SAVARIA CORPORATION

Management's Report

For the Three and Twelve-Month Periods Ended December 31, 2009

Contents

1. Basis of Presentation

This management's report is designed to assist the reader in better understanding the business of Savaria Corporation and its key financial results. It notably discusses the Corporation's financial position and operating results for the three and the twelve-month periods ended December 31, 2009 in comparison with those for the corresponding periods of fiscal 2008. It also provides a comparison of the balance sheets as at December 31, 2009 and 2008. Unless otherwise indicated, the terms "the Corporation" and "Savaria" refer to Savaria Corporation and its subsidiaries.

Prepared in accordance with *National Instrument 51-102 – Continuous Disclosure Obligations*, this report should be read in conjunction with the audited consolidated financial statements and accompanying notes. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The financial statements and management's report have been reviewed by Savaria's Audit Committee and approved by its Board of Directors.

This management's report was prepared as of March 30, 2010. Additional information, including the Annual Information Form, is available on SEDAR's website at www.sedar.com.

2. Forward-Looking Statements and Disclaimer

Certain statements in this management's report may be forward-looking. Forward-looking statements involve known and unknown risks, uncertainties or other factors that may cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The reader is warned against the risk of giving excessive credibility to these forward-looking statements.

3. Compliance with Canadian Generally Accepted Accounting Principles

The Corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). However, the Corporation uses non-GAAP measures such as EBITDA, EBITDA per share, working capital, current ratio, book value per share, cash and cash equivalents per share and total net debt to invested capital ratio for analysis purposes to measure its financial performance. EBITDA means earnings before interest, income taxes and amortization ("EBITDA") while EBITDA per share means EBITDA per average diluted number of common shares outstanding. A reconciliation between net earnings and EBITDA is provided in Section 8, *Summary of Quarterly Results*. Working capital is defined as the result of current assets less current liabilities while the current ratio is defined as the result of current assets divided by current liabilities. Book value per share corresponds to the result of shareholders' equity divided by the number of shares outstanding at the end of each quarter, and cash and cash equivalents per share correspond to the result of cash and cash equivalents divided by the number of shares outstanding at the end of each quarter.

Total net debt to invested capital ratio is the result of the total of long-term debt less the net result of cash and cash equivalents and bank loans ("numerator") divided by the total of shareholders' equity and the numerator.

Although management, investors and analysts use these measures to evaluate the Corporation's financial and operating performance, they have no standardized definition in accordance with GAAP and should not be regarded as an alternative to financial information prepared in accordance with GAAP. These measures may therefore not be comparable to similar measures reported by other companies.

4. Business Overview

Savaria Corporation's operations are divided into two reportable segments: *Accessibility* and *Adapted Transportation.* Business in the first segment is conducted by the subsidiary Savaria Concord Lifts, which designs, manufactures and distributes products meeting the needs of people with mobility problems, primarily stairlifts, vertical and inclined platform lifts and elevators for residential and commercial use. The Corporation ranks as Canada's leader and the second largest U.S. player in the accessibility equipment industry. Its expanded product line is offered through a network of some 600 retailers located mainly in North America. Business in the second segment is conducted by the subsidiary Van-Action (2005), which converts and adapts mini-vans, also for people with mobility problems. Annualized revenues in the *Accessibility* segment total $43 million ("M"), whereas those in the *Adapted Transportation* segment amount to $12 M, bringing aggregate revenues to approximately $55 M. Analyses in this report cover the two business segments unless expressly stated otherwise.

Headquartered in Laval, Quebec, Savaria has three other facilities: one 220,000-square-foot plant in Brampton, Ontario, one 70,000-square-foot plant in Ville St-Laurent, Quebec and a third 35,000-square-foot plant in Huizhou, China. Operated by Savaria (Huizhou) Mechanical Equipment Manufacturing Co. Ltd, this last facility assembles accessibility equipment components and finished products for the benefit of the Corporation's subsidiaries and for the sale of products on the Chinese and European markets.

During fiscal 2009, Savaria's revenues were recorded in the United States (46%), Canada (44%) and, to a lesser extent, outside North America (10%). The Corporation has some 360 employees and its shares are listed on Toronto Stock Exchange under the ticker symbol SIS.

5. Business Context

A Fast-Growing Market due to the Unprecedented Aging of the Population

Equipment designed for the accessibility market is sold to wheelchair users and to elderly people with mobility problems for whom stairs and raised building entrances are major obstacles. The number of people requiring accessibility products will therefore steadily grow as the population continues to age.

The population is aging at an accelerated pace, as shown by a new study titled *An Aging World: 2008*, published by the U.S. Census Bureau last July.

In 2008, the number of people aged 65 and over was estimated at 506 million worldwide, representing 7% of the world's total population. Another 870,000 people worldwide turned 65 every month. Based on projections for ten years hence, this increase will reach 1.9 million people, for an annual net increase of approximately 23 million.

Consequently, the number of people requiring accessibility equipment will grow, for several reasons. First, the older population is growing and people's life expectancy increasing, with the result that some eleven countries have an average life expectancy of 80. Secondly, seniors are increasingly well-off and will hence have the means to adapt their own homes in order to remain there. Finally, the family structure and care of aging people are changing, increasingly requiring accessibility equipment to be installed in these people's homes and public buildings.

Furthermore, the U.S. Census Bureau expects the number of disabled people to grow twice as fast as the country's population overall. In fact, it forecasts that an additional 500,000 Americans annually will suffer from a disability, bringing their total to 35.4 million by 2030.

These fundamental changes will definitely have a major impact on the demand for accessibility products. What's more, because of the aging population and high cost of living in institutions for people with mobility problems, various public and private organizations in both the United States and Canada could reimburse the cost of such devices, as is common today in some European countries.

Along with demographic factors, the demand for accessibility products is also affected by economic conditions and the strength of home and institutional construction.

As regards the North American competitive context, three main companies, all private entities or subsidiaries of large corporations, offer a similar product line to Savaria. Since 85% of the Corporation's products are custom-made, large-scale manufacturing and imports are not a serious threat. Although competing products are of a high quality and sold at competitive prices, Savaria stands apart for its operational flexibility, the reliability and safety of its products and the quality of its after-sales service.

The retail market, for its part, is highly fragmented. More than 1,000 outlets sell accessibility products in North America.

6. Vision and Strategy

Our Vision

Be a global leader in the design, manufacturing, distribution and after-sales service of products that promote individual mobility.

Savaria is the leader in the North American market where our network of distributors is primarily located. Over time, we aim to expand our business into other countries such as those in Europe and Asia, which we believe continue to hold strong growth potential both for sales and for optimizing our purchasing.

Our Strategy

In 2010, the Corporation will carry on the efforts made in 2009 to increase its sales. Furthermore, its strategy has been adapted to handle the challenges of the difficult economic conditions prevailing in the United States, especially in the real estate market, and affecting the sale of *Elevators*.

Savaria's strategy in upcoming months will be built upon:

- increasing productivity and efficiency through tight cost control as to obtain results within the short term without compromising on the quality of our products;
- seeking new potential markets with strong demand for accessibility products to increase our sales; for instance, we are currently working on developing a distribution network in China in order to sell the products manufactured at our Huizhou plant locally; and

- benefiting from better quality-price ratios by purchasing our raw materials and products from the best suppliers, whether they be external suppliers, partners or a subsidiary of the group.

