured at amortized cost.

Financial liabilities measured at fair value:

Financial liabilities at fair value are initially recognized at fair value and are remeasured at each reporting date with any changes therein recognized in net income. The Company currently has no significant financial liabilities measured at fair value.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs and applicable income taxes.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial Instruments (continued)

Derecognition of Financial Liabilities

Financial liabilities are derecognized when the obligations under the liabilities are discharged, cancelled, expired or are replaced by a new liability with substantially modified terms. Any gain or loss on derecognition is recognized in the consolidated income statement.

Compound Financial Instrument

Compound financial instrument issued by the Company comprise convertible debentures that can be converted into common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The component parts of the compound instrument issued by the Company are initially classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date the convertible debentures are issued, the liability component is initially recognized at the fair value of similar debentures which do not have an equity conversion option. The initial amount of the liability component is determined by discounting the face value of the convertible debentures using a rate of interest prevailing for similar non-convertible instruments at the date of issue for instruments of similar terms and risks. The conversion option classified as the equity component is determined by deducting the amount of the liability component from the gross proceeds. The equity component is recognized net of income tax effects within the other equity account.

Subsequently, the liability component is accounted for at amortized cost and is accreted using the effective interest method, up to the face value of the convertible debentures during the period they are outstanding. Interest expense on the convertible debentures is composed of the interest calculated on the face value of the convertible debentures and a non-cash notional interest representing the accretion of the carrying value of the convertible debentures. The equity component is not remeasured.

The conversion option classified as equity remains in the other equity account until the conversion option is exercised, in which case, the balance recognized in other equity is transferred to share capital. When the conversion option remains unexercised at the maturity date of the convertible debentures, the balance recognized in other equity will be transferred to contributed surplus. No gain or loss is recognized in the consolidated income statement upon conversion or expiration of the conversion option.

Transaction costs related to the issuance of convertible debentures are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in other equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible debentures using the effective interest method.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial Instruments (continued)

Reverse Factoring

The Company has entered into trade payables finance program agreements with certain financial institutions to manage payments to some suppliers, which is an integral part of the Company's liquidity risk management process. The Company used judgment to determine whether the obligations under the program retain, in substance, the characteristics of trade payables. Management has considered the facts and circumstances of the arrangement and concluded that the trade payables under this program would remain classified as trade payables, as there is no substantial difference in the nature or terms of the liabilities. Furthermore, management has concluded that the related payments would remain classified as cash flows from operating activities.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset/financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (when appropriate) a shorter period, to the net carrying amount on initial recognition.

o) Derivative Financial Instruments and Hedge Accounting

Derivative Financial Instruments

The Company uses forward exchange contracts and interest rate swaps to hedge its foreign currency and interest rate risk exposures. The Company designates certain foreign exchange contracts and interest rate swaps as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation. Any derivative instrument that does not qualify for hedge accounting is marked-to-market at each reporting date and the changes in fair value are included in net income.

At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income (loss) and accumulated in the cash flow hedges reserve in equity. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income (loss) is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net income in the same consolidated income statement caption as the hedged item when realized.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Derivative Financial Instruments and Hedge Accounting (continued)

Cash flow hedges (continued)

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedge is discontinued, the amount that has been accumulated in the cash flow hedges reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to net income in the same period or periods as the hedged expected future cash flows affect net income.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the cash flow hedges reserve are immediately reclassified to net income.

Net investment hedges

When a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses is recognized in other comprehensive income (loss) and presented in the cumulative translation account within equity. Any ineffective portion of the foreign exchange gains and losses is recognized immediately in the consolidated income statement. The amount recognized in other comprehensive income (loss) is reclassified to net income as a reclassification adjustment on disposal of the foreign operation.

p) Written Put Options

As part of certain incorporation or business acquisition agreements, the Company has written put options to acquire the non-controlling interest holders stake. Under the terms of these agreements, the holders of the non-controlling interest have an option to sell their stake in the respective companies at a formulaic variable price based mainly on the earnings levels in future periods (the "exit price"). The agreements do not include a minimum exit price.

When the put option granted to the non-controlling shareholders provides for settlement in cash or in another financial asset by the Company, the Company is required to recognize a liability for the present value of the exercise price of the put option.

In accounting for this transaction, the Company applies the anticipated acquisition method of accounting. Under this method of accounting, the written put option is accounted for as if the put option had already been exercised and satisfied by the non-controlling shareholders. As a result, the underlying interests are presented as already owned by the Company in the consolidated statements of financial position, the consolidated income statements and the consolidated statements of comprehensive income (loss), even though legally they are still considered non-controlling interest. In other words, profits and losses attributable to the holders of the non-controlling interest that are subject to the put option are presented as attributable to the Company and not as attributable to those non-controlling shareholders.

The written put options are initially recognized at the present value of the exercise price of the put. The Company has chosen to account for the remeasurement of the written put option liability at each reporting period within the other equity account.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Written Call Options

As part of certain incorporation or business acquisition agreements, the Company entered into call agreements with the non-controlling interests for the purchase of their stake in the relevant entity. Under the terms of these agreements, upon the occurrence of certain triggering events, the Company has an option to buy the non-controlling interest (the call option) for the same variable exit price as the written put option. The call option included in the written put option agreements is accounted for separately at fair value if material and the remeasurement to fair value at each reporting date is recognized in the consolidated income statements.

r) Employee Benefits

Short-Term Employee Benefits

Short-term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are recognized in operating income as the related service is provided or capitalized if the service rendered is in connection with the creation of an asset. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Pension Plans

The Company provides defined benefit and defined contribution plans to certain employees. A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Defined Contribution Plans

Certain benefits are given to employees through defined contribution plans administered by governments. The Company's contributions to these plans are recognized on an accrual basis and expensed as the related service is provided.

Defined Benefit Plans

The Company has a number of contributory defined benefit pension plans providing pension benefits to eligible employees. These plans provide a pension based on length of service and eligible pay. The Company's net liability in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

Defined benefit obligations are actuarially calculated annually by qualified actuaries as at the statement of financial position year-end date. The actuarial valuations are determined based on management's best estimate of the discount rate, the rate of compensation increase, retirement rates, termination rates, mortality rates and expected growth rate of health care costs. The discount rate used to value the net defined benefit obligation for accounting purposes is based on the yield on a portfolio of corporate bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 30, 2018 and 2017 (All figures in thousands of US dollars)

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Employee Benefits (continued)

Defined Benefit Plans (continued)

The fair value of plan assets are deducted from the defined benefit obligation to arrive at the net liability. Plan assets are measured at fair value as at the statement of financial position date. Past service costs arising from plan amendments are recognized in operating income in the year that they arise. Remeasurements of the net defined benefit liability, which comprise actuarial gains or losses, the return on plan assets, excluding interest, and any changes in the effect of the asset ceiling, if any, are recognized in other comprehensive income (loss) in the period in which they arise.

Pension expense consists of the following:

- the cost of pension benefits provided in exchange for employees' services rendered in the period;
- net interest expense (income) on the net defined benefit liability (asset) for the period determined by applying the discount rate used to measure the net defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments;
- past service costs; and
- gains or losses on settlements.

Post-Retirement Benefits Other Than Pensions

The Company sponsors post-retirement benefits other than pensions that are classified as a long-term defined benefit arrangement and they include health care and life insurance benefits for retired employees. When the amount of the long-term post-retirement benefits does not depend on length of service, the obligation is recognized when an event occurs that gives rise to an obligation to make payments. When the amount depends on length of service, the cost of providing these benefits are accrued over the working lives of employees in a manner similar to defined benefit pension cost.

The expected costs of these post-retirement benefits other than pensions are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains or losses on post-employment defined benefit plans arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income (loss) in the period in which they arise.

Significant elements requiring the use of judgment in determining the assets or liabilities and related income or expense for these plans are 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.

s) Share-Based Payments

Directors' Deferred Share Units (equity-settled)

For the Directors' Deferred Share Unit Plan ("DDSU Plan") offered to its external directors, the Company records an expense within general and administrative expenses 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 meetings of the Board of Directors or committees.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Share-Based Payments (continued)

Executive Deferred Share Units (equity-settled)

For the Executive Deferred Share Unit Plan (“EDSU Plan”) offered to its executive officers, the Company records an expense within general and administrative expenses with a corresponding 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.

The discretionary deferred share units (“DSUs”) issued under the EDSU Plan are accounted for as equity-settled share-based payment transactions and are measured at fair value at the grant date based on the share price of the Company’s Class “B” Subordinate Voting Shares. An expense is recognized over the vesting period as employee benefits expense within general and administrative expenses, with a corresponding amount recognized in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of units for which the related service and performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the units of awards that do meet the related service and non-market performance conditions at the vesting date.

As the Company has the option and intent to settle all the DSUs issued under the DDSU and EDSU Plans in Class “B” Subordinate Voting Shares upon termination of a director or an executive officer, the contributed surplus account is affected on the recognition of the expenses.

Restricted Share Unit Plan (cash-settled)

The restricted share unit (“RSUs”) plan entitles senior executives and certain key employees to a cash payment equal to the number of the Company’s Class “B” Subordinate Voting Shares underlying the vested RSUs multiplied by the weighted average trading price during the five trading days immediately preceding the vesting date. A liability is recognized for the services acquired and is recorded at the fair value of the RSUs in other long-term liabilities, except for the current portion recorded in trade and other payables, with a corresponding expense recognized in employee benefits expense within general and administrative expenses, over the period that the employees become unconditionally entitled to the payment. At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured based on the market price of the Company’s Class “B” Subordinate Voting Shares, with any changes in fair value recognized in the consolidated income statement for the period.

Share Appreciation Rights (cash-settled)

The Share Appreciation Rights (“SARs”) plan entitles senior executives and certain key employees to a cash payment based on the increase in the share price of the Company’s Class “B” Subordinate Voting Shares from the grant date to the settlement date. A liability is recognized for the services acquired and is recorded at the fair value of the SARs in other long-term liabilities, except for the current portion recorded in trade and other payables, with a corresponding expense recognized in employee benefits expense within general and administrative expenses, over the period that the employees become unconditionally entitled to the payment. The fair value of the employee benefits expense of the SARs is measured using the Black-Scholes pricing model. Estimating fair value requires determining the most appropriate inputs to the valuation model including the expected life of the SARs, volatility, risk-free interest rate and dividend yield and making assumptions about them. At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognized in the consolidated income statement for the period.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Share-Based Payments (continued)

Performance Share Units (cash-settled)

The Performance Share Units (“PSUs”) plan entitles senior executives and certain key employees to a cash payment. A liability is recognized for the services acquired and is recorded at fair value based on the share price of the Company’s Class “B” Subordinate Voting Shares in other long-term liabilities, except for the current portion recorded in trade and other payables, with a corresponding expense recognized in employee benefits expense within general and administrative expenses. The amount recognized as an expense is adjusted to reflect the number of units for which the related service and performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the units of awards that do meet the related service and non-market performance conditions at the vesting date. At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognized in the consolidated income statement for the period.

t) Income Taxes

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

Current Income Taxes

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

Deferred Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes relate to the expected future tax consequences of differences between the carrying amount of assets and liabilities for financial reporting purposes in the consolidated statement of financial position and their corresponding tax values using the enacted or substantively enacted income tax rate, which are expected to be in effect for the year in which the differences are expected to reverse.

A deferred tax asset is recorded when it is probable that it will be realized in the future. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing on the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. Deferred tax assets and deferred tax liabilities are recognized on the consolidated statement of financial position under non-current assets or liabilities, irrespective of the expected date of realization or settlement.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Provisions

Provisions are recognized when:

- the Company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, current market assessments of the time value of money and the risks specific to the liability. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated income statement net of any reimbursement.

Product Liability

The Company insures itself to mitigate its product liability exposure. The estimated product liability exposure requires the use of judgment and is discounted and 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 products sold prior to the reporting date.

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.

The Company reviews periodically its recorded product liability provisions and any adjustment is recorded in general and administrative expenses.

Warranty Provisions

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 the warranty coverage, the nature of the 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.

Restructuring

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

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NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Earnings Per Share (“EPS”)

Basic EPS is computed based on net income attributable to equity holders of the Company divided by the weighted daily average number of Class “A” Multiple and Class “B” Subordinate Voting Shares outstanding during the year. Diluted EPS is determined by adjusting the net income attributable to equity holders of the Company and the weighted daily average number of Class “A” Multiple and Class “B” Subordinate Voting Shares outstanding during the year for the effects of the exercise of all dilutive elements of stock options, deferred share units and conversion features of the convertible debentures.

w) Fair Value Determination

Certain of the Company’s accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities for both measurement and disclosure purposes. In establishing fair value, the Company uses a fair value hierarchy 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 (i.e. as prices) or indirectly (i.e. derived from prices) 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.

NOTE 5 – FUTURE ACCOUNTING CHANGES

A number of new standards, interpretations and amendments to existing standards were issued by the IASB or the IFRS Interpretations Committee (“IFRIC”) that are mandatory but not yet effective for the year ended December 30, 2018 and have not been applied in preparing these consolidated financial statements. The following standards and amendments to standards have been issued by the IASB with effective dates in the future that have been determined by management to impact the consolidated financial statements:

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16, *Leases*, to replace the previous leases standard, IAS 17, *Leases*, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

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NOTE 5 – FUTURE ACCOUNTING CHANGES (continued)

IFRS 16 – Leases (continued)

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted only if the Company applies IFRS 15, *Revenue from Contracts with Customers*. The Company is planning to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on December 31, 2018. The Company is currently finalizing its assessment of the impact of the adoption of this standard on its consolidated financial statements. The most significant impact identified is that this standard will affect primarily the accounting for the Company's operating leases, as the nature of expenses related to most of the Company's leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Company has selected a global lease accounting software to gather its lease information and to quantify the required components of IFRS 16. The Company is finalizing the process of implementing this lease accounting software throughout its locations and developing new reports to capture information required for presentation and disclosure under IFRS 16. The Company has decided to apply the modified retrospective approach on transition. Accordingly, the cumulative effect of initially applying IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as at the date of initial application and the comparative information will not be restated. The Company has elected to apply the following transition options and practical expedients available under IFRS 16:

- *Lease definition*: to grandfather the assessment of which transactions are leases on the date of initial application. Accordingly, the Company will apply IFRS 16 only to contracts that were previously identified as leases under IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*, and will apply the definition of leases under IFRS 16 only to contracts which will be entered on or after the date of initial application;
- *Impairment and onerous leases*: to rely on the Company's previous assessment of whether leases are onerous in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, immediately before the date of initial application as an alternative to performing an impairment review;
- *Initial direct costs*: to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- *Use of hindsight*: to use hindsight, for example, in determining the lease term of contracts that contain options to extend or terminate the lease on the date of initial application; and
- *Non-lease components*: to not separate lease components from any associated non-lease components.

The Company has elected not to apply the following transition options and practical expedients available under IFRS 16:

- *Short-term leases and leases of low-value items recognition exemptions*;
- *Leases with a short remaining term*; and
- *Discount rates*.

Based on the assessments undertaken to date, the Company estimates that it will recognize additional lease liability of approximately \$195,000 and related right-of-use assets of \$165,000 as at December 31, 2018. In addition, the Company's land use rights will be reclassified as right-of-use assets upon adoption of IFRS 16. The Company is continuing its review of the related tax impact upon adoption of IFRS 16. The actual impact of adopting IFRS 16 may change once the Company completes its detailed analysis.

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NOTE 5 – FUTURE ACCOUNTING CHANGES (continued)

Annual Improvements to IFRS Standards 2015–2017 Cycle

In December 2017, the IASB published *Annual Improvements to IFRS Standards 2015–2017 Cycle*, which includes amendments to the following:

- Income tax consequences under IAS 12, *Income Taxes*, of payments on financial instruments classified as equity.
- Borrowing costs eligible for capitalization under IAS 23, *Borrowing Costs*.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on December 31, 2018. The Company does not expect the adoption of these amendments to have a material impact on its consolidated financial statements.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

In February 2018, the IASB issued amendments to IAS 19, *Employee Benefits*, clarifying the accounting when a plan amendment, curtailment or settlement occurs. The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The amendments clarify:

- that when a defined benefit plan amendment, curtailment or settlement occurs and an entity remeasures its net defined benefit liability or asset, the entity uses the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan; and
- the effect of a plan amendment, curtailment or settlement on the asset ceiling requirements.

The Company intends to adopt the amendments to IAS 19 in its consolidated financial statements for the annual period beginning on December 31, 2018. The Company does not expect the adoption of these amendments to have a material impact on its consolidated financial statements.

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NOTE 6 – RESTRUCTURING AND OTHER COSTS

In 2018, the Company recorded total expenses of \$18,867 (2017 – \$12,074) with respect to restructuring and other costs, of which \$2,258 (2017 – \$260) were recorded within gross profit and \$16,609 (2017 – \$11,814) were recorded as restructuring and other costs as a separate line within the consolidated income statements.