By implementing these strategies, we aim to maximize investor value and to earn the loyalty of our employees, clients and suppliers.

7. Fourth-Quarter and Fiscal 2009 Highlights

Sales Down 1.7% for the Quarter and 0.6% for the Fiscal Year

Sales totalled $14.3 million in the fourth quarter of 2009, down 1.7% from $14.5 million in the corresponding quarter of 2008. For the fiscal year, sales slipped from $55.5 million in 2008 to $55.2 million in 2009, a slight decline of 0.6%.

Operating Earnings of $1.2 Million for the Quarter and $2.8 Million for the Fiscal Year

Operating earnings rose to $1.2 million in the fourth quarter of 2009, up by $818,000 over the corresponding quarter of 2008. For fiscal 2009, operating earnings amounted to $2.8 million, compared with $2.5 million in 2008, which included a $2 million gain on the disposal of the Laval building; however, an improvement in the gross margin contributed to maintain operating earnings in 2009.

Repurchase of 4.7 Million Common Shares

During the third quarter, the Corporation repurchased 4,695,795 common shares at a price of $0.929 per share, including $0.029 in fees, by way of a substantial issuer bid.

Cash Flows from Operating Activities of $4 Million

Despite the challenging economic conditions, the Corporation generated cash flows from operating activities of $3,921,541 during fiscal 2009.

8. Overview of the Last Three Years

Selected financial information for the last three years is presented in the table below.

(in thousands, except per-share amounts, percentages and exchange rates)	**2009**	2008	2007
USD/CAD exchange rate, end of year	**1.051**	1.218	0.9913
Average effective exchange rate (1)	**1.07**	1.0276	1.0909
Sales	**$55,172**	$55,508	$58,489
Gross profit as a % of sales	***26.9%***	*22.8%*	*23.2%*
Selling and administrative expenses	**$11,263**	$11,368	$10,525
Selling and administrative expenses as a % of sales	***20.4%***	*20.5%*	*18.0%*
Operating earnings	**$2,755**	$2,532	$1,717
As a % of sales	***5.0%***	*4.6%*	*2.9%*
EBITDA (2)	**$4,121**	$4,122	$1,351
EBITDA per share	**$0.162**	$0.151	$0.048
Exchange gain (loss)	**$(393)**	$1,792	$(927)
Net earnings (loss)	**$2,258**	$1,549	$(324)
Net earnings (loss) per share – basic and diluted	**$0.089**	$0.057	$(0.011)
Dividends declared per share	**$0.03**	$0.063	$0.082
Weighted average number of common shares outstanding – diluted	**25,411**	27,349	28,421
Total assets	**$39,888**	$40,751	$38,689
Long-term debt (including current portion)	**$10,697**	$8,776	$675
Total liabilities	**$19,099**	$22,912	$16,066
Shareholders' equity	**$20,789**	$17,839	$22,623

(1) Calculated considering foreign exchange contracts applied to the periods in question

(2) Reconciliation of EBITDA with net earnings (loss) provided in Section 9

The Corporation's sales have fallen slightly over the past three years. This decline is due primarily to the economic conditions prevailing in the United States, where sales decreased from $30.9 M in 2007 to $25.3 M in 2009. An increase in sales in Canada and outside North America contributed to minimize the impact of the sales decline in the United States.

Gross profit, which held quite steady between 2007 and 2008, rose significantly in 2009 thanks to the measures taken to mitigate the impact of the economic context and the increase in purchases from China, which grew by 68% to $5.1 M.

Excluding the $2 M gain on the disposal of the Laval building in 2008, operating earnings as a percentage of sales decreased by 2% between 2007 and 2008, whereas they were up considerably in 2009 over 2008, to reach a 5% ratio as a percentage of sales, thanks primarily to the improvement in gross profit.

In addition to the aforementioned items, the change in the exchange gain (loss) and the change in the valuation of restructured notes (formerly ABCP investments) had a significant impact on net earnings during the reporting periods analyzed. In 2007, the Corporation recorded an exchange loss of approximately $927,000, whereas it realized an exchange gain of $1.8 M in 2008 and an exchange loss of $393,000 in 2009. In regard to the change in the valuation of ABCP investments or restructured notes, the Corporation incurred a charge of $254,000 in 2007 and $1.4 M in 2008, whereas it benefited from an increase in value of $565,000 in 2009. In addition, a gain on a put option related to a loan at a concessional rate yielded a $348,000 gain in 2009. The tax expense also had a major impact on net earnings due mostly to the fact that no future tax benefit was recognized on losses related to the change in the valuation of ABCP in 2007 and 2008, while, in 2009, no income tax expense was recognized on the increase in value of the restructured notes. The effective tax rate therefore decreased from 246% in 2007 to 51% in 2008 and 22% in 2009.

A substantial issuer bid allowed the repurchase of 4.7 million shares in 2009, which had a considerable impact on the weighted average number of shares outstanding in comparison with prior years.

Whereas total assets were up slightly over 2007, total liabilities, which increased by $6.8 M in 2008 over 2007 as a result of the $6 M unrealized loss on foreign exchange contracts, decreased by $3.8 M in 2009 thanks mainly to the unrealized gain on foreign exchange contracts, less the contracting of long-term debt of $4 M.

Finally, shareholders' equity went from $22.6 M as at December 31, 2007 to $20.8 M as at December 31, 2009, due primarily to the share repurchase, offset by unrealized gains on foreign exchange contracts recorded in accumulated other comprehensive income.

9. Summary of Quarterly Results

Selected financial information for the last eight quarters is presented in the following table. Management is of the opinion that the information related to these quarters has been prepared in accordance with the same principles as the audited financial statements for the fiscal year ended December 31, 2009.

(in thousands, except per-share amounts, percentages and exchange rates – unaudited)	**2009**				2008			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
USD/CAD exchange rate, end of quarter	**1.051**	1.0707	1.163	1.2613	1.218	1.0642	1.0197	1.0265
Average effective exchange rate [1]	**1.0849**	1.0642	1.0638	1.0670	1.0652	1.0289	1.0100	1.0063
Sales	**$14,301**	$14,592	$15,093	$11,186	$14,547	$14,869	$13,999	$12,093
Gross profit as a % of sales	***28.5%***	*26.3%*	*27.6%*	*24.8%*	*26.3%*	*24.3%*	*21.0%*	*18.9%*
Selling and administrative expenses	**$2,701**	$3,023	$2,824	$2,715	$3,302	$2,631	$2,651	$2,784
Selling and administrative expenses as a % of sales	***18.9%***	*20.7%*	*18.7%*	*24.3%*	*22.7%*	*17.7%*	*18.9%*	*23.0%*
Operating earnings (loss)	**$1,153**	$599	$1,140	$(137)	$334	$796	$2,113	$(711)
As a % of sales	***8.1%***	*4.1%*	*7.6%*	*(1.2)%*	*2.3%*	*5.4%*	*15.1%*	*(5.9)%*
EBITDA [2]	**$1,302**	$413	$1,309	$1,097	$890	$1,357	$2,263	$(388)
EBITDA per share	**$0.059**	$0.016	$0.049	$0.04	$0.033	$0.050	$0.083	$(0.014)
Exchange gain (loss)	**$(77)**	$(471)	$89	$66	$1,181	$400	$(66)	$277
Net earnings (loss)	**$816**	$224	$663	$555	$(146)	$631	$1,652	$(588)
Net earnings (loss) per share – basic and diluted	**$0.037**	$0.009	$0.025	$0.02	$(0.005)	$0.023	$0.060	$(0.021)
Dividends declared per share	**-**	-	-	$0.03	-	-	$0.063	**-**
Weighted average number of common shares outstanding – diluted	**22,183**	26,097	26,938	27,279	27,312	27,348	27,347	27,534

[1] Calculated considering foreign exchange contracts applied to the periods in question

[2] Reconciliation of EBITDA with net earnings (loss) provided in the following table

Sales for the last two quarters have declined slightly from sales in the second quarter of 2009, which stood at a record high since the second quarter of fiscal 2006. The *Adapted Transportation* segment and the Chinese subsidiary recorded higher sales in 2009 than in 2008. The weak sales figure for the first quarter of 2009 is due to the impact of the slowdown in the U.S. real estate market and can be explained by the fact that the first quarters are traditionally weaker than other quarters of the year.