Restructuring costs

Dorel Juvenile segment

The main objective of the restructuring activities initiated previously as part of the Dorel Juvenile segment's on-going transformation, was to further align its operations to drive profitable sales growth by concentrating on improved agility with a more market-focused approach to reduce costs and better react to trends in the juvenile industry. Continued changes in the retail environment, which resulted in brick and mortar store bankruptcies and closures, and the continued growth of the Internet retailer channel of distribution has necessitated a reduction in headcount and people costs at several divisions. The segment re-positioned itself to succeed in this new environment through further investments in digital capabilities, changes in support functions and the re-orientation of its workforce. The ability to develop and bring meaningful products to market faster have been improved by decreasing complexity and by sourcing opportunities to supplement existing best-in-class product development and manufacturing.

The main initiatives consisted of the following cost saving opportunities:

- The consolidation and streamlining of manufacturing and other facilities in China.
- The U.S. based division assuming back office support for the Canadian operations, including supporting Canadian based warehousing.
- In Europe, changes in the way product is brought to market, on-going process harmonization and re-alignment of the sales organization.
- The elimination of positions identified as duplicative within several departments.
- Exiting certain licensed third-party brands used in North America.
- Closing certain retail stores in the Latin American market.

These restructuring initiatives were completed in the fourth quarter of 2018. Total costs related to these restructuring initiatives were \$42,865, including \$13,325 of non-cash charges related to the write-down of long-lived assets and net losses from the remeasurement and disposals of assets held for sale, \$3,076 of non-cash inventory markdowns, \$3,295 of curtailment gain on net pension defined benefit liabilities, \$24,807 of employee severance and termination benefits and \$4,952 of other associated costs. Of this amount, \$10,276 was recorded for the year ended December 30, 2015, \$13,825 was recorded for the year ended December 30, 2016, \$11,933 was recorded for the year ended December 30, 2017 and \$6,831 was recorded in 2018, details of which can be found in the table below. There are no significant expected remaining costs associated with this restructuring initiative.

Dorel Sports segment

In the second quarter of 2018, the Company announced it was divesting its performance apparel line of business to focus on its core strategic businesses of bikes, parts and accessories and electric ride-ons and had sold the SUGOI and Sombrio brands. As a result of the sale of the performance apparel line of business, \$11,784 was recorded in 2018 as restructuring costs, details of which can be found in the table below. There are no significant expected remaining costs associated with this restructuring initiative.

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NOTE 6 – RESTRUCTURING AND OTHER COSTS (continued)

The expenses recorded in the consolidated income statements related to the restructuring costs consist of the following:

	December 30,							
	TOTAL		Dorel Juvenile		Dorel Sports (2018 Plan)		Dorel Sports (2016 Plan)	
	2018	2017	2018	2017	2018	2017	2018	2017
Write-down of long-lived assets (Note 10)*	\$ –	\$ 368	\$ –	\$ 368	\$ –	\$ –	\$ –	\$ –
Inventory markdowns (reversals)*	2,258	242	639	1,207	1,619	–	–	(965)
Recorded within gross profit	\$ 2,258	\$ 610	\$ 639	\$ 1,575	\$ 1,619	\$ –	\$ –	\$ (965)
Employee severance and termination benefits	\$ 6,796	\$ 8,098	\$ 6,049	\$ 7,157	\$ 747	\$ –	\$ –	\$ 941
Accelerated depreciation and write-down of long-lived assets (Notes 10 and 11)*	7,962	1,916	–	1,854	7,962	–	–	62
Net losses from the disposals of assets held for sale (Note 7)*	–	631	–	631	–	–	–	–
Curtailment gain on net pension defined benefit liabilities (Note 21)*	(170)	(1,908)	(170)	(1,908)	–	–	–	–
Other associated costs	1,769**	3,077	313	2,624	1,456**	–	–	453
Recorded within a separate line in the consolidated income statements	\$ 16,357	\$ 11,814	\$ 6,192	\$ 10,358	\$ 10,165	\$ –	\$ –	\$ 1,456
Total restructuring costs	\$ 18,615	\$ 12,424	\$ 6,831	\$ 11,933	\$ 11,784	\$ –	\$ –	\$ 491

* non-cash

** includes a non-cash gain of \$368

The expenses recorded in the consolidated income statements related to other costs consist of the following:

	December 30,					
	TOTAL		Dorel Home		Dorel Sports (2016 Plan)	
	2018	2017	2018	2017	2018	2017
Other costs recorded within gross profit	\$ –	\$ (350)	\$ –	\$ –	\$ –	\$ (350)
Acquisition-related costs (Note 8)	252	–	252	–	–	–
Recorded within a separate line in the consolidated income statements	\$ 252	\$ –	\$ 252	\$ –	\$ –	\$ –
Total other costs	\$ 252	\$ (350)	\$ 252	\$ –	\$ –	\$ (350)

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NOTE 7 – ASSETS HELD FOR SALE

	December 30,	
	2018	2017
Balance, beginning of year	\$ 8,481	\$ 20,017
Additions (Note 10) (1)	–	4,090
Disposals (2)	–	(15,658)
Effect of foreign currency exchange rate changes	(17)	32
Balance, end of year	<u>\$ 8,464</u>	<u>\$ 8,481</u>

- (1) As part of the on-going restructuring program described in Note 6, one additional property was made available for sale during the year ended December 30, 2017 within Dorel Juvenile segment.
- (2) During the year ended December 30, 2017, the Company completed the sale of certain underutilized facilities that were presented as assets held for sale as at December 30, 2016 representing \$15,658 within Dorel Juvenile segment. Net losses from the disposal of assets held for sale amounting to \$631 were recorded on these assets in 2017, which is included in restructuring and other costs in Note 6.

Assets held for sale presented in the consolidated statements of financial position consist of properties which are measured at the lower of carrying amount and fair value less costs to sell. The fair value measurement of the assets held for sale have been categorized in Level 2 in the fair value hierarchy based on observable market inputs, i.e. offers from third-party buyers for these assets or similar assets or recent market prices of similar properties in similar locations.

NOTE 8 – BUSINESS ACQUISITION

On October 1, 2018, Dorel Home segment acquired the assets and operations of UK-based Alphason for a purchase price of \$3,128 (GBP 2,383) of which a balance of sale of \$175 (GBP 133) remains to be paid. Established some 30 years ago, Alphason designs and distributes award-winning home office and audio-visual furniture. The operations have been integrated into Dorel Home's existing Dorel Home Furnishings Europe entity, and will provide Dorel Home with a new base as well as a distribution hub to serve its growing European business. The acquisition has been recorded under the acquisition method of accounting with the results of the acquired business being included in the Company's consolidated financial statements since the date of acquisition. The fair value of the assets acquired and the consideration transferred includes amounts of \$814 allocated to customer relationships and \$1,281 allocated to goodwill.

Dorel Home segment incurred acquisition-related costs of \$252 on legal fees and due diligence costs. These costs have been included in other costs within restructuring and other costs (see Note 6).

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NOTE 9 – INVENTORIES

Inventories consist of the following:

	December 30,	
	2018	2017 (1)
Raw materials	\$ 103,518	\$ 97,987
Work in process	5,574	6,622
Finished goods	524,961	487,527
Right to recover returned goods (1)	1,100	–
	<u>\$ 635,153</u>	<u>\$ 592,136</u>
Inventories carried at net realizable value	<u>\$ 61,480</u>	<u>\$ 70,846</u>

(1) The Company has recognized an asset for the right to recover returned goods in relation to products sold with a right of return following adoption of IFRS 15. The right to recover returned goods is measured by reference to the former carrying amount of the inventories sold less any expected costs to recover those inventories. Under the transition methods chosen under IFRS 15, comparative information is not restated. See Note 3.

During the year ended December 30, 2018, the Company recorded in cost of sales \$9,605 (2017 – \$13,200) of write-downs of inventories as a result of net realizable value being lower than cost (including amounts presented in Note 6) and \$2,939 of inventory write-downs recognized in previous years were reversed (2017 – \$2,880). The cost of inventories recognized as an expense and included in cost of sales for the year ended December 30, 2018 was \$1,887,826 (2017 – \$1,793,418).

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NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

(a) Cost

	Land	Buildings and improvements	Machinery and equipment	Moulds	Furniture and fixtures	Computer equipment	Leasehold improvements	Assets not yet in service	Assets under finance leases	Vehicles	Total
Balance as at December 30, 2016	\$ 14,582	\$ 104,962	\$ 117,126	\$ 130,594	\$ 16,244	\$ 59,436	\$ 33,674	\$ 7,501	\$ 3,989	\$ 6,577	\$ 494,685
Additions	–	572	3,109	2,908	1,121	2,277	1,520	27,018	1,754	202	40,481
Disposals	–	(537)	(5,492)	(1,254)	(1,667)	(3,284)	(1,257)	(46)	(1,114)	(577)	(15,228)
Transfer from assets not yet in service	–	2,392	6,039	7,255	371	1,509	816	(18,789)	137	270	–
Transfer to assets held for sale (Note 7)	(2,706)	(3,540)	–	–	–	–	–	–	–	–	(6,246)
Effect of foreign currency exchange rate changes	1,071	3,345	3,571	5,642	720	1,312	1,816	541	324	130	18,472
Balance as at December 30, 2017	\$ 12,947	\$ 107,194	\$ 124,353	\$ 145,145	\$ 16,789	\$ 61,250	\$ 36,569	\$ 16,225	\$ 5,090	\$ 6,602	\$ 532,164
Additions	–	342	2,507	2,523	643	2,318	808	24,504	1,548	322	35,515
Disposals	(303)	(1,631)	(1,791)	(1,199)	(1,316)	(2,084)	(7,458)	(117)	(1,077)	(3,377)	(20,353)
Transfer from assets not yet in service	–	–	3,479	15,534	1,365	2,185	751	(23,539)	–	225	–
Effect of foreign currency exchange rate changes	(682)	(3,296)	(2,890)	(2,790)	(619)	(858)	(1,169)	(402)	(184)	(51)	(12,941)
Balance as at December 30, 2018	\$ 11,962	\$ 102,609	\$ 125,658	\$ 159,213	\$ 16,862	\$ 62,811	\$ 29,501	\$ 16,671	\$ 5,377	\$ 3,721	\$ 534,385

The significant portion of the Assets not yet in service relate mainly to moulds.

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NOTE 10 – PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Accumulated depreciation and impairment losses

	Land	Buildings and improvements	Machinery and equipment	Moulds	Furniture and fixtures	Computer equipment	Leasehold improvements	Assets not yet in service	Assets under finance leases	Vehicles	Total
Balance as at December 30, 2016	\$ –	\$ 32,483	\$ 74,454	\$ 111,347	\$ 11,407	\$ 47,555	\$ 20,715	\$ –	\$ 1,887	\$ 3,543	\$ 303,391
Depreciation for the year	–	3,786	7,009	10,567	1,358	4,824	3,521	–	1,106	976	33,147
Disposals	–	(394)	(5,080)	(1,220)	(1,633)	(3,007)	(1,256)	–	(1,114)	(506)	(14,210)
Accelerated depreciation and write-down (Note 6)	–	1,854	62	368	–	–	–	–	–	–	2,284
Transfer to assets held for sale (Note 7)	–	(2,156)	–	–	–	–	–	–	–	–	(2,156)
Effect of foreign currency exchange rate changes	–	809	2,148	4,702	464	974	1,281	–	212	92	10,682
Balance as at December 30, 2017	\$ –	\$ 36,382	\$ 78,593	\$ 125,764	\$ 11,596	\$ 50,346	\$ 24,261	\$ –	\$ 2,091	\$ 4,105	\$ 333,138
Depreciation for the year	–	3,880	7,754	10,659	1,419	4,116	3,215	–	744	689	32,476
Disposals	–	(1,188)	(1,684)	(1,180)	(1,297)	(2,024)	(7,216)	–	(400)	(2,242)	(17,231)
Impairment losses (Note 12)	–	–	–	–	–	757	4,151	1,063	–	–	5,971
Write-down (Note 6)	–	–	37	–	14	297	324	–	–	–	672
Effect of foreign currency exchange rate changes	–	(771)	(1,433)	(2,303)	(339)	(630)	(838)	–	(95)	(26)	(6,435)
Balance as at December 30, 2018	\$ –	\$ 38,303	\$ 83,267	\$ 132,940	\$ 11,393	\$ 52,862	\$ 23,897	\$ 1,063	\$ 2,340	\$ 2,526	\$ 348,591

During the years ended December 30, 2018 and 2017, the Company did not incur any reversals of impairment losses.

Depreciation of property, plant and equipment is included in the consolidated income statements in the following captions:

	December 30,	
	2018	2017
Included in cost of sales	\$ 22,023	\$ 21,260
Included in selling expenses	1,751	2,191
Included in general and administrative expenses	8,702	9,696
	<u>\$ 32,476</u>	<u>\$ 33,147</u>

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NOTE 10 – PROPERTY, PLANT AND EQUIPMENT (continued)

(c) Net book value

	Land	Buildings and improvements	Machinery and equipment	Moulds	Furniture and fixtures	Computer equipment	Leasehold improvements	Assets not yet in service	Assets under finance leases	Vehicles	Total
Balance as at December 30, 2017	\$ 12,947	\$ 70,812	\$ 45,760	\$ 19,381	\$ 5,193	\$ 10,904	\$ 12,308	\$ 16,225	\$ 2,999	\$ 2,497	\$ 199,026
Balance as at December 30, 2018	\$ 11,962	\$ 64,306	\$ 42,391	\$ 26,273	\$ 5,469	\$ 9,949	\$ 5,604	\$ 15,608	\$ 3,037	\$ 1,195	\$ 185,794

NOTE 11 – INTANGIBLE ASSETS

(a) Cost

	Trademarks	Customer relationships	Supplier relationship	Patents	Land use rights	Software licenses	Deferred development costs	Total
Balance as at December 30, 2016	\$ 343,932	\$ 144,468	\$ 1,500	\$ 25,119	\$ 18,318	\$ 16,766	\$ 94,423	\$ 644,526
Additions – internally developed	–	–	–	943	–	1,262	17,248	19,453
Additions – externally acquired	–	–	–	562	–	1,221	–	1,783
Disposals	–	–	–	(527)	–	(208)	(402)	(1,137)
Effect of foreign currency exchange rate changes	8,931	5,174	–	830	630	1,376	9,721	26,662
Balance as at December 30, 2017	\$ 352,863	\$ 149,642	\$ 1,500	\$ 26,927	\$ 18,948	\$ 20,417	\$ 120,990	\$ 691,287
Additions – internally developed	–	–	–	706	–	4,170	14,572	19,448
Additions – externally acquired	–	402	–	224	87	728	–	1,441
Addition through acquisition of a business (Note 8)	–	814	–	–	–	–	–	814
Disposals	(7,290)	(5,800)	–	(932)	–	(307)	(139)	(14,468)
Effect of foreign currency exchange rate changes	(11,484)	(4,709)	–	(392)	(528)	(1,074)	(4,608)	(22,795)
Balance as at December 30, 2018	\$ 334,089	\$ 140,349	\$ 1,500	\$ 26,533	\$ 18,507	\$ 23,934	\$ 130,815	\$ 675,727

(b) Accumulated amortization and impairment losses

	Trademarks	Customer relationships	Supplier relationship	Patents	Land use rights	Software licenses	Deferred development costs	Total
Balance as at December 30, 2016	\$ 36,935	\$ 86,738	\$ 1,275	\$ 17,023	\$ 955	\$ 6,097	\$ 67,916	\$ 216,939
Amortization for the year	–	6,113	150	1,777	506	2,068	6,384	16,998
Disposals	–	–	–	(527)	–	(208)	(402)	(1,137)
Effect of foreign currency exchange rate changes	5,067	2,986	–	617	22	357	6,812	15,861
Balance as at December 30, 2017	\$ 42,002	\$ 95,837	\$ 1,425	\$ 18,890	\$ 1,483	\$ 8,314	\$ 80,710	\$ 248,661
Amortization for the year	–	5,621	75	1,543	336	2,388	7,967	17,930
Disposals	(7,290)	(5,800)	–	(932)	–	(307)	–	(14,329)
Impairment losses (Note 12)	142,601	22,502	–	–	–	931	–	166,034
Write-down (Note 6)	7,290	–	–	–	–	–	–	7,290
Effect of foreign currency exchange rate changes	(2,381)	(3,460)	–	(304)	(25)	(336)	(2,933)	(9,439)
Balance as at December 30, 2018	\$ 182,222	\$ 114,700	\$ 1,500	\$ 19,197	\$ 1,794	\$ 10,990	\$ 85,744	\$ 416,147

During the years ended December 30, 2018 and 2017, the Company did not incur any reversals of impairment losses.