The quarterly average of selling and administrative expenses stood at $2.8 M for 2009 and 2008.

The following section provides a detailed analysis of operating results for the fourth quarter of 2009 in comparison with the same quarter of 2008, and of year-to-date results for fiscal 2009 in comparison with the same period of the previous year. The detailed analysis of prior quarters is provided in the interim management's reports for fiscal 2009 and 2008, available on SEDAR's website at www.sedar.com.

Reconciliation of EBITDA with Net Earnings

As mentioned in Section 3, although EBITDA is not recognized according to GAAP, it is used by management, investors and analysts to assess the Corporation's financial and operating performance.

A reconciliation between net earnings (loss), calculated in accordance with GAAP, and EBITDA, is provided in the table below.

(in thousands of dollars – unaudited)	**2009**				2008			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Net earnings (loss)	**$816**	$224	$663	$555	$(146)	$631	$1,652	$(588)
Plus:								
Interest on long-term debt	**97**	70	75	77	42	27	31	35
Interest expense and banking fees	**21**	29	39	30	32	44	33	93
Income taxes	**165**	(117)	331	265	876	486	361	(114)
Amortization of fixed assets	**109**	104	90	92	110	73	93	110
Amortization of intangible assets	**113**	108	111	107	85	108	108	109
Less:								
Interest income and dividends	**19**	5	-	29	109	12	15	33
EBITDA	**$1,302**	$413	$1,309	$1,097	$890	$1,357	$2,263	$(388)

10. Operating Results

Certain data on results for the fourth quarter (three months) and the fiscal year ended December 31, 2009 (twelve months) are presented in the following tables.

Hedge Accounting

In conformity with the hedging policy adopted by the Board of Directors, the Corporation uses foreign exchange contracts to reduce the risks related to currency fluctuations. It applies hedge accounting, which allows the recognition of gains, losses, revenues and expenses from derivative financial instruments in the same period as those related to the hedged item. Foreign exchange contracts are recognized at their fair value in the balance sheet according to their maturity date. Unrealized gains and losses not recognized as net earnings are recorded in *Accumulated other comprehensive income (loss)*.

As at December 31, 2009, the Corporation held foreign exchange contracts totalling US$18 M for a hedging period extending until September 30, 2010, at an average exchange rate of 1.0821. At that date, the unrealized gain on these foreign exchange contracts amounted to $555,000 and was recorded in *Accumulated other comprehensive income*. A $2,217,000 gain before taxes from the sale of foreign exchange contracts before maturity is also recorded in *Accumulated other comprehensive income* and will be reversed to net earnings during the period extending until June 2012, being the hedging period of such contracts.

Gross Profit

(in thousands of dollars, except percentages and exchange rates)	3 Months (Unaudited)			12 Months		
	2009	2008	% Change	**2009**	2008	% Change
Average effective exchange rate [1]	**1.0849**	1.0652	1.8%	**1.07**	1.0276	4.1%
Sales	**$14,301**	$14,547	(1.7)%	**$55,172**	$55,508	(0.6)%
Cost of goods sold	**$10,226**	$10,714	(4.6)%	**$40,321**	$42,844	(5.9)%
Gross profit	**$4,075**	$3,833	6.3%	**$14,851**	$12,664	17.3%
As a % of sales	***28.5%***	*26.3%*	*n/a*	***26.9%***	*22.8%*	*n/a*

[1] Calculated considering foreign exchange contracts applied to the periods in question

Sales for the fourth quarter of 2009 were down 1.7% from the fourth quarter of 2008. Whereas the sale volume fell 2.6%, the exchange rate used to translate U.S. sales had a favourable impact of 0.9%. More specifically, the *Adapted Transportation* segment posted a sales growth of approximately 20.7%, as sales rose from $2.9 M in the fourth quarter of 2008 to $3.5 M in the fourth quarter of 2009, due mainly to the increase in adaptation revenues and the number of vehicle conversions. This increase accounted for 5.1% of the variation in the Corporation's consolidated sales compared with 2008. The *Accessibility* segment posted a sales volume decrease representing a negative 7.7% variation in the Corporation's consolidated sales. The number of units delivered by the Canadian plants was down 22% for elevators and 1% for accessibility products. Conversely, the Chinese subsidiary's sales grew by $635,000 or 4.4% over the consolidated sales for the fourth quarter of 2008.

For the fiscal year, fiscal 2009 sales held relatively steady with those for fiscal 2008, down by just 0.6%. The number of units sold by Canadian plants in the *Accessibility* segment decreased by 17% for elevators and 6% for accessibility products compared with 2008. The Chinese subsidiary's sales increased by $1.6 M, accounting for 3% of the variation in consolidated sales compared with 2008. Sales in the *Adapted Transportation* segment grew by $2.4 M, representing 4.3% of the variation in the Corporation's consolidated sales for the twelve-month period. The exchange rate used to translate U.S. sales had a favourable impact of $1.2 M or 2.2%.

The proportion of sales from the United States was down significantly in the fourth quarter of 2009 from the same period of 2008, falling from 52.9% or $7.7 M to 41.7% or $6 M of total sales. Conversely, the proportion of sales from outside North America rose from $1.6 M or 10.7% of consolidated sales in 2008 to $2.1 M or 14.7% of consolidated sales in 2009. Canadian sales were also up, rising from $5.3 M or 36.3% of consolidated sales in 2008 to $6.2 M or 43.6% of consolidated sales in 2009. For fiscal 2009, the proportion of sales from the United States represented 45.9%, versus 52.6% in 2008, standing at $25.3 M. The proportion of sales from outside North America represented 10.6% or $5.8 M for fiscal 2009, compared with 7.8% or $4.3 M for the same period of 2008.

Gross profit grew by $242,000 for the fourth quarter of 2009 and $2.2 M for the fiscal year over the same periods of 2008. The measures taken to mitigate the effects of the economic slowdown yielded a reduction in costs and an improvement in productivity. For instance, labour savings at the Brampton plant had a favourable impact of 3% for the year as a percentage of sales due to the adjustment of work schedules and productivity gains stemming from the integration of the Laval plant operations. The 68% increase in purchases from the subsidiary Savaria Huizhou and other suppliers located in China also contributed to the improvement in gross profit. These various measures enabled the Corporation to raise its gross margin from 22.8% for fiscal 2008 to 26.9% for fiscal 2009.

Operating Earnings

(in thousands of dollars, except percentages)	3 Months (Unaudited)			12 Months		
	2009	2008	% Change	**2009**	2008	% Change
Selling and administrative expenses	**$2,701**	$3,302	(18.2)%	**$11,263**	$11,368	(0.9)%
As a % of sales	***18.9%***	*22.7%*	*n/a*	***20.4%***	*20.5%*	*n/a*
Operating earnings (loss)	**$1,152**	$334	245%	**$2,755**	$2,532	8.8%
As a % of sales	***8.1%***	*2.3%*	*n/a*	***5.0%***	*4.6%*	*n/a*

Selling and administrative expenses were down 18.2% in the fourth quarter of 2009 from the same quarter of 2008. This $601,000 reduction is due to the lower allowance for doubtful accounts and the decrease in labour expenses. For the twelve-month period, selling and administrative expenses were stable, posting a slight decline of 0.9%.

Operating earnings for the fourth quarter of 2009 amounted to $1.2 M, up from only $334,000 for the same period of 2008. This growth is attributable to the improvement in gross profit and decrease in selling and administrative expenses. For the 2009 fiscal year, operating earnings totalled $2.8 M, compared with $2.5 M for fiscal 2008. The recognition of the $2 M gain on the disposal of the Laval building in 2008 was offset by the $2.2 M increase in gross profit in 2009.

Net Earnings

(in thousands of dollars, except percentages)	3 Months (Unaudited)			12 Months		
	2009	2008	% Change	**2009**	2008	% Change
Other revenues (expenses)	**$(171)**	$395	(143)%	**$147**	$626	(76.5)%
Earnings before income taxes	**$981**	$729	34.6%	**$2,902**	$3,158	(8.1)%
Income taxes	**$165**	$876	(81.2)%	**$644**	$1,609	(60)%
Net earnings (loss)	**$816**	$(146)	659%	**$2,258**	$1,549	45.8%
EBITDA	**$1,302**	$890	46.5%	**$4,121**	$4,122	-%

Other revenues and expenses posted a $566,000 unfavourable change in the fourth quarter of 2009 in comparison with the corresponding quarter of 2008 due mainly to the recognition of a $77,000 exchange loss in 2009, as opposed to a $1.2 M exchange gain in 2008. In addition, the unfavourable change in the fourth quarter of 2009 is attributable to the $1.2 M loss on revaluation of ABCP investments recorded in 2008, less the recognition of a $396,000 gain subsequent to the evaluation at fair value of a long-term debt bearing interest at a favourable rate.

The $479,000 unfavourable change in other revenues and expenses for fiscal 2009 can be explained by the $2.2 M unfavourable change in exchange gains and losses, offset by the favourable change in the fair value of restructured notes compared with the $1.9 M write-down of ABCP investments in 2008.

The effective tax rate for the fourth quarter of 2009 stood at 16.8%, compared with the 30.98% combined corporate rate and the 120% rate in 2008. This difference is primarily attributable to the gain on revaluation of restructured notes on which no tax expense was recognized as no tax benefit was recognized on the initial write-down of such investments in 2008, as well as the 2009 earnings of a foreign subsidiary on which no taxes are payable. For the same reasons, in addition to the 2008 deferral of loss carry-forwards to years with lower tax rates, the effective tax rate for fiscal 2009 stood at 22.2%, compared with 50.9% for 2008.

11. Financial Position

Balance Sheet Changes

The following tableau shows the key changes in the consolidated balance sheets between December 31, 2009 and December 31, 2008, along with the principal explanations of such changes.

(in thousands of dollars, except percentages and explanations of changes)	December 31,		Change	Explanation of Changes
	2009	2008		
Current assets				
Cash and cash equivalents reserved	**$400**	$-	100%	Current portion of minimum balance that must be held in cash according to the conditions of the new $4 M debt.
Accounts receivable	**$7,455**	$9,579	(22.2)%	Decrease in exchange rate used for the translation of U.S. dollar denominated accounts receivable (-$786 K), decrease in various receivables (-$385 K), including interest receivable and a balance of sale, and a reduction in recovery times.
No. of days in receivables	**51**	57	(10.5)%	
Inventories	**$12,600**	$10,381	21.4%	Increase in inventories of the subsidiary Savaria Huizhou ($1 M) due to the growth in business and setting-up of new production lines. Increase in raw material and finished product inventories at the Brampton division ($1.2 M).
Inventory turnover ratio	**3.2**	4.3	(25.6)%	An increase to inventories at Brampton was required in order to ensure an efficient production cycle and at Huizhou due to the addition of new product lines.

(in thousands of dollars, except percentages and explanations of changes)	December 31, 2009	2008	Change	Explanation of Changes
Current liabilities				
Accounts payable	**$6,249**	$5,985	4.4%	Increase in accounts payable of the subsidiary Savaria Huizhou related to the increase in its inventories ($1 M), decrease in the exchange rate used for the translation of U.S. dollar denominated accounts payable (-$309 K).
No. of days in payables	**65**	62	4.8%	-
Foreign exchange forward contracts	**$-**	$3,715	(100)%	Elimination of unrealized capital loss on foreign exchange contracts maturing in the next four quarters. This amount now represents a receivable of $555 K.
Working capital	**$17,789**	$15,612	13.9%	Principal items: transfer of foreign exchange forward contracts from current liabilities to current assets (+$4.3 M), increase in inventories (+$2.2 M), decrease in accounts receivable (-$2.1 M), increase in accounts payable (-$264 K), decrease in future income taxes (-$1.3 M) and decrease in cash and cash equivalents (-$380 K).
Current ratio	**2.81**	2.25	24.9%	See above explanation.
Long-term assets				
Cash and cash equivalents reserved	**$1,500**	$-	100%	Long-term portion of minimum balance that must be held in cash according to the conditions of the new $4 M debt.

(in thousands of dollars, except percentages and explanations of changes)	December 31,			Explanation of Changes
	2009	2008		
Foreign exchange forward contracts	**$-**	$2,376	(100)%	Elimination of unrealized capital loss on foreign exchange contracts maturing after December 31, 2009.
Long-term debt	**$8,852**	$7,542	17.4%	New long-term debt (+$7.7 M), repayment of a temporary financing agreement (-$3 M), repayment subsequent to the partial collection of restructured notes (-$1 M) and normal repayment of debt (-$1.5 M).
Shareholders' equity	**$20,789**	$17,839	16.5%	Repurchase of shares for cancellation (-$4.7 M), earnings for the period (+$2.3 M), dividend (-$824 K), change in accumulated other comprehensive income (loss) related to foreign exchange contracts (+$6.1 M).

As at December 31, 2009, Savaria benefited from a sound financial position, with total assets of $39.9 M, compared with $40.8 M as at December 31, 2008, and total liabilities of $19.1 M, compared with $22.9 M as at December 31, 2008.

Available Sources of Financing

(in thousands of dollars)	December 31,	
	2009	2008
Credit facilities:		
Authorized	**$3,500**	$3,500
Loans	**(1,080)**	(710)
Unused credit	**2,420**	2,790
Cash and cash equivalents	**4,823**	5,203
Total	**$7,243**	$7,993

As shown above, the Corporation has total available funds of $7.2 M as at December 31, 2009, providing it with the flexibility to meet its potential obligations in the near term and to take advantage of promising investment opportunities.