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NOTE 11 – INTANGIBLE ASSETS (continued)

Amortization of intangible assets is included in the consolidated income statements in the following captions:

	December 30,	
	2018	2017
Included in cost of sales	\$ 336	\$ 506
Included in selling expenses	7,239	8,040
Included in general and administrative expenses	2,388	2,068
Included in research and development expenses	7,967	6,384
	\$ 17,930	\$ 16,998

(c) Net book value

	Trademarks	Customer relationships	Supplier relationship	Patents	Land use rights	Software licenses	Deferred development costs	Total
Balance as at December 30, 2017	\$ 310,861	\$ 53,805	\$ 75	\$ 8,037	\$ 17,465	\$ 12,103	\$ 40,280	\$ 442,626
Balance as at December 30, 2018	\$ 151,867	\$ 25,649	\$ –	\$ 7,336	\$ 16,713	\$ 12,944	\$ 45,071	\$ 259,580

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NOTE 12 – IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Goodwill and intangible assets with indefinite useful lives (trademarks) acquired through business combinations are allocated to CGUs or to groups of CGUs. For the purpose of impairment testing, this represents the lowest level within the Company at which the goodwill and trademarks are monitored for internal management purposes, which is not higher than the Company's operating segments.

The aggregate carrying amount of goodwill and intangible assets with indefinite useful lives is allocated to each CGU as follows:

	Goodwill		Trademarks	
	2018	2017	2018	2017
Dorel Juvenile – North America	\$ –	\$ 66,826	\$ –	\$ –
Dorel Juvenile – Europe (1)	44,001	196,761	23,450	54,217
Dorel Juvenile – Latin America	–	–	–	15,582
Dorel Juvenile – Brazil	–	815	1,049	2,476
Dorel Juvenile – Australia	–	–	–	2,965
Dorel Juvenile – China	–	7,677	–	–
Dorel Sports – Mass markets	–	134,821	121,741	130,800
Dorel Sports – Independent bike dealers (IBD)	–	–	–	60,438
Dorel Sports – Caloi	–	–	5,627	44,383
Dorel Home	32,415	31,172	–	–
Total	\$ 76,416	\$ 438,072	\$ 151,867	\$ 310,861

(1) For Dorel Juvenile – Europe, the CGU of the trademarks is at the South of Europe level.

The continuity of goodwill by segment is presented in Note 31.

On an annual basis, or more frequently if an impairment indicator is triggered, it is necessary to perform an impairment test of goodwill and trademarks. Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs to which goodwill or trademarks are allocated and comparing it to the CGUs' carrying amount. If the CGU to which the trademarks are allocated to are the same as for goodwill, then the same test is used to assess impairment of the goodwill and trademarks. With the exception of Dorel Juvenile – Europe CGU, where the CGU includes both goodwill and trademarks, the CGU of the goodwill was the same as the CGU of the trademarks and therefore the recoverable amount served for both impairment tests.

During the fourth quarter of 2017, due to lower commodity prices, political uncertainties and changes in consumer behaviour which had a negative impact on the economy in Chile and Peru coupled with stagnant growth expected in Colombia and Panama, assumptions on projected earnings and cash flow growth were revised for Dorel Juvenile – Latin America CGU resulting in a goodwill impairment loss of \$19,929.

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NOTE 12 – IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (continued)

During the second quarter of 2018, as Dorel Juvenile – Latin America’s business continued to face a decline in sales and profitability as a result of changes in the market and consumer behaviour, assumptions on projected earnings and cash flows growth for Dorel Juvenile – Latin America CGU were revised. As a result, during the second quarter of 2018, the Company recorded impairment charges on customer relationships of \$8,915 and trademarks of \$15,278 (Infanti brand) for a total of \$24,193 (see Note 11), as it has concluded that the recoverable amount based on the value in use was less than the carrying amount of the CGU.

During the fourth quarter of the years ended December 30, 2018 and 2017, the Company performed its annual impairment testing of goodwill and trademarks in accordance with the Company’s accounting policy described in Note 4.

Due to the recent sustained decline in the Company’s stock price during 2018, which caused the Company’s market capitalization to be significantly lower than the carrying amount of the Company’s net assets, assumptions on projected earnings and cash flows growth were revised for the majority of the Company’s CGUs during the fourth quarter of 2018. The latest projections include, among other things, the impacts of the recently announced tariffs on Chinese imports, other inflation and market conditions for the Company’s CGUs, more conservative expectations of future revenues and margins compared to prior periods’ expectations related to certain trademarks within the CGUs, as well as projected benefits from the Company’s past restructuring plans. Furthermore, the Company applied higher risk adjusted discount rates to the projected cash flows of its CGUs for discounted cash flow estimates and/or higher discount to derive the multiples used for fair value determination, which reduced the recoverable amounts of each of the Company’s CGUs, except the Dorel Home CGU, below their carrying values. As a result, the Company recorded the following impairment charges during the fourth quarter of 2018:

	Fourth quarter of 2018					
	Goodwill (Note 31)	Trademarks (Note 11)	Customer relationships (Note 11)	Software licenses (Note 11)	Property, plant and equipment (Note 10)	Total
Dorel Juvenile – North America	\$ 66,826	\$ –	\$ –	\$ –	\$ –	\$ 66,826
Dorel Juvenile – Europe	143,615	29,170	11,534	–	–	184,319
Dorel Juvenile – Brazil	695	1,063	926	–	–	2,684
Dorel Juvenile – Australia	–	2,717	–	–	–	2,717
Dorel Juvenile – China	7,677	–	–	–	–	7,677
Dorel Sports – Mass markets	134,821	9,059	–	–	–	143,880
Dorel Sports – Independent bike dealers (IBD)	–	53,108	–	931	5,971	60,010
Dorel Sports – Caloi	–	32,206	1,127	–	–	33,333
Total	<u>\$353,634</u>	<u>\$127,323</u>	<u>\$ 13,587</u>	<u>\$ 931</u>	<u>\$ 5,971</u>	<u>\$501,446</u>

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NOTE 12 – IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (continued)

With the exception of the above CGUs in 2018 and 2017, the recoverable amounts of the other CGUs were at or higher than their carrying amount as at December 30, 2018 and 2017.

The valuation techniques, significant assumptions and sensitivity analysis applied in the goodwill and trademarks impairment tests are described below:

Valuation Techniques and key assumptions used:

The Company did not make any changes since the prior year to the valuation methodology used to assess the recoverable amounts of its CGUs. The recoverable amount has been defined as the higher of the value in use and the fair value less costs of disposal.

Value in use:

The income approach was used and this is based upon the value of the future cash flows that the CGU will generate going forward. The discounted cash flow method was used which involves projecting cash flows and converting them into a present value equivalent through the use of discounting. The discounting process uses a rate of return that represents the risk associated with the business or asset and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, tax rates, terminal growth rates and discount rates.

The value in use was determined by using discounted cash flow projections from financial budgets approved by senior management. The Company projected revenue growth rates, operating margins, capital expenditures and working capital for a period of five years and applied a terminal long-term growth rate thereafter. In arriving at its forecasts, the Company considered past experience, economic trends such as GDP growth and inflation, as well as industry and market trends. The projections also took into account the expected impact from new product initiatives, customer retention and the maturity of the market in which each CGU operates.

The Company assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital (WACC) for comparable companies operating in similar industries as the applicable CGU, based on publicly available information. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of each CGU.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model and the long-term growth rate used for extrapolation purposes.

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NOTE 12 – IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (continued)

Valuation Techniques and key assumptions used (continued):

Fair value less costs of disposal:

The market approach was used which assumes that companies operating in the same industry will share similar characteristics and that company fair values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies whose financial information is publicly available may provide a reasonable basis to estimate fair value. Under the market approach, fair value is calculated based on earnings before finance expenses, income taxes, depreciation and amortization (“EBITDA”) multiples, earnings before finance expenses and income taxes (“EBIT”) multiples and sales multiples of benchmark companies comparable to the businesses in each CGU. Data for the benchmark companies was obtained from publicly available information. If there is no binding sales agreement or active market for the asset or CGU, the fair value is assessed by using appropriate valuation models dependent on the nature of the asset or CGU, such as the discounted cash flow models. For trademarks, the fair value is determined using the relief from royalty method, which estimates the value of a tradename by discounting the hypothetical avoided royalty payments to their present value over the economic life of the asset or the excess earnings method, which estimates the value of the intangible asset by quantifying the residual (or excess) cash flows generated by the asset, and discounting those cash flows to the present. The excess earnings method requires the application of contributory asset charges. Contributory asset charges typically include assumed payments for the use of working capital, tangible assets and other intangible assets.

The market approach is most sensitive to the selection of multiples of benchmark companies used and applied premiums or discounts to derive the multiple used in the determination of the fair value. The relief from royalty method is based on inputs such as revenue growth, royalty rates and discount rates. The relief from royalty method is most sensitive to the selection of the royalty rates and to the discount rate used in the determination of the fair value of the trademarks. The determination of the royalty rates requires judgment and is linked with the estimated EBITDA and/or EBIT from the revenue associated with the trademarks. The excess earnings method is most sensitive to future cash flows.

Weighting of valuation techniques:

Given the volatility in capital markets and due to the fact that there are no comparable companies operating within the same industry of the respective CGU, the Company is weighting the results mainly on the income approach. The market approach is used to validate and ensure the value in use or fair value discounted cash flow model calculations are reasonable and consistent when compared to the market approach values. However, when there has been volatility in cash flow projections, the market approach value was used. In selecting the recoverable amount, the Company considered the implied enterprise value/EBITDA that would result from this amount, in order to ensure the conclusions at each CGU level reconciled with the market. This has provided further assurance on the amount of impairment, if any. The selection and weighting of the fair value techniques requires judgment.

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NOTE 12 – IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (continued)

Valuation Techniques and key assumptions used (continued):

Key assumptions used in value in use calculations:

The following table presents the basis used as the recoverable amount and the key assumptions used in calculating the recoverable amount:

	Basis used as recoverable amount		Pre-tax Discount Rate		Terminal Growth Rate	
	2018	2017	2018	2017	2018	2017
Dorel Juvenile – North America	Fair value	Fair value	(1)	(1)	(1)	(1)
Dorel Juvenile – Europe	Value in use	Value in use	14.07%	13.90%	2.00%	2.00%
Dorel Juvenile – South of Europe	Fair value (2)	Value in use	14.20%	15.39%	2.00%	2.00%
Dorel Juvenile – Latin America	Value in use	Value in use	20.26%	21.49%	4.64%	4.58%
Dorel Juvenile – Brazil	Fair value (3)	Value in use	(3)	24.23%	5.00%	5.00%
Dorel Juvenile – Australia	Value in use	Value in use	18.80%	19.90%	3.00%	4.00%
Dorel Juvenile – China	Value in use	Value in use	16.11%	15.75%	3.00%	3.00%
Dorel Sports – Mass markets	Value in use	Value in use	14.46%	14.90%	2.00%	3.00%
Dorel Sports – IBD	Fair value (4)	Fair value (4)	13.95%	14.80%	(4)%	1.50%
Dorel Sports – Caloi	Fair value (5)	Value in use	(5)	20.10%	5.00%	5.00%
Dorel Home	Value in use	Value in use	17.89	20.87%	2.00%	2.00%

(1) Based on market approach using a multiple of 7.9x (2017 – 10.4x).

(2) Based on the relief from royalty method to determine the fair value of the trademarks using a royalty rate of 0.50%.

(3) Based on an overall market approach using a multiple of 7.1x. In addition, based on the relief from royalty method to determine the fair value of the trademarks using a royalty rate of 2.50% and the excess earnings method for the customer relationships.

(4) Based in 2018 on the excess earnings method for to determine the fair value of the trademarks (2017 – the relief from royalty method using a royalty rate of 2.25%).

(5) Based on an overall market approach using a multiple of 7.4x. In addition, based on the relief from royalty method to determine the fair value of the trademarks using royalty rates between 1.00% and 2.00% and the excess earnings method for the customer relationships.

The assumptions used by the Company in the future cash flow discounting model and market approach provided are classified as Level 3 in the fair value hierarchy, signifying that they are not based on observable market data. The Company performed the below sensitivity analysis to changes in assumptions for the basis used in the calculations of the recoverable amount of each CGU.

Sensitivity to changes in assumptions for the basis of the calculation of recoverable amounts:

No reasonably possible change in the key assumptions of long-term growth rate or pre-tax discount rate would cause the Dorel Home CGU's carrying amount to exceed its recoverable amount. No sensitivity test was performed for the other CGUs since an impairment loss was recorded as a result of the impairment tests performed during 2018 and therefore their carrying amounts approximate the recoverable amount. Therefore, any reasonable possible change in the key assumptions used could cause the carrying value of those CGUs to be above their recoverable amount and result in further impairment.

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NOTE 13 – OTHER ASSETS AND OTHER LIABILITIES

Other assets consist of the following:

	December 30,	
	2018	2017
Sales tax receivable	\$ 16,230	\$ 16,627
Costs relating to revolving bank loans (1) (Notes 17 and 29)	1,624	2,605
Other	<u>2,863</u>	<u>1,667</u>
	<u>\$ 20,717</u>	<u>\$ 20,899</u>
Current	<u>\$ 13,770</u>	<u>\$ 13,747</u>
Non-current	<u>\$ 6,947</u>	<u>\$ 7,152</u>

(1) The amortization of financing costs related to the revolving bank loans included in finance expenses is \$1,096 (2017 – \$1,152).

Other liabilities consist of the following:

	December 30,	
	2018	2017
Sales tax payable	\$ 4,620	\$ 8,357
Contract liabilities	7,296	2,793
Other	<u>8,641</u>	<u>11,157</u>
	<u>\$ 20,557</u>	<u>\$ 22,307</u>
Current	<u>\$ 11,916</u>	<u>\$ 11,150</u>
Non-current	<u>\$ 8,641</u>	<u>\$ 11,157</u>

The movement of the contract liabilities for the year ended December 30, 2018 is as follows:

	December 30, 2018
Balance, beginning of year	\$ 2,793
Revenue recognized that was included in the contract liabilities balance at the beginning of the year	(2,793)
Increases due to cash received, excluding amounts recognized as revenue during the year	7,546
Effect of foreign currency exchange rate changes	<u>(250)</u>
Balance, end of period	<u>\$ 7,296</u>

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NOTE 14 – BANK INDEBTEDNESS

The average interest rates on the outstanding borrowings as at December 30, 2018 and 2017 were 6.44% and 7.18% respectively. As at December 30, 2018, the Company had available bank lines of credit amounting to approximately \$111,393 (2017 – \$106,025) of which \$50,098 (2017 – \$58,229) have been used. The availability of these funds are dependent on the Company continuing to meet the financial covenants of its credit agreements.

NOTE 15 – TRADE AND OTHER PAYABLES

	December 30,	
	2018	2017 (1)
Trade creditors and accruals (1)	\$ 483,786	\$ 385,215
Salaries payable	41,027	47,892
Refund liability (2)	2,645	–
Other accrued liabilities	<u>6,150</u>	<u>7,303</u>
	<u>\$ 533,608</u>	<u>\$ 440,410</u>

- (1) During 2018 and 2017, the Company entered into trade payables finance program agreements with certain financial institutions to manage payments to some suppliers. As at December 30, 2018, trade payables under this program amount to \$6,027 (2017 – \$2,502), which is included within trade and other payables.
- (2) The Company has recognized a refund liability related to the right of return of goods granted to certain customers, following adoption of IFRS 15. Under the transition methods chosen under IFRS 15, comparative information is not restated. See Note 3.

NOTE 16 – WRITTEN PUT OPTION LIABILITIES

Written put option liabilities are valued at fair value using Level 3 inputs in the fair value hierarchy. The fair value represents the present value of the exercise price of the put option and is measured by applying the income approach using the probability-weighted expected payment of the exit price and is based on discounted cash flows. Unobservable inputs within the fair value measurement include the exit price and the expected payment date for the written put options. The exit price is based on a formulaic variable price which is mainly a function of the earnings levels in future periods and requires assumptions about revenue growth rates, operating margins and the expected payment date of the exit price for the written put options. The Company assumes a discount rate in order to calculate the present value of the expected payment of the exit price which represents the cost of borrowing of the specific period for the cash flows. If the future earnings levels in future periods would increase (decrease), the estimated fair value of the written put option liabilities would increase (decrease).

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NOTE 16 – WRITTEN PUT OPTION LIABILITIES (continued)

A summary of the written put option and certain assumptions to fair value the financial liabilities are presented below, representing interest held by the non-controlling shareholders:

	Dorel Sports Chile S.A.		Silfa Group		Best Brands Group S.A. and Baby Universe SAS	
	2018	2017	2018	2017	2018	2017
Expected payment date or contractual maturity	30% in April 2022	30% in April 2021	30% in April 2022	30% in April 2021	30% in April 2022	30% in April 2021
Discount rate used to determine the fair value of the exit price	4.6%	4.0%	4.9%	4.0%	4.9%	5.0%
Balance of the financial liability, end of year (1)	\$ 1,419	\$ 4,130	\$ 10,485	\$ 18,385	\$ 98	\$ 949

(1) The remeasurement of the fair value of the written put option liabilities is recognized in other equity. The reconciliation of movements in these liabilities is presented in Note 29.

NOTE 17 – LONG-TERM DEBT

The terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Maturity date	December 30,		December 30,	
				2018	2017	2018	2017
				Face value	Carrying amount	Face value	Carrying amount
Revolving bank loans bearing interest at various rates per annum, averaging 5.32% (2017 – 4.93%), total availability of \$350,000 (2017 – \$350,000). This agreement also includes an accordion feature allowing the Company to have access to an additional amount of \$100,000 (2017 – \$100,000) on a revolving basis. (See below)	USD/Euro/ CAD	LIBOR, Euribor, Canadian or U.S. bank rates plus a margin	May 30, 2019 or July 1, 2020	\$ 152,728	\$ 152,728	\$ 136,447	\$ 136,447
Term loan bearing interest at various rates per annum, averaging 3.86% (2017 – 3.44%) (See below)	USD	LIBOR plus a margin	May 30, 2019 or July 1, 2020	\$ 160,800	\$ 160,261	\$ 189,200	\$ 188,423
Convertible debentures, interest payable semi-annually on May 31 and November 30 each year (See below)	USD	5.50%	November 30, 2019	\$ 120,000	\$ 118,344	\$ 120,000	\$ 116,652
Other				\$ 5,736	\$ 5,736	\$ 5,905	\$ 5,905
Total outstanding loans				\$ 439,264	\$ 437,069	\$ 451,552	\$ 447,427
Current portion					(432,950)		(13,667)
					\$ 4,119		\$ 433,760

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NOTE 17 – LONG-TERM DEBT (continued)

Revolving bank loans and term loan

The maturity date of the revolving bank loans and the term loan is the earlier of (i) July 1, 2020 and (ii) May 30, 2019 if the convertible debentures have not been repaid or refinanced, in cash or shares of the Company. Given that the convertible debentures were not repaid or refinanced as at December 30, 2018 and as at the date of issuance of the consolidated financial statements, and the Company's intentions related thereto, the revolving bank loans and term loan were classified as current as at December 30, 2018. The availability of the funds under the revolving bank loans, including the accordion feature, are dependent on the Company continuing to meet the financial covenants of its credit agreements. The covenants do not permit the Company to use funds under its revolving bank loans to repay the convertible debentures as at December 30, 2018. Refer to Note 19, Liquidity Risk, for additional information.

The principal repayments of the term loan are as follows:

- (i) – 4 quarterly instalments of \$3,750 starting in July 2018;
 - quarterly instalments of \$5,000 starting in July 2019 to the extent the maturity date has not yet occurred; and
 - any remaining outstanding amount on the maturity date; and
 - (ii) 50% of the quarterly Excess Cash Flow (1) to be applied as principal repayment for any quarter where the indebtedness to adjusted EBITDA ratio is more than 2.5x at the end of any quarter. \$15,900 has been repaid for the year-ended December 30, 2018 under this feature.
- (1) Excess Cash Flow is defined as the quarterly adjusted EBITDA less income taxes paid, net paid additions to property, plant and equipment and intangible assets (including assets under finance leases), interest paid, scheduled repayments of long-term debt and acquisition-related costs paid plus or minus the net changes in balances related to operations.

The revolving bank loans bear interest at various rates per annum, based LIBOR, Euribor, Canadian or U.S. bank rates plus a margin. The term loan bears interest at various rates per annum, based on LIBOR rate plus a margin. The margin varies based on the Company's indebtedness to adjusted EBITDA ratio.

Interest and principal payments are guaranteed by certain subsidiaries.

As at December 30, 2018, the term loan as well as the revolving bank loans are secured by certain of the Company's trade accounts receivable, inventories, property, plant and equipment and intangible assets, with a carrying value of \$252,199, \$472,566, \$76,778 and \$27,879, respectively.

Effective March 24, 2017, the Company amended and restated its Credit Agreement with respect to its revolving bank loans to extend maturity and secured a term loan of \$200,000. The net proceeds from the term loan were used by the Company to prepay the Series "B" and "C" Senior Guaranteed Notes and the non-convertible debentures, and to reduce bank indebtedness. The prepayments of the Series "B" and "C" Senior Guaranteed Notes and the non-convertible debentures were accounted for as an extinguishment. A loss on early extinguishment of long-term debt of \$10,199 was recorded as finance expenses during the year ended December 30, 2017 (see Note 30 a)) as a result of the prepayments of the Series "B" and "C" Senior Guaranteed Notes and the non-convertible debentures.

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NOTE 17 – LONG-TERM DEBT (continued)

Convertible debentures

The convertible debentures are direct, subordinated, unsecured obligations of the Company and are ranking equally with one another and with all other existing and future unsecured indebtedness of the Company other than the revolving bank loans and the term loan.

The convertible debentures are convertible at any time at the holder's option into the Company's Class "B" Subordinate Voting Shares at a conversion price of \$46.75 per share. This represents a conversion rate of 21.3904 Class "B" Subordinate Voting Shares per \$1 principal amount of Debentures. Upon conversion, holders will be entitled to receive accrued and unpaid interest.

On or after November 30, 2018 and prior to the maturity date, subject to specified conditions and notice, the Company may, at its option, redeem the convertible debentures, in whole or in part, from time to time at the par value plus accrued and unpaid interest. On redemption or maturity, the Company may, at its option and subject to regulatory approval, elect to satisfy its obligation to pay all or a portion of the principal amount by issuing a number of Class "B" Subordinate Voting Shares of the Company determined by dividing the principal amount by 95% of the current market price of the shares on the redemption date. If it elects to do so, it must provide the holders with a minimum 40 days redemption notice.

Loan covenants

Under the revolving bank loans and term loan, the Company is subject to certain covenants, including maintaining certain financial ratios. The convertible debentures also have a cross-default covenant. During the fourth quarter of 2018, certain of the Company's borrowing covenant requirements were amended as the Company was uncertain that all requirements would have been met as at December 30, 2018. Accordingly, as at December 30, 2018, the Company was compliant with all its modified borrowing covenant requirements, and the revolving bank loans and term loan were not due on demand on December 30, 2018.

Subsequent to year-end on March 8, 2019, the Company amended and restated its Credit Agreement with respect to its revolving bank loans and term loan to modify the covenants to permit additional indebtedness with other lenders to refinance and repay the convertible debentures as well as to adjust covenants in light of the last twelve months results of operations. The amendment also extends the maturity date to July 1, 2021 if the convertible debentures are repaid or refinanced by May 30, 2019. If the convertible debentures have not been repaid or refinanced, the maturity remains on May 30, 2019. Refer to Note 19, Liquidity Risk, for additional information.

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NOTE 18 – PROVISIONS

	Product liability	Warranty provision	Employee compensation	Restructuring provision (Note 6)	Other provisions	Total
Balance as at December 30, 2017	\$ 27,125	\$ 11,218	\$ 1,797	\$ 2,839	\$ 3,449	\$ 46,428
Adjustment on initial application of IFRS 15 (Note 3) (1)	–	(1,220)	–	–	–	(1,220)
Adjusted balance as at December 31, 2017	\$ 27,125	\$ 9,998	\$ 1,797	\$ 2,839	\$ 3,449	\$ 45,208
Arising during the year	5,465	8,240	175	9,055	2,348	25,283
Utilized	(4,693)	(9,186)	(98)	(8,660)	(2,175)	(24,812)
Unused amounts reversed	(632)	(893)	(139)	(122)	(226)	(2,012)
Effect of foreign currency exchange rate changes	(5)	(220)	(106)	(9)	(253)	(593)
Balance as at December 30, 2018	\$ 27,260	\$ 7,939	\$ 1,629	\$ 3,103	\$ 3,143	\$ 43,074
Current as at December 30, 2018	\$ 27,260	\$ 7,939	\$ –	\$ 3,103	\$ 1,822	\$ 40,124
Non-current as at December 30, 2018	–	–	1,629	–	1,321	2,950
	<u>\$ 27,260</u>	<u>\$ 7,939</u>	<u>\$ 1,629</u>	<u>\$ 3,103</u>	<u>\$ 3,143</u>	<u>\$ 43,074</u>
Current as at December 30, 2017	\$ 27,125	\$ 11,218	\$ –	\$ 2,839	\$ 2,293	\$ 43,475
Non-current as at December 30, 2017	–	–	1,797	–	1,156	2,953
	<u>\$ 27,125</u>	<u>\$ 11,218</u>	<u>\$ 1,797</u>	<u>\$ 2,839</u>	<u>\$ 3,449</u>	<u>\$ 46,428</u>

(1) Upon adoption of IFRS 15, amounts recognized previously under warranty provision in relation to expected returns of goods either for cash discounts or refunds, for goods or for store credits, have been reclassified either to trade and other payables (refund liabilities related to cash discounts or refunds offered) or to other liabilities (refund liabilities related to exchange of goods or store credits). Assurance-type warranties, such as warranties for general repairs or replacement of defective goods, continues to be accounted for as warranty provision.

Product liability

The recorded liability represents the Company's total estimated exposure related to current and future product liability incidents. Given the nature of the risks, it is not possible to estimate when any eventual liabilities may have to be settled, thus the amount has been presented as current.

Warranty provision

A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. It is expected that most of these costs will be incurred in the next financial year, thus the amount has been presented as current.

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NOTE 18 – PROVISIONS (continued)

Employee compensation

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

Restructuring provision

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for. See Note 6 for information pertaining to the restructuring activities.

Other provisions

Other provisions are mainly constituted by litigation provisions and various damage claims having occurred during the period but not covered by insurance companies.

Litigation provisions have been set up to cover tax, legal and administrative proceedings that arise in the ordinary course of business. These provisions concern numerous cases not material individually. Reversal of such provisions refers to cases resolved in favour of the Company. The timing of cash outflows of litigation provisions is uncertain as it depends upon the outcome of the proceedings. These provisions are therefore not discounted because their present value would not represent meaningful information. Management does not believe it is possible to make assumptions on the evolution of the cases beyond the statement of financial position date.

NOTE 19 – FINANCIAL INSTRUMENTS

The effect of initially applying IFRS 9 on the Company's financial instruments is described in Note 3. Due to the transition method chosen, comparative information has not been restated to reflect the new requirement.

Financial instruments – carrying values and fair values

Fair value disclosure

The Company has determined that the fair value of its current financial assets and liabilities approximates their respective carrying amounts as at the consolidated statement of financial position 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 using level 2 inputs in the fair value hierarchy 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.

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Financial instruments – carrying values and fair values (continued)

Fair value disclosure (continued)

The fair value of the long-term debt bearing interest at fixed rates is as follows:

	December 30, 2018		December 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt – bearing interest at fixed rates	\$ 124,080	\$ 123,702	\$ 122,557	\$ 124,675

Fair value measurement

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing the fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Should any of the inputs to these models or changes in assumptions about these factors occur, this could affect the reported fair value of financial instruments. The Company's financial assets and liabilities measured at fair value consist of derivatives financial instruments. The balance of these assets and liabilities are not significant as at December 30, 2018.

The fair value of the foreign exchange contracts is measured using level 2 inputs in the fair value hierarchy and 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 the interest rate swaps is measured using level 2 inputs in the fair value hierarchy and 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.

Management of risks arising from financial instruments

In the normal course of business, the Company is subject to various risks relating to foreign exchange, interest rate, credit and liquidity. The Company manages these risk exposures on an on-going basis. In order to limit the effects of changes in foreign exchange rates on its revenue, 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 arising from financial instruments.

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Foreign Exchange Rate Risk

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

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 range, in general, from one to twelve months. The Company does not hold or use derivative financial instruments for trading or speculative purposes.

The following tables provide an indication of the Company's significant foreign currency exposures as at December 30, 2018 and 2017, being the year-end balances of financial assets and liabilities denominated in currencies other than the functional currency of each of the Company's entities, as well as the amount of revenue and expenses during the years ended December 30, 2018 and 2017 that were denominated in foreign currencies other than the functional currency of each of the Company's entities. The tables below do not consider the effect of foreign exchange contracts. Amounts are presented in the equivalent US \$.

	December 30, 2018			
	USD	CAD	Euro	RMB
Cash and cash equivalents	\$ 1,598	\$ 726	\$ 397	\$ 2,563
Trade and other receivables	6,723	12,195	903	95
Bank indebtedness	(41)	–	–	–
Trade and other payables	(45,326)	(11,683)	(375)	(25,628)
Long-term debt	–	(2,542)	–	–
Inter-company loans	(19,174)	543	13,158	11,456
Consolidated statement of financial position exposure excluding financial derivatives	<u>\$ (56,220)</u>	<u>\$ (761)</u>	<u>\$ 14,083</u>	<u>\$ (11,514)</u>

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Foreign Exchange Rate Risk (continued)

	December 30, 2017			
	USD	CAD	Euro	RMB
Cash and cash equivalents	\$ 3,746	\$ 986	\$ 432	\$ 2,285
Trade and other receivables	8,179	17,952	788	163
Bank indebtedness	(39)	–	–	–
Trade and other payables	(34,075)	(20,454)	(297)	(26,189)
Long-term debt	(58)	(25,457)	–	–
Inter-company loans	(10,365)	597	11,074	9,568
Consolidated statement of financial position exposure excluding financial derivatives	<u>\$(32,612)</u>	<u>\$(26,376)</u>	<u>\$ 11,997</u>	<u>\$(14,173)</u>

	December 30, 2018				
	USD	CAD	Euro	RMB	JPY
Revenue	\$ 33,502	\$ 84,882	\$ 5,502	\$ 4,232	\$ –
Expenses	<u>317,209</u>	<u>99,736</u>	<u>50,110</u>	<u>94,807</u>	<u>12,271</u>
Net exposure	<u>\$(283,707)</u>	<u>\$(14,854)</u>	<u>\$(44,608)</u>	<u>\$(90,575)</u>	<u>\$(12,271)</u>

	December 30, 2017				
	USD	CAD	Euro	RMB	JPY
Revenue	\$ 33,689	\$ 86,109	\$ 5,238	\$ 4,119	\$ –
Expenses	<u>342,964</u>	<u>101,474</u>	<u>62,080</u>	<u>106,965</u>	<u>11,063</u>
Net exposure	<u>\$(309,275)</u>	<u>\$(15,365)</u>	<u>\$(56,842)</u>	<u>\$(102,846)</u>	<u>\$(11,063)</u>

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Foreign Exchange Rate Risk (continued)

Foreign exchange gains (losses):

	December 30,	
	2018	2017
Gains (losses) relating to financial assets and liabilities, excluding foreign exchange contracts	\$ (1,315)	\$ 2,545
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	(19)	363
Foreign exchange gains (losses)	\$ (1,334)	\$ 2,908

Foreign exchange gains (losses) are included in the consolidated income statements in the following captions:

	December 30,	
	2018	2017
Included in cost of sales	\$ (2,290)	\$ 3,351
Included in general and administrative expenses (1)	959	(171)
Included in research and development expenses	(3)	4
Included in finance expenses	–	(276)
	\$ (1,334)	\$ 2,908

(1) Includes the loss recognized related to the ineffectiveness on hedge of net investments in foreign operations of \$1,434 (2017 – gain of \$3,143).