In the first quarter, the Corporation entered into long-term financing agreements for a total consideration of $3.1 M (US$2.986 M), whereas it repaid a temporary financing agreement amounting to $3 M. During the year, $1,036,000 (US$915,000) was repaid on the $3.1 M debt following the partial collection of the restructured notes in the same amount. In the third quarter, the Corporation entered into a $4 M financing agreement to finance the repurchase of common shares by way of a substantial issuer bid. One of the conditions of this loan stipulates that the Corporation must hold a minimum of 50% of the loan balance in cash. An amount of $1.9 M as at December 31, 2009 is presented as *Cash and cash equivalents reserved*, with a current portion of $400,000 and a long-term portion of $1.5 M, and is not included in available sources of financing in the above table.

Furthermore, the Corporation can incur potential risks of loss on foreign exchange contracts up to a maximum of $15 M ($18 M as of February 2010) over a maximum hedging period of 36 months. This amount is the maximum amount of unrealized losses that foreign exchange contracts held by the Corporation can represent at one time. The Corporation also has an available line of treasury of $600,000 to cover potential losses in case it decides to convert the variable interest rate long-term debt in the amount of $6 M to a fixed rate debt.

As at December 31, 2009, the Corporation's total net debt to invested capital stood at 14.6% (19.4% as at December 31, 2008), providing it with significant financial leverage to finance any large-scale project or strategic acquisition. In addition, in 2008, the Corporation contracted a long-term debt of which $4.1 M is held in an investment account; of this amount, a consideration of $1.5 million was used as first instalment on the acquisition of Concord Elevator (London) Ltd effective February 3, 2010. The $2.6 M balance may be used to finance other future acquisitions, subject to approval by the Corporation's financial institution of potential projects.

Other Data and Ratios

(in thousands of dollars, except per-share amounts – unaudited)	December 31,		Change
	2009	2008	
Book value per share	**$0.94**	$0.65	44.6%
Cash and cash equivalents per share	**$0.22**	$0.19	15.8%
Market capitalization	**$18,834**	$13,645	38%

The book value per share was up as at December 31, 2009 over December 31, 2008 due primarily to the accumulated other comprehensive income (loss) related to the fair value of foreign exchange forward contracts, the year's net earnings and the reduction in the number of shares outstanding subsequent to the completion of the substantial issuer bid. Cash and cash equivalents per share grew by 15.8% over December 31, 2008 as a result of the reduction in the number of shares outstanding. Market capitalization increased despite the decrease in the number of common shares outstanding as the share price was $0.85 as at December 31, 2009, up from $0.50 as at December 31, 2008.

12. Cash Flows

The following table presents certain cash flow data for the fourth quarter (three months) and the full fiscal year (twelve months).

(in thousands of dollars)	3 Months (Unaudited)		12 Months	
	2009	2008	**2009**	2008
Cash flows from operating activities	**$45**	$1,378	**$3,922**	$951
Cash flows from (used in) investing activities	**$40**	$(3,891)	**$(1,328)**	$395
Cash flows from (used in) financing activities	**$(254)**	$5,658	**$(2,973)**	$(858)

The Corporation's cash flows from operating activities were down by $1.3 M for the fourth quarter, whereas they were up by $3 M for the fiscal year. The fourth-quarter decrease is due primarily to net changes in non-cash working capital items of $757,000 related mostly to changes in accounts receivable, accounts payable and deferred revenues, offset by the increase in net earnings before future income taxes of $275,000. For the twelve-month period, the growth is due to net changes in non-cash working capital items of $1.7 M related mostly to changes in accounts receivable, inventories and accounts payable, as well as foreign exchange contracts cashed-in in advance ($2 M in 2009 versus $228,000 in 2008).

The Corporation's cash flows from investing activities were down by $3.9 M in the fourth quarter of 2009 compared with the fourth quarter of 2008 due to the $4.2 M change in long-term investments partially offset by the $289,000 increase in deferred development costs. For the twelve-month period, the Corporation's investing activities used cash flows of $1.3 M, whereas they provided cash flows of $395,000 in 2008, due primarily to the $5.1 M change in long-term investments, offset by the $4.9 M proceeds from the disposal of the Laval building in the second quarter of 2008 and the $1.9 M change in cash and cash equivalents reserved in 2009.

Savaria's financing activities used cash flows of $254,000 in the fourth quarter of 2009, whereas they provided cash flows of $5.7 M in the same quarter of 2008. This change is due to cashing-in of a long-term loan in 2008 ($6 M) and the increase in repayments of long-term debt in 2009 ($566,000) offset by the change in bank loans ($630,000). For fiscal 2009, cash flows used in financing activities were up by $2.1 M over fiscal 2008 due to increased repurchases of common shares in 2009 ($4 M) and increased repayments on short and long-term debt ($676,000), offset by the change in the contracting of new debt in 2009 compared with 2008 ($1.7 M) and the payment of a lower dividend ($913,000).

13. Significant Accounting Policies

The preparation of financial statements in accordance with Canadian GAAP requires Savaria's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The main estimates include the measurement of the fair value of financial instruments, including derivatives and investments in restructured notes, stock-based compensation, the amortization of fixed assets and intangible assets, goodwill, future income tax balances, the allowance for doubtful accounts, the inventory obsolescence provisions and warranty provisions.

These estimates are based on management's knowledge of current events and the measures the Corporation could take in the future. Actual results could differ from those estimates. Management has identified the following critical accounting estimates.

Income Taxes

The Corporation follows the liability method of accounting for income taxes, as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under this method, income taxes payable are accounted for as estimated income taxes to be paid for the current fiscal year, and future income taxes are accounted for based on the temporary differences between the tax and accounting value of the assets and liabilities. Future income tax assets and liabilities are measured using income tax rates and the enacted or substantively enacted laws which are expected to be in effect for taxable income for the year in which the assets and liabilities will be discharged or recovered. Future income tax assets which arise from tax losses and temporary differences are accounted for when it is more likely than not that the assets will be realized.

Intangible Assets

Intangible assets consist of trademarks, client lists, computer software and capitalized development costs. Trademarks are not amortized since they have an indefinite lifespan; instead the Corporation assesses periodically whether a provision for impairment in the value of trademarks should be recorded against earnings. This is accomplished by determining whether projected discounted future cash flows exceed the net book value of the intangible asset. Trademarks are tested for impairment annually on December 31, and when an event or circumstance occurs that could potentially result in permanent decline in value. Client lists are amortized by using the straight-line method over their useful lives of ten years. Computer software is amortized by using the declining balance method with an annual rate of 30%. Deferred development costs are amortized over three years.

Long-Term Investments in Restructured Notes

The reader is referred to Section 20, *Risks and Uncertainties*.

Stock-Based Compensation

The Corporation records stock-based compensation to its employees and directors at fair value. According to the fair value method, an employee compensation expense is charged to operating expenses based on the fair value of the stock options issued over their vesting period. Upon the exercise of stock options, capital stock is credited in the amount paid plus the corresponding employee compensation expense previously recorded.

14. Changes in Accounting Policies

2009

On January 1, 2009, the Corporation adopted the following recommendations of the CICA Handbook:

Section 3064: Goodwill and Intangible Assets and *Section 1000: Financial Statement Concepts*

These standards clarify the criteria pursuant to which intangible assets and fixed assets, including internally developed assets, are recognized. Items that no longer meet these criteria would no longer be recognized as assets. These standards apply retrospectively to the Corporation with restatement of prior period figures for the fiscal year beginning on January 1, 2009.

The adoption of these new standards had no impact on the consolidated financial statements.

Section 3862: Financial Instruments - Disclosure

This section has been amended to establish a framework including a three-level hierarchy for the disclosure of fair value based on the data used to assess assets held-for-trading. The hierarchy of data is summarized as follows:

- Prices on active markets for identical assets (Level 1);
- Data other than prices covered by Level 1, which are observable for assets or liabilities, directly or indirectly (Level 2);
- Data not based on market data (non-observable data) (Level 3).

Future Accounting Changes

Section 1582: Business Combinations, Section 1601: Consolidated Financial Statements and *Section 1602: Non-Controlling Interests*

In 2009, the CICA issued three new accounting standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will apply to the Corporation's financial statements for the fiscal year beginning on January 1, 2011. The Corporation is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581 and establishes standards for the recognition of a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 replace former Section 1600: *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. It applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for the recognition of a non-controlling interest in a subsidiary. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial relating to fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards ("IFRS")

In February 2008, Canada's Accounting Standards Board ("ASB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. IFRS use a conceptual framework similar to Canadian GAAP, but involve major differences in regard to recognition, measurement, presentation and disclosure. The final impact of the IFRS on the Corporation's consolidated financial statements will be assessed once all the IFRS applicable at the conversion date are known.

For the Corporation, the conversion to IFRS will be required for interim and annual financial statements for fiscal years beginning on January 1, 2011. The comparative figures of these financial statements must also be presented in accordance with IFRS.

Executive officers of the Finance Department having the requisite qualifications and experience have been assigned to the project and have received the appropriate training. The Corporation's external auditors are informed of and consulted about the choices made. The Audit Committee is kept up-to-date on the advancement of the work. The Corporation has drawn up a three-phase conversion plan for its consolidated financial statements:

Phase 1 – Detailed Evaluation

During this phase, the Corporation performs a detailed evaluation of the differences between IFRS and the Corporation's GAAP as well as an evaluation of key areas that may be affected by the transition, such as the Corporation's business practices, information systems, internal control over financial reporting and disclosure. This phase also involves an analysis of the various choices of accounting policies and a selection of the elective exemptions available to the Corporation at the transition date.

This phase should begin by the end of the second quarter of 2010. Most of the initiatives have currently been taken and the Corporation estimates that approximately 75% of the work has been completed.

Phase 2 – Design

In this phase, the Corporation designs solutions to address the differences identified in Phase 1. Changes required to be made to existing accounting policies, business processes and internal controls are identified in order to perform the conversion to IFRS. The training and communication needs of the various stakeholders are identified.

This phase should begin in July 2010 and be completed by the end of the third quarter of 2010.

Phase 3 – Implementation

The objective of this final phase is to allow continued IFRS reporting as of the first quarter of 2011. During this phase, the changes identified in Phase 2 are implemented.

This phase should begin in September 2010 and be completed by the end of the fourth quarter of 2010.

As the conversion process advances, the Corporation will outline the effects of the transition to IFRS on the key areas of its business.

Aspect 1 – Financial Reporting

The Phase 1 detailed evaluation identified the following major differences between the Corporation's existing accounting policies and those to be applied in the preparation of financial statements in accordance with IFRS. We wish to inform readers that the International Accounting Standards Board ("IASB") intends to revise several accounting standards between now and the January 1, 2011 changeover date. A monitoring process has been established in order to identify and to assess the changes made to IFRS during the conversion process. This evaluation is therefore not definitive and the list is not exhaustive. Rather, it aims to identify the aspects of the Corporation's reporting that are likely to be most significantly affected by the differences. Changes could be made following the completion of the detailed evaluation scheduled for the second quarter of 2010. Once the Corporation is able to reliably quantify the impact of these differences, it will outline the effects on its financial reporting.

First-Time Adoption of IFRS (IFRS 1)

IFRS 1 provides for a number of elective exemptions concerning the retrospective application of certain IFRS requirements, as well as mandatory exceptions prohibiting the retrospective application of certain standards.

Savaria currently plans to apply the following elective exemptions:

- Business combinations: it will not restate the accounting of business combinations prior to January 1, 2010;
- Stock-based transactions: it will not restate according to IFRS 2 the options issued before 2002 and those issued after 2002 of which the exercise rights are entirely vested.

A final decision on the application of the elective exemption concerning the fair value or revaluation as presumed cost is expected to be made in the second quarter of 2010.

The remaining elective exemptions and mandatory exemptions are not expected to apply to Savaria.

Business Combinations (IFRS 3)

The Corporation will adopt IFRS 3, which is largely harmonized with CICA Handbook Section 1582, *Business Combinations*, scheduled to come into effect on January 1, 2011. Although the Corporation expects to apply the IFRS 1 elective exemption not to restate business combinations prior to January 1, 2010, IFRS 3 will have an impact on the Corporation's financial statements as it will have to be applied for the recognition of the acquisition of the subsidiary Concord Elevator (London) Ltd effective February 3, 2010. Based on the analysis conducted up to now, the following key differences have been identified:

- Acquisition fees, which currently amount to $133,000, cannot be included in the investment acquisition cost, but will have to be recognized as an expense in the consolidated statement of earnings.
- The fair value of issued shareholders' equity will have to be determined at the acquisition date rather than based on the share price over a reasonable period before and after the date on which the conditions of the acquisition are agreed and announced.
- The contingent consideration will have to be recognized at fair value in the purchase price allocation rather than being recognized as the acquisition cost when the contingency can be resolved beyond a reasonable doubt and the contingent consideration can be reasonably estimated.

Impairment of Assets (IAS 36)

Canadian GAAP impairment testing of amortizable assets involves two steps, the first of which compares the carrying values of the long-lived assets or group of assets with undiscounted future cash flows to determine whether impairment exists. If the carrying value of the assets or group of assets exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying values are written down to estimated fair value. IAS 36 uses a one-step approach for both testing and the measurement of impairment, with the carrying values of the cash generating units ("CGUs") compared directly with the higher of fair value less costs to sell and value in use ("recoverable amount"). Under Canadian GAAP, an indefinite-life intangible asset is always tested for impairment as an individual asset. Under IFRS, indefinite-life intangible assets that do not generate independent cash flows, such as Savaria's licences, are tested for impairment at the level of the CGU.

Under Canadian GAAP, goodwill is tested for impairment by comparing the carrying amount of the reporting unit to which it is attached to the fair value of the reporting unit. If the fair value is less than the carrying amount of the reporting unit, then an impairment loss is calculated. Under Canadian GAAP, the impairment loss is measured as the difference between the carrying amount of the goodwill and its implied fair value. Under IFRS, goodwill is allocated to the Corporation's CGUs and is always tested for impairment at the level of the CGUs. An impairment loss is recognized if a CGU's carrying value exceeds its recoverable amount.

During the second quarter, the Corporation will analyze its operations in order to determine the CGUs to be used for the purpose of impairment testing. It will develop models to be used for the impairment testing that will have to be performed at the transition date.

Presentation of Financial Statements (IAS 1)
A number of financial statement presentation differences exist between IFRS and Canadian GAAP, such as the classification of the statement of earnings by nature or function and the classification of deferred tax assets and liabilities as non-current items. The Corporation will address these presentation differences as it prepares its draft IFRS financial statements during the third and fourth quarters of 2010.

Other
A number of other areas of IFRS will also affect Savaria, although to a lesser extent. Other differences between the Corporation's current accounting policies and IFRS accounting policies have been identified, and there are various choices of accounting policies under IFRS. These are currently not expected to have a significant impact on Savaria's financial statements.