The following outlines the main foreign exchange rates applied in the preparation of the consolidated financial statements:

	2018 Year-to-date average rate	Reporting date rate December 30, 2018	2017 Year-to-date average rate	Reporting date rate December 30, 2017
CAD to USD	0.7716	0.7329	0.7705	0.7955
Euro to USD	1.1802	1.1457	1.1275	1.2000
GBP to USD	1.3337	1.2749	1.2878	1.3503
AUD to USD	0.7467	0.7045	0.7665	0.7803
CLP to USD	0.0016	0.0014	0.0015	0.0016
BRL to USD	0.2736	0.2577	0.3133	0.3019
COP to USD	0.0003	0.0003	0.0003	0.0003
RMB to USD	0.1512	0.1454	0.1480	0.1537

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Foreign Exchange Rate Risk (continued)

Based on the Company's foreign currency exposures noted above and the foreign exchange contracts in effect in 2018 and 2017, varying the above foreign exchange rates to reflect a 5 percent weakening of the currencies, other than the functional currency of each of the Company's entities, would have the following effects during the years ended December 30, 2018 and 2017, assuming that all other variables remained constant:

December 30, 2018					
Source of variability from changes in foreign exchange rates	USD	CAD	Euro	RMB	JPY
Financial instruments, including foreign exchange contracts for which the Company does not apply hedge accounting	\$ 2,781	\$ 38	\$ (704)	\$ 576	\$ 140
Revenue and expenses	<u>\$ 14,185</u>	<u>\$ 743</u>	<u>\$ 2,230</u>	<u>\$ 4,529</u>	<u>\$ 614</u>
Increase (decrease) on pre-tax income	<u>\$ 16,966</u>	<u>\$ 781</u>	<u>\$ 1,526</u>	<u>\$ 5,105</u>	<u>\$ 754</u>
Increase (decrease) on other comprehensive income (loss)	<u>\$ (1,066)</u>	<u>\$ –</u>	<u>\$ (63)</u>	<u>\$ –</u>	<u>\$ –</u>

December 30, 2017					
Source of variability from changes in foreign exchange rates	USD	CAD	Euro	RMB	JPY
Financial instruments, including foreign exchange contracts for which the Company does not apply hedge accounting	\$ 1,461	\$ 1,570	\$ (600)	\$ (436)	\$ 114
Revenue and expenses	<u>\$ 15,464</u>	<u>\$ 768</u>	<u>\$ 2,842</u>	<u>\$ 5,142</u>	<u>\$ 553</u>
Increase (decrease) on pre-tax income	<u>\$ 16,925</u>	<u>\$ 2,338</u>	<u>\$ 2,242</u>	<u>\$ 4,706</u>	<u>\$ 667</u>
Increase (decrease) on other comprehensive income (loss)	<u>\$ (3,678)</u>	<u>\$ –</u>	<u>\$ (524)</u>	<u>\$ –</u>	<u>\$ –</u>

An assumed 5 percent strengthening of the currencies, other than the functional currency of each of the Company's entities, during the years ended December 30, 2018 and 2017, would have an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Foreign Exchange Rate Risk (continued)

Cash flow hedges – Foreign exchanges contracts

The Company enters into foreign exchange contracts to manage its foreign currency exposure associated with forecasted inventory purchases or other type of expenses. Most of the Company's foreign exchange contracts are designated as hedging instruments in cash flow hedges of forecast of inventory purchases or other type of expenses.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange contracts match the terms of the expected highly probably forecast transactions, i.e. notional amount and expected payment date. The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange contracts is identical to the hedged risk components. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedge risks. The main source of ineffectiveness in the hedge relationships are:

- effect of the counterparty's and the Company's own credit risk on the fair value of the foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates;
- difference in the timing of cash flows of the hedged items and hedging instruments; and
- changes to the forecasted amount of cash flows of hedged items and hedging instruments.

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Foreign Exchange Rate Risk (continued)

Cash flow hedges – Foreign exchanges contracts (continued)

The following table summarizes the Company's derivative financial instruments relating to commitments to buy and sell foreign currencies through foreign exchange contracts:

Maturity	Foreign exchange contracts Currencies (sold/bought)	December 30, 2018			December 30, 2017		
		Average rate (1)	Notional amount (2)	Fair value	Average rate (1)	Notional amount (2)	Fair value
Less than 6 months	Forwards						
	Euro/USD	0.8681	\$ 18,430	\$ (52)	0.8849	\$ 47,475	\$ (3,253)
	GBP/Euro	–	\$ –	\$ –	0.8850	\$ 9,720	\$ 43
	AUD/USD	–	\$ –	\$ –	1.2740	\$ 5,090	\$ 22
	GBP/USD	–	\$ –	\$ –	0.7578	\$ 5,120	\$ (130)
	BRL/USD	3.7272	\$ 600	\$ 24	3.2450	\$ 700	\$ 10
	CAD/USD	–	\$ –	\$ –	1.2546	\$ 4,189	\$ (12)
	CLP/USD	–	\$ –	\$ –	622.8367	\$ 3,000	\$ (38)
	USD/ILS	0.2717	\$ 1,871	\$ (24)	–	\$ –	\$ –
	JPY/USD	–	\$ –	\$ –	112.5489	\$ 2,797	\$ (11)
	USD/RMB	–	\$ –	\$ –	0.1501	\$ 7,678	\$ 128
	Swaps						
	GBP/Euro	0.9042	\$ 1,547	\$ (11)	–	\$ –	\$ –
Euro/USD	–	\$ –	\$ –	0.8384	\$ 2,500	\$ (13)	
GBP/USD	–	\$ –	\$ –	0.7476	\$ 200	\$ (2)	
6 to 12 months	Forwards						
	Euro/USD	0.8552	\$ 10,500	\$ (26)	0.8439	\$ 34,190	\$ (1,009)
	GBP/Euro	–	\$ –	\$ –	0.8845	\$ 3,240	\$ 31
	GBP/USD	–	\$ –	\$ –	0.7586	\$ 1,620	\$ (43)
	CAD/USD	–	\$ –	\$ –	1.2541	\$ 817	\$ (3)
USD/RMB	–	\$ –	\$ –	0.1494	\$ 15,433	\$ 266	
Total				<u>\$ (89)</u>			<u>\$ (4,014)</u>

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

(2) Foreign exchange rates as at December 30, 2018 and 2017 were used to translate amounts in foreign currencies.

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Foreign Exchange Rate Risk (continued)

Net investment hedges

A foreign currency exposure also arises from the net investment in foreign subsidiaries, as a result of the translation of the net investment into the functional currency of their parent entity. Two of the Company's subsidiaries (having a Euro functional currency) have designated a USD inter-company loan and a portion of their revolving bank loans as the hedging instruments in the hedge of their respective foreign net investments (having a US dollar functional currency), in order to mitigate their exposure to the US dollar foreign exchange rate risk on these net investments. Gains or losses on the retranslation of these hedging instruments are transferred to other comprehensive income (loss) to offset any gains or losses on translation of the net investments in the subsidiaries.

There is an economic relationship between the hedged items and the hedging instruments as the net investments create a translation risk that will match the foreign exchange rate risk on the USD inter-company loan and the portion of the revolving bank loans (the "hedging instruments"). The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the hedging instruments is identical to the hedged risk components. The hedge ineffectiveness will arise when the amount of the net investments in the foreign subsidiaries becomes lower than the amount of the related hedging instruments.

The impact of the hedging instruments on the consolidated statements of financial position as at December 30, 2018 and 2017 is as follows:

December 30, 2018							
	Notional amount	Carrying amount	Line item in the consolidated statement of financial position	Change in value used for measuring ineffectiveness	Change in value of hedging instrument recognized in OCI	Hedge ineffectiveness recognized in net income	Line item in the consolidated income statement
Inter-company loans	\$ 114,525	\$ 113,452	–	\$ (4,714)	\$ (3,280)	\$ (1,434)	General and administrative expenses
Long-term debt – revolving bank loans	\$ 25,000	\$ 25,000	Long-term debt	\$ (1,156)	\$ (1,156)	–	General and administrative expenses
				<u>\$ (5,870)</u>	<u>\$ (4,436)</u>	<u>\$ (1,434)</u>	

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Foreign Exchange Rate Risk (continued)

Net investment hedges (continued)

December 30, 2017							
	Notional amount	Carrying amount	Line item in the consolidated statement of financial position	Change in value used for measuring hedge ineffectiveness	Change in value of hedging instrument recognized in OCI	Hedge ineffectiveness recognized in net income	Line item in the consolidated income statement
Inter-company loans	\$ 114,525	\$ 112,354	–	\$ 12,690	\$ 9,547	\$ 3,143	General and administrative expenses
Long-term debt – revolving bank loans	\$ 25,000	\$ 25,000	Long-term debt	\$ 3,262	\$ 3,262	–	General and administrative expenses
				<u>\$ 15,952</u>	<u>\$ 12,809</u>	<u>\$ 3,143</u>	

The impact on the hedged items on the consolidated statements of financial position as at December 30, 2018 and 2017 is as follows:

	2018		2017	
	Change in value used for measuring hedge ineffectiveness	Balance in cumulative translation account reserve	Change in value used for measuring hedge ineffectiveness	Balance in cumulative translation account reserve
Net investments hedged by:				
Inter-company loans	\$ 3,280	\$ 12,164	\$ (9,547)	\$ 8,884
Long-term debt – revolving bank loans	1,156	7,477	(3,262)	6,321
	<u>\$ 4,436</u>	<u>\$ 19,641</u>	<u>\$ (12,809)</u>	<u>\$ 15,205</u>

Interest Rate Risk

The Company is exposed to interest rate fluctuations, related primarily to its revolving bank loans and its term loan, for which amounts drawn are subject to LIBOR, Euribor, Canadian 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 of 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.

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Interest Rate Risk (continued)

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

The impact of the hedging instruments on the consolidated statements of financial position as at December 30, 2018 and 2017 is as follows:

				2018	2017
	Fixed rate	Notional amount	Maturity	Carrying amount	Carrying amount
Interest rate swap agreements	1.75%	\$ 50,000	March 26, 2019	\$ 115	\$ 57

The hedging instruments are included in the other financial assets line items in the consolidated statements of financial position.

Based on the currently outstanding long-term debt bearing interest at variable rates and interest rate swaps as at December 30, 2018 and 2017, 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:

	2018		2017	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Increase (decrease) on pre-tax income due to long-term debt bearing interest at variable rates	\$ (1,565)	\$ 1,565	\$ (1,624)	\$ 1,624
Increase (decrease) on other comprehensive income (loss) due to interest rate swaps	\$ 20	\$ (20)	\$ 144	\$ (145)

Credit Risk

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

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Credit Risk (continued)

The maximum credit risk to which the Company is exposed as at December 30, 2018 and 2017 represents the carrying value of cash and cash equivalents and trade and other receivables, as well as the fair value of foreign exchange contracts and interest rate swaps with positive fair values.

Substantially all trade accounts receivable arise from the sale to the retail industry. The Company performs on-going credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. In addition, a portion of the total trade accounts receivable is insured against possible losses.

Under IFRS 9, the Company establishes an impairment loss allowance on a collective and individual assessment basis, by considering past events, current conditions and forecasts of future economic conditions. Collective assessment is carried out by grouping together trade accounts receivable with similar characteristics.

In 2018, sales to a major customer represented 28.9% (2017 – 27.2%) of total revenue. As at December 30, 2018, one customer accounted for 21.6% (2017 – 16.1%) of the Company's total trade accounts receivable balance.

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

	December 30,	
	2018	2017
Canada	\$ 19,455	\$ 30,572
United States	196,986	182,104
Europe	96,286	113,092
Latin America	63,927	66,094
Asia	18,031	12,205
Other countries	9,674	12,611
	<u>\$ 404,359</u>	<u>\$ 416,678</u>

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

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

	December 30,	
	2018	2017
Mass-market retailers	\$ 216,550	\$ 219,087
Specialty/independent stores	187,809	197,591
	<u>\$ 404,359</u>	<u>\$ 416,678</u>

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Credit Risk (continued)

Expected credit loss assessment as at December 30, 2018 under IFRS 9:

The following table provides information about the exposure to credit risk and ECLs for trade accounts receivable as at December 30, 2018. The ECLs were calculated based on actual credit loss experience and informed credit assessment, including forward-looking information.

	Weighted- average loss rate	Trade accounts receivable - gross	Impairment loss allowance	Trade accounts receivable - net
Current (not past due)	0.6%	\$ 338,480	\$ (1,992)	\$ 336,488
Past due 0-30 days	1.3%	38,934	(507)	38,427
Past due 31-60 days	2.2%	12,317	(268)	12,049
Past due 61-90 days	10.2%	5,715	(582)	5,133
Past due over 90 days	65.9%	35,915	(23,653)	12,262
		<u>\$ 431,361</u>	<u>\$ (27,002)</u>	<u>\$ 404,359</u>

Comparative information as at December 31, 2017 on transition to IFRS 9 is provided in Note 3.

The movement in the impairment loss allowance with respect to trade accounts receivable and to other receivables was as follows. Comparative information for 2017 represent the impairment loss allowance established under IAS 39.

	December 30,			
	Trade accounts receivable		Other receivables	
	2018	2017	2018	2017
Balance, beginning of year, under IAS 39	\$ 18,115	\$ 12,239	\$ –	\$ –
Adjustment on initial application of IFRS 9 on December 31, 2017 (Note 3)	1,582	–	2,351	–
Adjusted balance, beginning of year, under IFRS 9	<u>\$ 19,697</u>	<u>\$ 12,239</u>	<u>\$ 2,351</u>	<u>\$ –</u>
Net remeasurement of impairment loss allowance	16,425	7,622	–	–
Uncollectible accounts written-off	(8,434)	(2,531)	(2,351)	–
Effect of foreign currency exchange rate changes	(686)	785	–	–
Balance, end of year	<u>\$ 27,002</u>	<u>\$ 18,115</u>	<u>\$ –</u>	<u>\$ –</u>

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Credit Risk (continued)

On March 15, 2018, Toys“R”Us, one of the Company’s customers, announced that it had filed a motion seeking Bankruptcy Court approval to begin the process of conducting an orderly wind-down of its U.S. business and liquidation of inventory in all of its U.S. stores. In August 2018, the Bankruptcy Court approved the Toys“R”Us settlement agreement with its creditors and lenders. As part of the settlement agreement reached, the Company received approximately 22 cents on the dollar. Considering these events, the Company had determined that trade accounts receivable from this customer was at risk of collection. Accordingly, the Company recorded an impairment loss of \$3,815 for the year ended December 30, 2017 and an additional \$12,481 for the year ended December 30, 2018 with respect to these trade accounts receivable from Toys“R”Us U.S., within impairment loss on trade and other receivables in its consolidated income statement. Of the \$12,481, \$2,116 (December 30, 2017 – nil) was within Dorel Home segment, \$3,798 (December 30, 2017 – \$747) was within Dorel Juvenile segment and \$6,567 (December 30, 2017 – \$3,068) was within Dorel Sports segment. These amounts represented management’s best estimate of potential losses arising from non-payment based on information available at that time. As at December 30, 2018, \$4,601 was received under the settlement agreement and in total, the Company had a remaining balance of trade accounts receivable from Toys“R”Us U.S. amounting to \$260 (net of impairment loss allowance).

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 Management” (Note 20). It also manages liquidity risk by continuously monitoring actual and projected cash flows matching the maturity profile of financial assets and liabilities. During 2018 and 2017, the Company entered into trade payables finance program agreements with certain financial institutions to manage payments to some suppliers, which is an integral part of the Company’s liquidity risk management process. The Board of Directors reviews and approves the Company’s operating and capital budgets, as well as any material transactions not in the ordinary course of business, including acquisitions or other major investments or divestitures. While management believes that future cash flows from operations and availability under existing/renewed banking arrangements will be adequate to support the Company’s financial liabilities, achievement of future results from operations and therefore meeting bank covenants determining the timing of repayments of its revolving bank loans and term loan is outside the Company’s control.

Given that the convertible debentures were not repaid or refinanced as at December 30, 2018 and as at the date of issuance of the consolidated financial statements, the revolving bank loans and term loan were classified as current as at December 30, 2018. In the event the Company’s convertible debentures are not repaid or refinanced by May 30, 2019, the revolving bank loans and term loan will become due in full on May 30, 2019. In addition, if the Company is not able to meet its quarterly debt covenant requirements, the revolving bank loans and term loan will become due in full at the date of non-compliance. Subsequent to year-end on March 8, 2019, the Company amended its revolving bank loans and term loan agreement to facilitate the compliance with its covenants and to permit additional financing from other lenders to refinance and repay the convertible debentures. As such, there is a risk that the Company will encounter difficulties in meeting its current obligations under the revolving bank loans and term loan that may become due before July 1, 2020 (as amended to July 1, 2021 after year-end see Note 17). On March 14, 2019, Dorel announced that it will adjust its dividend from the current annual \$1.20 a share to \$0.60 for the upcoming year. While the Company does not have arranged financing to repay the revolving bank loans and term loan on May 30, 2019 or if covenants are not met, the Company has various alternatives available should these scenarios arise, such as further adjusting its current dividend policy to meet quarterly covenants or converting the convertible debentures into shares to avoid the revolving bank loans and term loan becoming due in full on May 30, 2019. Accordingly, the Company does not expect a liquidity problem in the foreseeable future, however no assurance can be provided. Assessing the Company’s liquidity including expected future compliance with covenants requires judgment.

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NOTE 19 – FINANCIAL INSTRUMENTS (continued)

Management of risks arising from financial instruments (continued)

Liquidity Risk (continued)

The following table summarizes the contractual maturities of financial liabilities of the Company as at December 30, 2018, excluding future interest payments but including accrued interest:

	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Bank indebtedness	\$ 50,098	\$ 50,098	\$ –	\$ –	\$ –
Long-term debt – revolving bank loans and term loan (1)	313,528	313,528	–	–	–
Long-term debt – convertible debentures	120,000	120,000	–	–	–
Other long-term debt	5,736	1,617	3,356	552	211
Trade and other payables	533,608	533,608	–	–	–
Written put option liabilities	12,002	–	–	12,002	–
Other financial liabilities	2,250	113	754	880	503
Total	\$ 1,037,222	\$1,018,964	\$ 4,110	\$ 13,434	\$ 714

(1) Consistent with the classification in the Company's consolidated statement of financial position as at December 30, 2018, the Company has included the remaining contractual maturities under these debt as less than one year.