Aspect 2 - Information Systems

The changeover to IFRS is currently not expected to entail any material changes to the information systems infrastructure. Rather, the impact will be at the level of the need to develop several new reports or make the necessary changes to existing reports in order to compile certain new information, such as the information needed to track IFRS adjustments for the 2010 comparative fiscal year, as well as increased disclosures by way of notes. In addition, some changes could possibly be required to existing general ledger accounting structures.

Aspect 3 - Internal Control over Financial Reporting

The Corporation's transaction-level controls will not be affected by the transition to IFRS in any material respect. As this transition mainly affects the presentation of its financial statements and the disclosures therein, changes will have to be made to the controls governing the presentation of financial reporting, but the impact should be minor. Similarly, minor changes will be required to disclosure controls and procedures in order to ensure that the necessary information concerning the evolution of the transition to IFRS is adequately disclosed on a timely basis.

Aspect 4 – Financial Reporting Expertise

Members of the IFRS convergence team have participated in training seminars with the Ordre des Comptables Agréés and the Corporation's external auditors. However, the IASB currently has several review projects under way which may significantly affect various standards. Consequently, further changes could be made to these standards between now and the conversion date which may have an impact on the current analysis of divergences between Canadian GAAP and IFRS. Also, the convergence team will ensure that its analysis is up-to-date on the latest versions by actively monitoring IASB revision releases, by obtaining publications provided by the CICA and by engaging in discussions with its external auditors.

Training of the employees outside the convergence team will be performed in the fourth quarter of 2010; it will affect few employees and will be of a minor scope.

Finally, members of the Audit Committee and Board of Directors will be informed of the material changes made to the Corporation's financial statements during fiscal 2010. An Audit Committee member has been appointed to assist the convergence team in selecting the new IFRS accounting policies.

Aspect 5 – Business Activities

As the Corporation is currently evaluated based on its EBITDA, financial statement readers are cautioned that divergences between GAAP and IFRS could lead to different calculations of EBITDA under these two distinct standards.

The Corporation will continue to evaluate any future use of financial information for the purpose of establishing key performance indicators and measures such as covenants and financial ratios. It does not expect the transition to IFRS to have a significant impact on these covenants.

General

Based on the work completed to date, and considering the fact that any possible amendments to the IFRS that will be in effect as at December 31, 2011 are not yet known, Savaria cannot reasonably establish the overall impact that the adoption of IFRS will have on its financial position and future earnings. Changes in accounting policies arising from the transition are likely to have a major impact on its consolidated financial statements.

15. Internal Control over Financial Reporting

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Corporation are in charge of establishing and maintaining disclosure controls and procedures, as defined by *Multilateral Instrument 52-109* of the Canadian Securities Administrators.

An evaluation has been conducted to measure the effectiveness of controls and procedures used for the preparation of reporting documents. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures were effective and well designed at the close of the fiscal year ended December 31, 2009 and, more specifically, that the design of such controls and procedures provides reasonable assurance that they are advised of material information relating to the Corporation during the period in which these reporting documents are prepared.

Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Corporation are in charge of establishing and maintaining an adequate internal control system in regard to financial reporting.

Management has evaluated the effectiveness of internal control over financial reporting using the criteria defined in the integrated internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management as well as the Chief Executive Officer and the Chief Financial Officer concluded, as at December 31, 2009, that the Corporation's internal control over financial reporting was effective in that it provides reasonable assurance as to the reliability of the Corporation's financial reporting and the preparation of its financial statements for disclosure purposes in accordance with GAAP.

Changes in Internal Control over Financial Reporting

No changes in the Corporation's internal control over financial reporting have occurred during fiscal 2009 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

16. Contractual Obligations

In addition to the debts appearing in the balance sheet, the Corporation concluded lease agreements for the rental of certain premises and entered into operating leases for rolling stock and office equipment for a total of $4,267,538 ($6,076,294 in 2008).

The following table details the Corporation's commitments for the coming years:

(in thousands of dollars)	**Total**	2010	2011	2012	2013	2014	2015
Long-term debt obligations	**$11,057**	$2,018	$3,179	$2,888	$1,912	$1,060	$-
Capital leases	**159**	32	28	28	28	28	15
Operating leases	**4, 268**	1,824	1,402	987	55	-	-
Total contractual obligations	**$15, 484**	$3,874	$4,609	$3,903	$1,995	$1,088	$15

17. Off-Balance Sheet Arrangements

Other than the operating leases considered in the previous section, *Contractual Obligations*, Savaria did not enter into any off-balance sheet arrangements during fiscal 2009.

18. Related Party Transactions

The Corporation recorded an amount of $49,842 ($88,310 in 2008) for services rendered by an entity whose officer is a director and the Chief Financial Officer of the Corporation. These transactions occurred in the normal course of business and were measured at the exchange amount, which is the amount of consideration established and agreed to by the Corporation and the related parties.

19. Financial Instruments

The Corporation periodically uses various financial instruments to manage the risk related to exchange rate fluctuations. It does not hold or issue derivative financial instruments for speculative or trading purposes. Derivative financial instruments are subject to standard credit conditions, financial controls, risk management and monitoring procedures.

Fair Value of Financial instruments

(in thousands of dollars)	Held-for-trading	Held to maturity	Loans and receivables and Other liabilities	**Total**	**Fair value**
Financial assets					
Cash and cash equivalents	$4,823	$-	$-	**$4,823**	**$4,823**
Cash and cash equivalents reserved	1,900	-	-	**1,900**	**1,900**
Trade and other receivables	-	-	6,942	**6,942**	**6,942**
Foreign exchange forward contracts	555	-	-	**555**	**555**
Long-term loans	-	-	132	**132**	**103**
Long-term investments in Restructured Notes	1,310	-	-	**1,310**	**1,310**
Put option	348	-	-	**348**	**348**
Long-term investments other than Restructured Notes	-	4,100	-	**4,100**	**4,100**
Total financial assets	$8,936	$4,100	$7,074	**$20,110**	**$20,081**
Financial liabilities					
Bank loans	$-	$-	$1,080	**$1,080**	**$1,080**
Accounts payable and accrued liabilities	-	-	6,249	**6,249**	**6,249**
Long-term debt	-	-	10,697	**10,697**	**10,669**
Total financial liabilities	$-	$-	$18,026	**$18,026**	**$17,998**

Financial Instrument Related Risks

The analysis of financial instrument related risks is provided in the next section, *Risks and Uncertainties*.

20. Risks and Uncertainties

The Corporation is confident about its long-term future outlook. Nevertheless, the risks and uncertainties described below could have an impact on its ability to implement its strategic plan and to achieve its growth objectives. The following factors should be considered in assessing the Corporation's future outlook.

Financial Risk Factors

The Corporation is engaged in an industry exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. In order to minimize the potential adverse effects on its financial performance, the Corporation uses derivative financial instruments to hedge currency risk. Treasury is managed centrally to allow for the identification, evaluation and hedging of financial risks.

(a) Currency Risk

Currency risk corresponds to the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency.

The Corporation realizes approximately 57% (60% in 2008) of its sales in foreign currencies and accordingly is exposed to market risks related to foreign exchange fluctuations. Major exchange rate fluctuations could have a significant impact on its sales and consequently on its gross margin. The Corporation partially compensates for these risks by purchasing materials in U.S. dollars and using derivative financial instruments such as foreign exchange forward contracts. These contracts are contracts under which the Corporation is obligated to sell U.S. dollars at a fixed rate.