The Company's only derivative financial liabilities as at December 30, 2018 and 2017 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 Rate Risk" and "Interest Rate Risk".

NOTE 20 – CAPITAL MANAGEMENT

The Company's objectives in managing capital are 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 structure is composed of net debt, convertible debentures and equity. Net debt consists of interest-bearing debt (excluding convertible debentures) less cash and cash equivalents.

The Company manages its capital structure in light of changes in economic conditions and the requirements of the ratio required to be adhered to for bank covenant purposes. 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 EBITDA (as defined below). This ratio is calculated as follows: indebtedness / adjusted EBITDA and it represents the ratio required for bank covenants and it must be kept below a certain threshold so as not to be in breach.

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NOTE 20 – CAPITAL MANAGEMENT (continued)

Indebtedness

As a result of the covenants for the revolving bank loans and the term loan (Note 17), the Company has revised during the year ended December 30, 2017 its definition of indebtedness used in its indebtedness to adjusted EBITDA ratio in order to align management monitoring of its capital structure with the financial ratios calculation. Indebtedness is equal to the aggregate of bank indebtedness, face value of long-term debt (excluding convertible debentures and including obligations under finance leases), guarantees (including all letters of credit and standby letters of credit) and written put option liabilities based on current earnings level less cash and cash equivalents up to a maximum amount of \$25,000 subject to certain conditions. For the purpose of the calculation of the ratio indebtedness / adjusted EBITDA, the written put option and forward purchase agreement liabilities are based on current earnings level as opposed to the fair value, which is a function of earnings levels in future periods, and is reflected in the consolidated financial statements.

Adjusted EBITDA

The Company has revised during the year ended December 30, 2018 its definition of adjusted EBITDA used in its indebtedness to adjusted EBITDA ratio in order to align management monitoring of its capital structure with the financial ratios calculation under the covenants of its long-term debt. Adjusted EBITDA is equal to the aggregate of earnings before finance expenses, income taxes, depreciation and amortization, stock option plan expense, impairment losses on goodwill, intangible assets and property, plant and equipment, (paid) unpaid product liability costs related to judgments, restructuring and other costs and expenses incurred as a result of the wind-down of the Toys“R”Us, Inc. (“Toys“R”Us”) business and liquidation of inventory in its U.S. stores up to a maximum of \$25,000. Adjusted EBITDA is based on the last four quarters ending on the same date as the consolidated statement of financial position date used to compute the indebtedness but including retroactively the results of operations of the acquired businesses, if any.

Indebtedness to adjusted EBITDA ratio calculation

The indebtedness to adjusted EBITDA ratio as at December 30, 2018 and 2017 were as follows:

	December 30,	
	2018	2017
Bank indebtedness	\$ 50,098	\$ 58,229
Face value of long-term debt [excluding convertible debentures] (Note 17)	319,264	331,552
Guarantees (Note 25 d))	18,627	21,334
Written put option liabilities (1)	4,041	8,346
Less: cash and cash equivalents	<u>(19,895)</u>	<u>(11,854)</u>
Indebtedness	<u>\$ 372,135</u>	<u>\$ 407,607</u>

(1) Based on current earnings level

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NOTE 20 – CAPITAL MANAGEMENT (continued)

Indebtedness to adjusted EBITDA ratio calculation (continued)

	For the trailing four quarters ended December 30,	
	2018	2017
Net income (loss)	\$ (444,343)	\$ 27,441
Finance expenses	32,650	43,248
Income taxes expense (recovery)	(53,820)	16,753
Depreciation and amortization	50,406	50,145
Impairment losses on goodwill, intangible assets and property, plant and equipment (Notes 10, 11 and 12)	525,639	19,929
Restructuring and other costs (Note 6)	18,867	12,074
Expenses incurred as a result of the wind-down of Toys“R”Us	12,917	–
(Paid) unpaid product liability costs related to judgments	–	(9,550)
Stock option plan (recovery) expense (Note 23)	–	(38)
Adjusted EBITDA	<u>\$ 142,316</u>	<u>\$ 160,002</u>
Indebtedness to adjusted EBITDA ratio	<u>2.61:1</u>	<u>2.55:1</u>

NOTE 21 – PENSION & POST-RETIREMENT BENEFIT PLANS

The Company's subsidiaries maintain defined benefit plans and defined contribution plans for their employees.

The plans provide benefits based on a defined benefit amount and length of service. 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 plans where future salary levels do not affect the amount of employee future benefits and the projected benefit method for the plans where future salaries or cost escalation affect the amount of employee future benefits.

DOREL INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 21 – PENSION & POST-RETIREMENT BENEFIT PLANS (continued)

Information regarding the Company's defined benefit pension and post-retirement benefit plans are as follows:

	December 30, 2018		December 30, 2017	
	Pension benefits	Post- retirement benefits	Pension benefits	Post- retirement benefits
Present value of the defined benefit obligations under wholly or partially funded plans:				
Balance, beginning of year	\$ 75,550	\$ 10,828	\$ 69,296	\$ 10,725
Current service cost	2,847	69	2,888	60
Interest cost	2,084	379	2,175	430
Participants contributions	826	–	547	–
Benefits paid	(1,849)	(561)	(2,123)	(608)
Past service costs	–	–	69	–
Effect of foreign currency exchange rate changes	(1,310)	–	3,928	–
Remeasurement (gains) losses recognized in other comprehensive income (loss)	(12,225)	(1,682)	678	221
Restructuring giving rise to curtailments (Note 6)	(170)	–	(1,908)	–
Balance, end of year	<u>\$ 65,753</u>	<u>\$ 9,033</u>	<u>\$ 75,550</u>	<u>\$ 10,828</u>
Plan assets:				
Fair value, beginning of year	\$ 51,141	\$ –	\$ 44,815	\$ –
Interest income on plan assets	1,499	–	1,495	–
Remeasurement gains (losses) recognized in other comprehensive income (loss)	(7,644)	–	1,013	–
Employer contributions	2,495	561	3,225	608
Participants contributions	826	–	547	–
Benefits paid	(1,849)	(561)	(2,123)	(608)
Effect of foreign currency exchange rate changes	(811)	–	2,396	–
Additional charges	(320)	–	(227)	–
Fair value, end of year	<u>\$ 45,337</u>	<u>\$ –</u>	<u>\$ 51,141</u>	<u>\$ –</u>
Effect of asset ceiling	\$ (66)	\$ –	\$ –	\$ –
Net liability arising from defined benefit obligations	<u>\$ (20,482)</u>	<u>\$ (9,033)</u>	<u>\$ (24,409)</u>	<u>\$ (10,828)</u>

The amounts included in the consolidated statements of financial position arising from the Company's obligation in respect of its defined benefit plans are as follows:

	December 30, 2018		December 30, 2017	
	Pension benefits	Post- retirement benefits	Pension benefits	Post- retirement benefits
Present value of defined benefit obligations	\$ (65,753)	\$ (9,330)	\$ (75,550)	\$ (10,828)
Fair value of plan assets	45,337	–	51,141	–
Funding position	(20,416)	(9,330)	(24,409)	(10,828)
Effect of asset ceiling (1)	(66)	–	–	–
Net liability arising from defined benefit obligations	<u>\$ (20,482)</u>	<u>\$ (9,330)</u>	<u>\$ (24,409)</u>	<u>\$ (10,828)</u>

(1) Includes effect of foreign currency exchange rate changes.

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NOTE 21 – PENSION & POST-RETIREMENT BENEFIT PLANS (continued)

Remeasurements of the net defined benefit liabilities recorded during the years ended:

	December 30, 2018		December 30, 2017	
	Pension benefits	Post- retirement benefits	Pension benefits	Post- retirement benefits
<u>Remeasurement gains (losses) recognized in other comprehensive income (loss):</u>				
Return on plan assets (excluding amounts included in net interest expense)	\$ (7,644)	\$ –	\$ 1,013	\$ –
Actuarial gains and losses arising from changes in demographic assumptions	1,552	37	854	134
Actuarial gains and losses arising from changes in financial assumptions	4,445	400	(3,547)	(613)
Actuarial gains and losses arising from experience adjustments	6,228	1,245	2,015	258
Change in the effect of asset ceiling	(69)	–	–	–
	\$ 4,512	\$ 1,682	\$ 335	\$ (221)

	December 30, 2018		December 30, 2017	
	Pension benefits	Post- retirement benefits	Pension benefits	Post- retirement benefits
<u>Remeasurement gains (losses) accumulated in other comprehensive income (loss):</u>				
Balance, beginning of year	\$ (12,453)	\$ (10,314)	\$ (12,631)	\$ (10,093)
Recognized during the year in other comprehensive income (loss)	4,512	1,682	335	(221)
Effect of foreign currency exchange rate changes	(53)	–	(157)	–
Balance, end of year	\$ (7,994)	\$ (8,632)	\$ (12,453)	\$ (10,314)

	December 30, 2018		December 30, 2017	
	Pension benefits	Post- retirement benefits	Pension benefits	Post- retirement benefits
<u>Changes in the asset ceiling:</u>				
Balance, beginning of year	\$ –	\$ –	\$ –	\$ –
Change in the effect of asset ceiling	(69)	–	–	–
Effect of foreign currency exchange rate changes	3	–	–	–
Balance, end of year	\$ (66)	\$ –	\$ –	\$ –

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NOTE 21 – PENSION & POST-RETIREMENT BENEFIT PLANS (continued)

The Company's asset ceiling represents the present value of future economic benefits available in the form of reductions in future contributions.

Net retirement costs for the defined benefit plans included in the consolidated income statements comprise the following:

	December 30, 2018		December 30, 2017	
	Pension benefits	Post-retirement benefits	Pension benefits	Post-retirement benefits
Current service cost	\$ 2,847	\$ 69	\$ 2,888	\$ 60
Net interest expense	585	379	680	430
Past service costs	–	–	69	–
Additional charges	320	–	227	–
Effect of curtailments (Note 6)	(170)	–	(1,908)	–
Net retirement expense for the year	<u>\$ 3,582</u>	<u>\$ 448</u>	<u>\$ 1,956</u>	<u>\$ 490</u>
Actual return on plan assets	<u>\$ (6,145)</u>	<u>\$ –</u>	<u>\$ 2,508</u>	<u>\$ –</u>

Other than the curtailments gain presented within the restructuring and other costs (Note 6), the pension and post-retirement expense is recognized within general and administrative expenses whereas the production-related portion thereof is recognized within cost of sales.

Under the Company's defined contribution plans, total expense was \$4,318 (2017 – \$4,441) and is recorded within the appropriate headings of expenses by function. Total cash payments for employee future benefits for 2018, 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 \$7,374 (2017 – \$8,274).

Actuarial assumptions and sensitivity analysis

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

	Pension benefits		Post-retirement benefits	
	2018	2017	2018	2017
Discount rate	3.18%	2.79%	4.00%	3.60%
Rate of compensation increase	2.22%	2.59%	n/a	n/a

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NOTE 21 – PENSION & POST-RETIREMENT BENEFIT PLANS (continued)

Actuarial assumptions and sensitivity analysis (continued)

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

	Pension benefits		Post-retirement benefits	
	2018	2017	2018	2017
Discount rate	2.79%	3.13%	3.60%	4.14%
Rate of compensation increase	2.59%	2.72%	n/a	n/a
Post-retirement mortality at age 65 for current pensioners (male)	19.4 years	19.4 years	19.6 years	19.6 years
Post-retirement mortality at age 65 for current pensioners (female)	22.4 years	22.4 years	22.1 years	22.1 years
Post-retirement mortality at age 65 for current pensioners aged 45 (male)	20.8 years	20.9 years	21.2 years	21.2 years
Post-retirement mortality at age 65 for current pensioners aged 45 (female)	23.8 years	23.9 years	23.7 years	23.7 years

At December 30, 2018, the weighted-average duration of the defined benefit obligations was 17.7 years for the pension benefits (2017 – 19.4 years) and 10.7 years for the post-retirement benefits (2017 – 11.1 years).

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations as at December 30, 2018 and 2017 by the amounts shown below:

	Pension benefits 2018		Post-retirement benefits 2018		Pension benefits 2017		Post-retirement benefits 2017	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate (0.25% movement)	\$ (2,798)	\$ 3,001	\$ (235)	\$ 245	\$ (3,502)	\$ 3,770	\$ (291)	\$ 305
Rate of compensation increase (0.5% movement)	\$ 677	\$ (645)	n/a	n/a	\$ 959	\$ (938)	n/a	n/a

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the net periodic cost for the years ended December 30, 2018 and 2017 by the amounts shown below.

	Pension benefits 2018		Post-retirement benefits 2018		Pension benefits 2017		Post-retirement benefits 2017	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate (0.25% movement)	\$ (207)	\$ 227	\$ (12)	\$ 13	\$ (260)	\$ 288	\$ (11)	\$ 12
Rate of compensation increase (0.5% movement)	\$ 86	\$ (85)	n/a	n/a	\$ 115	\$ (114)	n/a	n/a

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NOTE 21 – PENSION & POST-RETIREMENT BENEFIT PLANS (continued)

Actuarial assumptions and sensitivity analysis (continued)

The assumed health care cost trend used for measurement of the accumulated post-retirement benefit obligation is 8% in 2018, decreasing gradually to 5% in 2022 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 as at December 30:

	1 percentage point 2018		1 percentage point 2017	
	Increase	Decrease	Increase	Decrease
Effect on total of service and interest cost	\$ 36	\$ (31)	\$ 42	\$ (36)
Effect on post-retirement benefit obligation	\$ 709	\$ (618)	\$ 983	\$ (868)

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

The measurement date used for plan assets and pension benefits, and the measurement date used for post-retirement benefits was December 30 for both 2018 and 2017. The most recent actuarial valuations for the pension plans and post-retirement benefit plans are dated January 1, 2018. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2018, and the next required valuation will be as of January 1, 2019.

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

	December 30,			
	2018		2017	
Debt securities				
Mutual funds - fixed income securities				
United States	\$ 8,274	18%	\$ 7,199	14%
Europe	15	–	17	–
International	2,189	5	1,731	3
Total debt securities	\$ 10,478	23%	\$ 8,947	17%
Other				
Insurance contracts	\$ 16,581	36%	\$ 19,498	38%
Mutual funds - specialty	1,694	4	1,872	4
Total other	\$ 18,275	40%	\$ 21,370	42%
Equity securities				
Canada	\$ 145	–	\$ 155	–
United States	8,404	19	11,013	22
Europe	1,433	3	1,689	3
International	3,102	7	4,056	8
Total equity securities	\$ 13,084	29%	\$ 16,913	33%
Cash and cash equivalents	\$ 3,500	8%	\$ 3,911	8%
Total	\$ 45,337	100%	\$ 51,141	100%

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NOTE 21 – PENSION & POST-RETIREMENT BENEFIT PLANS (continued)

Actuarial assumptions and sensitivity analysis (continued)

All debt securities, all equity securities and all other mutual funds - specialty are valued based on quoted prices (unadjusted) for identical assets and liabilities in active markets. All insurance contracts do not have a quoted market price.

The Company expects \$3,088 in contributions to be paid to the funded defined benefit plans and \$554 in benefits to be paid for the unfunded plans in 2019.

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, 2018 was \$7,892 (2017 – \$10,257) under this self-insured benefit program.

NOTE 22 – SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

The share capital of the Company is as follows:

Authorized

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

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.

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NOTE 22 – SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY (continued)

Details of the issued and outstanding shares are as follows:

	December 30,			
	2018		2017	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Class “A” Multiple Voting Shares				
Balance, beginning of year	4,189,835	\$ 1,768	4,193,435	\$ 1,770
Converted from Class “A” to Class “B” (1)	(1,060)	(1)	(3,600)	(2)
Balance, end of year	<u>4,188,775</u>	<u>\$ 1,767</u>	<u>4,189,835</u>	<u>\$ 1,768</u>
Class “B” Subordinate Voting Shares				
Balance, beginning of year	28,248,611	\$ 201,532	28,210,545	\$ 200,630
Converted from Class “A” to Class “B” (1)	1,060	1	3,600	2
Reclassification from contributed surplus due to settlement of deferred share units (Note 23)	743	13	34,466	900
Balance, end of year	<u>28,250,414</u>	<u>\$ 201,546</u>	<u>28,248,611</u>	<u>\$ 201,532</u>
TOTAL SHARE CAPITAL		<u><u>\$ 203,313</u></u>		<u><u>\$ 203,300</u></u>

(1) During the year ended December 30, 2018, the Company converted 1,060 Class “A” Multiple Voting Shares into Class “B” Subordinate Voting Shares (2017 – 3,600) at an average rate of \$0.63 per share (2017 – \$0.63 per share).

Nature and purpose of other components of equity

Contributed Surplus

The contributed surplus account is used to recognize the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to Note 23 for further details of these plans.

Other Comprehensive Income (Loss)

Cumulative Translation Account

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of monetary assets or liabilities that hedge the Company’s net investment in foreign operations.

Cash Flow Hedges

The cash flow hedges account comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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NOTE 22 – SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY (continued)

Nature and purpose of other components of equity (continued)

Other Comprehensive Income (Loss) (continued)

Defined Benefit Plans

The defined benefit plans account comprises the remeasurements of the net pension and post-retirement defined benefit liabilities.

Other Equity

The other equity account comprises the amount allocated to the equity component of the convertible debentures issued by the Company in October 2014 (see Note 17) and the remeasurement of the present value of the written put option liabilities (see Note 16).

Dividends paid and proposed

The following dividends were declared and paid by the Company:

	December 30,	
	2018	2017
\$1.20 per share on the outstanding Class "A" Multiple Voting Shares, Class "B" Subordinate Voting Shares and Deferred Share Units (2017 – \$1.20 per share)	<u>\$ 38,926</u>	<u>\$ 38,895</u>

On March 14, 2019, Dorel announced that it will adjust its dividend from the current annual \$1.20 a share to \$0.60 for the upcoming year. After the reporting date, a quarterly dividend of \$0.15 per share (after 2017 reporting date – \$0.30 per share) was proposed by the Board of Directors. This dividend has not been recognized as a liability as at December 30, 2018.

NOTE 23 – SHARE-BASED PAYMENTS

Stock option plan

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. During the year ended December 30, 2018, all remaining outstanding stock options under this plan expired. Of the 6,000,000 Class "B" Subordinate Voting Shares initially reserved for issuance, 4,657,750 remains available for issuance under the share option plans as at December 30, 2018.

Directors' Deferred Share Unit Plan

The Company has a Directors' Deferred Share Unit Plan (the "DDSU Plan") under which an external director of the Company may elect annually to have their director's fees paid in the form of DSUs. A plan participant may also receive dividend equivalents paid in the form of DSUs.

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NOTE 23 – SHARE-BASED PAYMENTS (continued)Directors' Deferred Share Unit Plan (continued)

The number of DSUs received by a director is determined by dividing the amount of the remuneration to be paid in the form of DSUs 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 the Board of Directors, either:

- (a) cash equal to the number of DSUs 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 DSUs in the director's account; or
- (c) a combination of cash and Class "B" Subordinate Voting Shares.

Of the 350,000 DSUs authorized for issuance under the plan, 194,299 were available for issuance under the DSU plan as at December 30, 2018.

The changes in outstanding number of DSUs are as follows:

	December 30,	
	2018	2017
DSUs outstanding, beginning of year	137,849	165,036
Issued for fees forfeited	8,574	8,160
Issued for dividend equivalents	9,278	6,351
Settlement of deferred share units (1)	–	(41,698)
DSUs outstanding, end of year	<u>155,701</u>	<u>137,849</u>

- (1) During the year ended December 30, 2017, 41,698 DSUs were settled for which \$1,074 was debited to contributed surplus and \$900 credited to share capital; the difference representing the withholding taxes the Company was required by law to withhold upon settlement.

The employee benefits expense included in general and administrative expenses for fees forfeited for the year ended December 30, 2018 amounts to \$135 (2017 – \$197) and was credited to contributed surplus. In addition, DSUs issued for dividend equivalents for the year ended December 30, 2018 amount to \$171 (2017 – \$154) which were charged to retained earnings and credited to contributed surplus. As at December 30, 2018, there were 155,701 DSUs outstanding with related contributed surplus amounting to \$4,413.

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NOTE 23 – SHARE-BASED PAYMENTS (continued)

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 their annual salary and bonus paid in the form of DSUs. The EDSU Plan assists 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 DSUs. The number of DSUs received by an executive officer is determined by dividing the amount of the salary and bonus to be paid in the form of DSUs 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.

The Board of Directors may also grant discretionary DSUs with vesting conditions, such as service and non-market performance conditions. The holders of the discretionary DSUs are entitled to dividends declared by the Company which are recognized in the form of additional DSUs awards equivalent in value to the dividends paid on the Company’s Class “B” Subordinate Voting Shares. The vesting conditions of these additional DSUs awards are subject to the same performance vesting conditions as the underlying discretionary DSUs.

Upon termination of an executive officer’s service, an executive officer may receive, at the discretion of the Board of Directors, either:

- (a) cash equal to the number of DSUs 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 DSUs in the executive officer’s account; or
- (c) a combination of cash and Class “B” Subordinate Voting Shares.

Of the 750,000 DSUs authorized for issuance under the plan, 571,257 were available for issuance under the EDSU Plan as at December 30, 2018.

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NOTE 23 – SHARE-BASED PAYMENTS (continued)

Executive Deferred Share Unit Plan (continued)

The changes in outstanding number of DSUs are as follows:

	December 30,	
	2018	2017
DSUs outstanding, beginning of year	140,885	90,455
Issued for salaries and bonus paid	22,768	38,001
Discretionary DSUs granted (1)	22,610	12,103
Issued for dividend equivalents	11,639	6,289
Performance adjustment	(18,254)	(4,727)
Forfeited	–	(1,236)
Settlement of deferred share units (2)	(905)	–
DSUs outstanding, end of year	<u>178,743</u>	<u>140,885</u>
Total vested, end of year	<u>157,950</u>	<u>126,534</u>

- (1) On July 4, 2018, the Company granted 22,610 discretionary DSUs. On June 5, 2017, the Company granted 12,103 discretionary DSUs. On August 12, 2016, the Company granted 7,399 discretionary DSUs. The discretionary DSUs granted on July 4, 2018, June 5, 2017 and on August 12, 2016 vest in whole after a 3-year performance cycle and have performance vesting conditions. The number of discretionary DSUs that can vest can be up to 1.5 times the actual number of discretionary DSUs awarded if exceptional financial performance is achieved.
- (2) During the year ended December 30, 2018, 905 DSUs were settled for which \$20 was debited to contributed surplus and \$13 credited to share capital; the difference representing the withholding taxes the Company was required by law to withhold upon settlement.

The employee benefits expense included in general and administrative expenses for salaries and bonus paid and for discretionary DSUs for the year ended December 30, 2018 amounts to \$500 (2017 – \$1,025) and was credited to contributed surplus. In addition, DSUs issued for dividend equivalents for the year ended December 30, 2018 amount to \$212 (2017 – \$154) which were charged to retained earnings and credited to contributed surplus. As at December 30, 2018, there were 178,743 DSUs outstanding with related contributed surplus amounting to \$4,051.

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NOTE 23 – SHARE-BASED PAYMENTS (continued)

Long-term incentive plans (cash-settled)

The Company has the following long-term incentive plans for senior executives and certain key employees:

- A restricted share unit (RSUs) plan that entitles them to a cash payment equal to the number of the Company's Class "B" Subordinate Voting Shares underlying the vested RSUs multiplied by the weighted average trading price during the five trading days immediately preceding the vesting date. The RSUs granted vest in whole after three years from the date of the issuance of the grant. The RSUs vest based on service conditions and are not subject to performance conditions. A plan participant may also receive dividend equivalents paid in the form of RSUs. There are 172,151 RSUs outstanding as at December 30, 2018 (December 30, 2017 – 71,343).
- A share appreciation rights (SARs) plan that entitles them to a cash payment based on the increase in the share price of the Company's Class "B" Subordinate Voting Shares from the grant date to the settlement date. The SARs vest based on service conditions and are not subject to performance conditions. There are 799,191 SARs outstanding as at December 30, 2018 (December 30, 2017 – 977,211)
- A performance share unit (PSUs) plan that entitles them to a cash payment. The PSUs vest based on non-market performance conditions. The number of PSUs that can vest can be up to 1.5 times the actual number of PSUs awarded if exceptional financial performance is achieved. A plan participant may also receive dividend equivalents paid in the form of PSUs. There are 225,386 PSUs outstanding as at December 30, 2018 (December 30, 2017 – 320,060).

The employee benefits expense included in general and administrative expenses for these plans for the year ended December 30, 2018 amounts to a recovery of \$1,525 (December 30, 2017 – an expense of \$826) for which recognized amounts as at December 30, 2018 of \$376 (December 30, 2017 – \$2,721) are included in trade and other payables and \$1,586 (December 30, 2017 – \$3,773) in other long-term liabilities.

NOTE 24 – RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Company recognized as an expense

	December 30,	
	2018	2017
Wages and salaries	\$ 6,783	\$ 7,247
Social security costs	319	255
Contributions to defined contribution plans	7	7
Share-based payments	(689)	424
	<u>\$ 6,420</u>	<u>\$ 7,933</u>

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

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NOTE 25 – 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 2034. These leases have renewal options included in the contracts of various terms. Some lease rent payments are based on changes in local price indices, sales or actual space used. Rent expense, including contingent rent expense, was \$61,280 and \$57,385 in 2018 and 2017, respectively. Future minimum lease payments exclusive of additional charges, are as follows:

	2018	2017
Less than 1 year	\$ 46,461	\$ 48,370
Between 1 and 5 years	117,277	108,176
More than 5 years	61,725	45,725
	<u>\$ 225,463</u>	<u>\$ 202,271</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 \$1,839 due in 2019 and \$214 due between 2020 and 2023.
- c) As at December 30, 2018, the Company has capital expenditure commitments of approximately \$6,098 and commitments for expenditures related to marketing of approximately \$2,950 due in 2019 and \$2,950 due in 2020.
- d) In the normal course of business, the Company granted irrevocable standby letters of credit issued by highly rated financial institutions and other guarantees 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, 2018 standby letters of credit and other guarantees outstanding totalled \$18,627. 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.

NOTE 26 – CONTINGENCIES

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 middle of the range 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 virtually certain 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.

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NOTE 27 – INCOME TAXES

The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

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

	December 30,			
	2018		2017	
	\$	%	\$	%
Income (loss) before income taxes	(498,163)	–	44,194	–
PROVISION FOR INCOME TAXES (1)	(131,016)	26.3	11,623	26.3
ADD (DEDUCT) EFFECT OF:				
Difference in statutory tax rates of foreign subsidiaries	10,933	(2.2)	3,520	8.0
Non-recognition of tax benefits related to tax losses and temporary differences	20,344	(4.1)	5,142	11.6
Tax incentives	(888)	0.2	(1,979)	(4.5)
Non-deductible forward purchase agreement liabilities	–	–	94	0.2
Non-deductible impairment of goodwill	53,414	(10.7)	5,640	12.8
Permanent differences	(6,593)	1.3	(6,214)	(14.1)
Tax rates changes (2)	(1,174)	0.2	(3,910)	(8.8)
Foreign exchange and other – net	1,160	(0.2)	2,837	6.4
	<u>(53,820)</u>	<u>10.8</u>	<u>16,753</u>	<u>37.9</u>

(1) The applicable statutory tax rates are 26.3% for the years ended December 30, 2018 and 2017. The Company's applicable tax rate is the Canadian combined rate applicable in the jurisdictions in which the Company operates.

(2) For December 30, 2017, a tax benefit of \$4,853 relates to the U.S. Tax Reform signed into law on December 22, 2017 which reduces the U.S. federal corporate income tax rate from 35% to 21%, effective as of January 1, 2018. The U.S. Tax Reform introduces other important changes to U.S. corporate income tax laws, which did not significantly impact the Company.

The detail of income taxes expense (recovery) for the years ended December 30, 2018 and 2017 are:

	December 30,	
	2018	2017
Income taxes expense (recovery)		
Current	\$ 11,037	\$ 14,918
Deferred	(64,857)	1,835
	<u>\$ (53,820)</u>	<u>\$ 16,753</u>

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NOTE 27 – INCOME TAXES (continued)

The components of deferred income tax expense for the years ended December 30, 2018 and 2017 are:

	December 30,	
	2018	2017
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	\$ (63,683)	\$ 5,745
Effect of tax rates changes	(1,174)	(3,910)
	<u>\$ (64,857)</u>	<u>\$ 1,835</u>

The deferred tax assets and liabilities in the consolidated statements of financial position are as follows:

	December 30,	
	2018	2017
Deferred tax assets	\$ 57,674	\$ 26,159
Deferred tax liabilities	(13,860)	(43,832)
	<u>\$ 43,814</u>	<u>\$ (17,673)</u>

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NOTE 27 – INCOME TAXES (continued)

The details of changes of deferred income taxes are as follows for the year ended December 30, 2018:

	Balance as at December 30, 2017	Adjustment on initial application of IFRS 15 and IFRS 9 (Note 3)	Adjusted balance as at December 31, 2017	Recognized in net income	Recognized in other comprehen- sive income (loss)	Others (1)	Balance as at December 30, 2018
Capital and operating tax losses carried forward	\$ 36,253	\$ –	\$ 36,253	\$ (5,839)	\$ –	\$ (4,061)	\$ 26,353
Net pension and post- retirement benefit obligations	8,347	–	8,347	199	(1,551)	(86)	6,909
Other financial liabilities and other liabilities	2,743	–	2,743	(676)	(1,124)	(139)	804
Long-term debt	(178)	–	(178)	306	–	56	184
Trade and other receivables	14,091	264	14,355	(2)	–	(3,745)	10,608
Inventories	12,143	(210)	11,933	56	–	185	12,174
Trade and other payables	2,155	523	2,678	964	–	4,713	8,355
Provisions	8,656	(303)	8,352	(589)	–	298	8,062
Assets held for sale	586	–	586	–	–	(1,392)	(806)
Property, plant and equipment	(15,263)	–	(15,263)	1,938	–	1,466	(11,859)
Intangible assets	(59,806)	–	(59,806)	37,987	–	1,753	(20,066)
Goodwill	(29,688)	–	(29,688)	30,407	–	2	721
Other equity	(727)	–	(727)	–	–	(32)	(759)
Foreign exchange and other	3,015	–	3,015	106	–	13	3,134
	<u>\$ (17,673)</u>	<u>\$ 274</u>	<u>\$ (17,400)</u>	<u>\$ 64,857</u>	<u>\$ (2,675)</u>	<u>\$ (969)</u>	<u>\$ 43,814</u>

(1) Others mainly comprise foreign currency exchange rate changes.

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NOTE 27 – INCOME TAXES (continued)

The details of changes of deferred income taxes are as follows for the year ended December 30, 2017:

	Balance as at December 30, 2016	Recognized in net income	Recognized in other comprehen- sive income (loss) (2)	Others (1)	Balance as at December 30, 2017
Capital and operating tax losses carried forward	\$ 34,751	\$ (402)	\$ –	\$ 1,904	\$ 36,253
Net pension and post-retirement benefit obligations	11,606	(233)	(3,379)	353	8,347
Other financial liabilities and other liabilities	1,710	(927)	1,949	11	2,743
Long-term debt	(853)	660	–	15	(178)
Trade and other receivables	16,358	(2,327)	–	60	14,091
Inventories	17,282	(5,175)	–	36	12,143
Trade and other payables	10,658	(7,797)	–	(706)	2,155
Provisions	15,060	(7,290)	–	886	8,656
Assets held for sale	(2,294)	2,880	–	–	586
Property, plant and equipment	(16,462)	1,754	–	(555)	(15,263)
Intangible assets	(64,710)	7,240	–	(2,336)	(59,806)
Goodwill	(41,796)	12,108	–	–	(29,688)
Other equity	(727)	–	–	–	(727)
Foreign exchange and other	5,448	(2,326)	–	(107)	3,015
	<u>\$ (13,969)</u>	<u>\$ (1,835)</u>	<u>\$ (1,430)</u>	<u>\$ (439)</u>	<u>\$ (17,673)</u>

(1) Others mainly comprise foreign currency exchange rate changes.

(2) The majority of the deferred income tax recovery amount of \$3,379 recognized in other comprehensive income (loss) related to the net pension and post-retirement benefit obligations is related to the tax rate change in connection with the U.S. Tax Reform.

Net deferred tax assets of \$43,546 were recognized as at December 30, 2018 (2017 – \$23,314) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income or projections for future taxable income, management believes it is probable that the Company will realize the benefits of these deductible differences and operating tax losses carry forward.

As at December 30, 2018, the net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to \$208,213 (2017 – \$141,051). These net operating losses carried forward will expire starting in 2019 onwards. In addition, as at December 30, 2018, the Company has \$4,546 of net capital losses carried forward for which deferred tax assets have not been recognized (2017 – \$4,546). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains. The unrecognized deferred tax assets related to capital and operating tax losses carried forward amounted to \$46,084 as at December 30, 2018 (2017 – \$33,739).

The Company has not recognized deferred tax liabilities 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. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to corporation and/or withholding taxes. Taxable temporary differences for which deferred tax liabilities were not recognized amount to approximately \$245,630 (2017 – \$442,360).

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.

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NOTE 28 – EARNINGS (LOSS) PER SHARE

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

	December 30,	
	2018	2017
Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares	32,438,645	32,409,551
Dilutive effect of deferred share units	–	256,162
Weighted average number of diluted shares	<u>32,438,645</u>	<u>32,665,713</u>
Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings (loss) per share calculation	<u>313,651</u>	<u>35,000</u>

As at December 30, 2018 and 2017, convertible debentures were excluded from the calculation of diluted earnings (loss) per share as these debentures were deemed to be anti-dilutive.

NOTE 29 – SUPPLEMENTAL CASH FLOW INFORMATION

Net changes in balances related to operations are as follows:

	December 30,	
	2018	2017 (1)
Trade and other receivables	\$ (2,396)	\$ 8,754
Inventories	(60,321)	(23,730)
Other financial assets	84	(629)
Prepaid expenses	370	(3,851)
Other assets	(2,400)	(4,571)
Trade and other payables	102,936	(13,757)
Net pension and post-retirement defined benefit liabilities	(3,056)	(3,833)
Provisions, other financial liabilities and other liabilities	<u>(3,361)</u>	<u>(23,468)</u>
	<u>\$ 31,856</u>	<u>\$ (65,085)</u>

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

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NOTE 29 – SUPPLEMENTAL CASH FLOW INFORMATION (continued)

Details of business acquisitions:

	December 30,	
	2018	2017
Acquisition of a business (Note 8)	\$ (3,128)	\$ –
Balance of sale payable	175	–
Total	<u>\$ (2,953)</u>	<u>\$ –</u>

The components of cash and cash equivalents are:

	December 30,	
	2018	2017
Cash	\$ 37,798	\$ 35,217
Short-term investments	1,474	1,624
Cash and cash equivalents	<u>\$ 39,272</u>	<u>\$ 36,841</u>

The consolidated statements of cash flows exclude the following non-cash transactions:

	December 30,	
	2018	2017
Acquisition of property, plant and equipment financed by trade and other payables	<u>\$ 4,065</u>	<u>\$ 3,676</u>
Acquisition of property, plant and equipment financed by obligations under finance leases (Note 10)	<u>\$ 1,548</u>	<u>\$ 1,754</u>
Acquisition of intangible assets financed by trade and other payables	<u>\$ 459</u>	<u>\$ 539</u>

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NOTE 29 – SUPPLEMENTAL CASH FLOW INFORMATION (continued)

The reconciliation of movements of liabilities to cash flows arising from financing activities is as follows for the year ended December 30, 2018:

	Balance as at December 30, 2017	Cash (used in) provided by financing activities			Non-cash changes			Balance as at December 30, 2018	
		Proceeds	Repay-ments	Financing costs	Effect of foreign currency exchange rate changes	Accretion of interest	Changes in fair value		Net addition of finance leases
Bank indebtedness	\$ 58,229	\$ –	\$ (2,041)	\$ –	\$ (6,090)	\$ –	\$ –	\$ –	\$ 50,098
Revolving bank loans	\$ 136,447	\$ 18,565	\$ –	\$ –	\$ (2,284)	\$ –	\$ –	\$ –	\$ 152,728
Term loan	188,423	–	(28,400)	(78)	–	316	–	–	160,261
Convertible debentures	116,652	–	–	–	–	1,692	–	–	118,344
Other	5,905	174	(1,421)	–	(470)	–	–	1,548	5,736
Total long-term debt	\$ 447,427	\$ 18,739	\$ (29,821)	\$ (78)	\$ (2,754)	\$ 2,008	\$ –	\$ 1,548	\$ 437,069
Deferred financing costs (asset)	\$ (2,605)	\$ –	\$ –	\$ (135)	\$ 20	\$ 1,096	\$ –	\$ –	\$ (1,624)
Interest rate swaps liability (asset) used for hedging	\$ (57)	\$ 108	\$ –	\$ –	\$ –	\$ –	\$ (166)	\$ –	\$ (115)
Written put option liabilities (1)	\$ 23,464	\$ –	\$ –	\$ –	\$ –	\$ –	\$ (11,462)	\$ –	\$ 12,002

(1) Changes in fair value for the year ended December 30, 2018 was credited to other equity.

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NOTE 29 – SUPPLEMENTAL CASH FLOW INFORMATION (continued)

The reconciliation of movements of liabilities to cash flows arising from financing activities is as follows for the year ended December 30, 2017:

	Balance as at December 30, 2016	Cash (used in) provided by financing activities				Non-cash changes					Balance as at December 30, 2017
		Proceeds	Repay-ments	Financing costs	Effect of foreign currency exchange rate changes	Accretion of interest	Changes in fair value	Net addition of finance leases	Loss on early extinguish-ment of long-term debt		
Bank indebtedness	\$ 49,490	\$ 6,927	\$ –	\$ –	\$ 1,812	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 58,229
Revolving bank loans	\$ 125,251	\$ 13,890	\$ (8,782)	\$ –	\$ 6,088	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 136,447
Term loan	–	200,000	(10,800)	(1,009)	–	232	–	–	–	–	188,423
Convertible debentures	115,074	–	–	–	–	1,578	–	–	–	–	116,652
Series "B" Senior Guaranteed Notes	92,285	–	(93,200)	–	–	63	–	–	–	852	–
Series "C" Senior Guaranteed Notes	49,509	–	(50,000)	–	–	34	–	–	–	457	–
Non-convertible debentures	21,847	–	(22,857)	–	887	15	–	–	–	108	–
Other	2,290	3,470	(1,550)	–	234	–	–	1,461	–	–	5,905
Total long-term debt	\$ 406,256	\$ 217,360	\$ (187,189)	\$ (1,009)	\$ 7,209	\$ 1,922	\$ –	\$ 1,461	\$ 1,417	\$ 447,427	
Deferred financing costs (asset)	\$ (1,951)	\$ –	\$ –	\$ (1,764)	\$ (42)	\$ 1,152	\$ –	\$ –	\$ –	\$ (2,605)	
Interest rate swaps liability (asset) used for hedging	\$ 454	\$ –	\$ (344)	\$ –	\$ –	\$ –	\$ (167)	\$ –	\$ –	\$ (57)	
Written put option and forward purchase agreement liabilities (1)	\$ 33,825	\$ –	\$ (7,857)	\$ –	\$ 81	\$ –	\$ (2,585)	\$ –	\$ –	\$ 23,464	

(1) Changes in fair value for the year ended December 30, 2017 amount to \$2,585, of which \$2,861 was credited to other equity and \$276 was debited to finance expenses.

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NOTE 30 – FINANCE EXPENSES AND OTHER INFORMATION

a) Finance expenses

Finance expenses consist of the following:

	December 30,	
	2018	2017
Interest on long-term debt – including effect of cash flow hedge related to the interest rate swaps and the accreted interest related to long-term debt bearing interest at fixed rates	\$ 25,725	\$ 23,746
Remeasurement of forward purchase agreement liabilities	–	276
Amortization of deferred financing costs (Note 13)	1,096	1,152
Loss on early extinguishment of long-term debt (Note 17)	–	10,199
Other interest	5,829	7,875
	\$ 32,650	\$ 43,248

b) Employee benefits expense

	December 30,	
	2018	2017
Wages and salaries	\$ 319,285	\$ 319,021
Social security costs	77,085	79,125
Contributions to defined contribution plans (Note 21)	4,318	4,441
Expenses related to defined benefit plans (Note 21)	3,582	1,956
Expenses related to post-retirement benefits plan (Note 21)	448	490
Share-based payments (Note 23)	(1,367)	1,174
	\$ 403,351	\$ 406,207

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NOTE 31 – SEGMENTED INFORMATION

The Company's significant business segments are based on three distinctive lines of activities which include:

- Dorel Home segment: Engaged in the design, sourcing, manufacturing and distribution of ready-to-assemble furniture and home furnishings which include metal folding furniture, futons, children's furniture, step stools, hand trucks, ladders, outdoor furniture and other imported furniture items.
- Dorel Juvenile segment: Engaged in the design, sourcing, manufacturing, distribution and retail of children's accessories which include infant car seats, strollers, high chairs and infant health and safety aids.
- Dorel Sports segment: Engaged in the design, sourcing, manufacturing and distribution of recreational and leisure products and accessories which include bicycles, jogging strollers, scooters and other recreational products.

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 4.

The above reportable segments are the Company's strategic business units which are based on their products and are managed separately.

The Company evaluates financial performance based on measures of income from segmented operations before finance expenses and income taxes.

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NOTE 31 – SEGMENTED INFORMATION (continued)

Reporting Segments

	December 30,							
	Total		Dorel Home		Dorel Juvenile		Dorel Sports	
	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)
Total revenue	\$ 2,619,513	\$ 2,577,668	\$ 804,447	\$ 790,619	\$ 932,060	\$ 921,669	\$ 883,006	\$ 865,380
Cost of sales (Note 6)	2,054,721	1,965,917	671,598	649,069	687,899	646,408	695,224	670,440
Gross profit	564,792	611,751	132,849	141,550	244,161	275,261	187,782	194,940
Selling expenses	232,977	231,417	26,186	25,945	117,915	116,275	88,876	89,197
General and administrative expenses	178,804	197,454	29,886	33,642	82,759	91,707	66,159	72,105
Research and development expenses	37,819	31,065	4,241	3,859	28,283	21,893	5,295	5,313
Impairment loss on trade and other receivables	16,425	7,622	2,112	23	5,102	2,493	9,211	5,106
Restructuring and other costs (Note 6)	16,609	11,814	252	–	6,192	10,358	10,165	1,456
Impairment losses on goodwill, intangible assets and property, plant and equipment (Notes 10, 11 and 12)	525,639	19,929	–	–	288,416	19,929	237,223	–
Operating profit (loss)	(443,481)	112,450	\$ 70,172	\$ 78,081	\$ (284,506)	\$ 12,606	\$ (229,147)	\$ 21,763
Finance expenses	32,650	43,248						
Corporate expenses	22,032	25,008						
Income taxes expense (recovery)	(53,820)	16,753						
Net income (loss)	\$ (444,343)	\$ 27,441						
Total Assets	\$ 1,688,497	\$ 2,181,978	\$ 335,722	\$ 300,213	\$ 756,714	\$ 1,066,597	\$ 596,061	\$ 815,168
Total Liabilities	\$ 646,186	\$ 594,125	\$ 167,527	\$ 136,925	\$ 263,295	\$ 270,302	\$ 215,364	\$ 186,898
Additions to property, plant and equipment	\$ 35,476	\$ 40,334	\$ 3,741	\$ 3,878	\$ 21,423	\$ 30,119	\$ 10,312	\$ 6,337
Additions to intangible assets	\$ 20,889	\$ 21,236	\$ 35	\$ –	\$ 20,579	\$ 20,794	\$ 275	\$ 442
Depreciation and amortization included in operating profit (loss)	\$ 49,840	\$ 49,338	\$ 3,975	\$ 3,846	\$ 36,849	\$ 35,744	\$ 9,016	\$ 9,748
Accelerated depreciation and write-down of long-lived assets included in operating profit (loss) (Notes 6, 10 and 11)	\$ 7,962	\$ 2,284	\$ –	\$ –	\$ –	\$ 2,222	\$ 7,962	\$ 62

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. Comparative information has been reclassified due to a new impairment loss line presentation. See Note 3.

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NOTE 31 – SEGMENTED INFORMATION (continued)

Disaggregation of Total Revenue

Within each reporting segment, the Company disaggregates its revenue from customers based on the geographic area where the selling entity is located and based on channels of distribution as it believes it best depicts how the nature, timing and uncertainty of the Company's revenue and cash flows are affected by economics factors. The following table provides the disaggregation of the Company's total revenue:

	December 30,							
	Total		Dorel Home		Dorel Juvenile		Dorel Sports	
	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)
Geographic area								
Canada	\$ 204,082	\$ 214,614	\$ 144,087	\$ 151,268	\$ 29,103	\$ 31,852	\$ 30,892	\$ 31,494
United States	1,514,551	1,467,912	637,115	614,266	328,982	301,671	548,454	551,975
Europe	512,769	488,359	1,813	20	320,082	320,473	190,874	167,866
Latin America	242,870	247,623	–	–	146,423	152,990	96,447	94,633
Asia	80,888	88,930	61	78	64,562	69,442	16,265	19,410
Other countries	64,353	70,230	21,371	24,987	42,908	45,241	74	2
Total	\$ 2,619,513	\$ 2,577,668	\$ 804,447	\$ 790,619	\$ 932,060	\$ 921,669	\$ 883,006	\$ 865,380
Channels of distribution								
Brick and mortar retailers	\$ 1,874,500	\$ 1,887,656	\$ 390,403	\$ 405,026	\$ 676,918	\$ 686,773	\$ 807,179	\$ 795,857
Internet retailers	701,943	642,024	412,137	385,029	214,950	188,408	74,856	68,587
Other	43,070	47,988	1,907	564	40,192	46,488	971	936
Total	\$ 2,619,513	\$ 2,577,668	\$ 804,447	\$ 790,619	\$ 932,060	\$ 921,669	\$ 883,006	\$ 865,380

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

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NOTE 31 – SEGMENTED INFORMATION (continued)

Total Assets

	December 30,	
	2018	2017 (1)
Total assets for reportable segments	\$ 1,688,497	\$ 2,181,978
Corporate assets	45,009	47,729
Total Assets	<u>\$ 1,733,506</u>	<u>\$ 2,229,707</u>

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

Total Liabilities

	December 30,	
	2018	2017 (1)
Total liabilities for reportable segments	\$ 646,186	\$ 594,125
Corporate liabilities	506,217	543,431
Total Liabilities	<u>\$ 1,152,403</u>	<u>\$ 1,137,556</u>

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.

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NOTE 31 – SEGMENTED INFORMATION (continued)

Non-Current Assets Geographic Information

In presenting the geographic information for the Company's non-current assets, segment assets were based on the geographic location of the assets.

	December 30,	
	Property, plant and equipment, intangible assets and goodwill	
	2018	2017
Canada	\$ 40,248	\$ 50,816
United States	99,842	349,527
Europe	238,521	451,990
Latin America	23,049	95,898
Asia	118,058	126,409
Other countries	2,072	5,084
	<u>\$ 521,790</u>	<u>\$ 1,079,724</u>

Goodwill

The continuity of goodwill by reporting segment is as follows:

(a) Gross amount

	Total	Dorel Home	Dorel Juvenile	Dorel Sports
Balance as at December 30, 2016	\$ 578,056	\$ 31,172	\$ 351,676	\$ 195,208
Effect of foreign currency exchange rate changes	23,395	–	23,399	(4)
Balance as at December 30, 2017	\$ 601,451	\$ 31,172	\$ 375,075	\$ 195,204
Addition (Note 8)	1,281	1,281	–	–
Disposal (1)	(9,237)	–	–	(9,237)
Effect of foreign currency exchange rate changes	(15,119)	(38)	(11,287)	(3,794)
Balance as at December 30, 2018	\$ 578,376	\$ 32,415	\$ 363,788	\$ 182,173

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NOTE 31 – SEGMENTED INFORMATION (continued)

Goodwill (continued)

(b) Accumulated impairment losses

	Total	Dorel Home	Dorel Juvenile	Dorel Sports
Balance as at December 30, 2016	\$ 142,266	\$ –	\$ 81,882	\$ 60,384
Impairment loss (Note 12)	19,929	–	19,929	–
Effect of foreign currency exchange rate changes	1,184	–	1,185	(1)
Balance as at December 30, 2017	\$ 163,379	\$ –	\$ 102,996	\$ 60,383
Disposal (1)	(9,237)	–	–	(9,237)
Impairment loss (Note 12)	353,634	–	218,813	134,821
Effect of foreign currency exchange rate changes	(5,816)	–	(2,022)	(3,794)
Balance as at December 30, 2018	\$ 501,960	\$ –	\$ 319,787	\$ 182,173

(c) Net book value

	Total	Dorel Home	Dorel Juvenile	Dorel Sports
Balance as at December 30, 2017	\$ 438,072	\$ 31,172	\$ 272,079	\$ 134,821
Balance as at December 30, 2018	\$ 76,416	\$ 32,415	\$ 44,001	\$ –

(1) As a result of the sale of the performance apparel line of business in the second quarter of 2018 (Note 6), SUGOI's related goodwill was derecognized.

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NOTE 31 – SEGMENTED INFORMATION (continued)

Concentration of Credit Risk

Sales to the Company's major customer as described in Note 19 were concentrated as follows:

	Canada		United States		Foreign	
	2018	2017 (1)	2018	2017 (1)	2018	2017 (1)
Dorel Home	1.9%	2.1%	10.8%	11.0%	0.3%	0.4%
Dorel Juvenile	0.6%	0.6%	6.1%	4.7%	0.4%	0.2%
Dorel Sports	0.1%	0.1%	8.7%	7.9%	0.0%	0.2%

(1) The Company has initially applied IFRS 15 and IFRS 9 as at December 31, 2017. Under the transition methods chosen, comparative information is not restated. See Note 3.



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