Management has implemented a policy to manage foreign exchange risk against the Corporation's functional currency. The objective of the policy is to minimize the risks related to foreign currency transactions, more specifically in U.S. dollars, in order to protect the gross margin from significant foreign currency fluctuations and to avoid management speculation on currency values. The Corporation manages this risk exposure by entering into foreign exchange forward contracts. Pursuant to the policy, a maximum of 75% of anticipated net inflows in U.S. dollars must be hedged.

Gains and losses on financial instruments designated as cash flow hedges are recognized in the Corporation's results in the same period as the underlying transactions. Variances in the fair value of non-designated financial instruments are recognized immediately.

As required pursuant to accounting standards, unrealized gains or losses on foreign exchange contracts designated as cash flow hedges at end-of-period dates must be presented, net of taxes, in other comprehensive income (loss). As at December 31, 2009, the Corporation posted a positive amount of other comprehensive income of $2 M (negative amount of $4.1 M as at December 31, 2008). The amount of gain or loss actually realized on the foreign exchange contracts will depend on the value of the Canadian dollar at the time each contract is cashed-in.

Gains (losses) on U.S. dollar denominated monetary items are recognized in other revenues and expenses. Major exchange rate fluctuations could have a significant impact on the translation of these U.S. dollar denominated monetary items and accordingly on other revenues and expenses and net earnings.

(b) Interest Rate Risk

Interest rate risk corresponds to the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Corporation's interest rate risk arises from long-term investments, bank loans and long-term debt. Investments and borrowings issued at variable rates expose the Corporation to the risk of variance in cash flow due to changes in interest rates, whereas investments and borrowings issued at fixed rates expose the Corporation to the risk of variance in fair value due to changes in interest rates.

The Corporation's debts bear interest at variable rates. The Corporation analyzes its interest rate risk exposure on a continual basis and examines its renewal and refinancing options in order to minimize risks. In addition, the Corporation has the option of converting one of its long-term loans into a fixed-rate term loan.

Interest income and expenses are recognized in other revenues and expenses. A major change in interest rates could therefore have a significant impact on other revenues and expenses and accordingly on net earnings.

(c) Price Risk

The Corporation's products included hundreds of components manufactured by some 100 suppliers around the world. The price of such components can vary and affect the Corporation's profit margins. However, the Corporation's flexible business model enables it to change supplier if required in order to minimize this risk. The Corporation does not make use of derivative products on the price of materials.

The Corporation, through its Chinese subsidiary, is increasing its purchasing volume in China to benefit from a better quality-price value. The Corporation analyzes each part individually to determine the best procurement source while considering various factors, including manufacturing cost.

(d) Credit Risk

Cash and cash equivalents are held or issued by financial institutions with a superior-quality credit rating. Hence, the Corporation considers that the risk of non-performance of such instruments is negligible.

The Corporation provides credit to its clients in the normal course of business. It carries out credit checks on its clients on a continual basis and minimizes its credit risks by conducting its operations with a wide variety of clients in several industries.

Trade receivables are presented on the balance sheet net of an allowance for doubtful accounts. The allowance is based on the Corporation's best estimate as to the probability of collecting uncertain accounts. Uncertainty regarding the collection of accounts may derive from various indicators, including a deterioration in the credit-worthiness of a client or an abnormal delay in payment of past-due invoices. Management regularly reviews client accounts, ensures that past-due accounts are followed up and evaluates the relevance of its allowance for doubtful accounts.

For other debts, the Corporation continually assesses probable losses and sets up a provision for losses based on their estimated realizable value.

(e) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. Management assesses its liquidity risk on a continual basis to ensure that it has sufficient liquidity to meet its obligations.

During fiscal 2009, the Corporation concluded a $4 M financing agreement to finance the repurchase of common shares by way of a substantial issuer bid. In addition, a $3 M temporary financing agreement related to ABCP investments was replaced by two loans related to restructured notes. Although the Corporation recorded these financing and refinancing activities during a period of a major economic crisis, there can be no assurance that additional funds might be available under terms and conditions deemed acceptable by the Corporation.

To ensure that sufficient liquidity is available to meet current obligations, the Corporation maintains similar payment terms with its clients as it has with its suppliers. The Corporation has sufficient credit facilities available to make up for temporary lapses in the synchronization of inflows and outflows of funds.

Savaria is involved in an industry subject to various risks and uncertainties. Its operating results and financial position could therefore be adversely affected by the aforementioned financial risks, as well as by the various factors described below. Those risks are not the only ones to which the Corporation is exposed. Thus, its business could potentially be affected by additional risks and uncertainties that are currently unknown or deemed rather insignificant.

Economic Conditions

The purchase of elevators is often a discretionary expense and, accordingly, sensitive to economic fluctuations and conditions in the housing market. The Corporation is currently sustaining the impact of the real estate market slowdown in the United States. The Corporation has taken measures to control its expenses and to adjust its workforce in order to adapt working hours to its order backlog.

Warranties

In the normal course of business, the Corporation assumes certain maintenance and repair costs under warranties offered on its products. The warranties cover a period of thirty-six (36) months. Warranty provisions are established on the basis of estimates and assumptions. These provisions are based on management's past experience. If such estimates and assumptions prove inaccurate in the future, the effective costs to respect product warranties could differ from those recorded.

Tax Credits

Savaria benefits from research and development tax credits. These could be affected by any legislative change.

Future Tax Assets

Subsequent to the acquisition of Concord, future income tax assets were recorded as it is more likely than unlikely that Concord's loss carry-forwards will be utilized by Savaria Concord Lifts. A significant reduction in the taxable revenues of the subsidiary Savaria Concord Lifts could prevent all the losses from being used prior to their expiry.

Competition

The North American accessibility industry consists of about ten companies in fierce competition. However, Savaria is the leader in Canada and the second largest company in the United States in its industry. Its large size provides it with major advantages, including: a high profile, an extensive distribution network, economies of scale and many foreign suppliers.

Dependence on the U.S. Market

In 2009, the percentage of Savaria's sales recorded in the United States totalled 46% (53% in 2008). The Corporation's profitability could therefore be affected by any major event having a negative impact on the U.S. economy or the trade relations between Canada and the United States (the reader is referred to *Economic Conditions* above).

To reduce the risk associated with economic conditions in the United States, the Corporation is extending its sales territory in Asia through its subsidiary located in China.

Environment

Management believes that the Corporation's operations are in full compliance with environmental legislation.

Lawsuits

Various claims and legal proceedings have been initiated against the Corporation in the normal course of business. Although the outcome of these proceedings cannot be determined with certainty, management estimates that any payments resulting from their outcome are not likely to have a material negative impact on the Corporation's consolidated financial statements.

Measurement Uncertainty

On January 21, 2009, the Pan-Canadian Committee of ABCP investors announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of ABCP had their short-term commercial paper exchanged for longer term notes whose maturities match those of the assets previously contained in the underlying conduits ("Restructured Notes"). At that date, the Corporation held a portfolio of ABCP issued by two trusts with an aggregate face value of US$2,985,874.

Consequently, the Corporation's ABCP that had its assets pooled was replaced with two classes of asset-backed notes named A1 and C in declining order of seniority issued by Master Asset Vehicle 2 ("MAV 2"). ABCP relating to ineligible assets and traditional assets was replaced with new tracking notes whose characteristics are designed to track the performance of the particular assets of the series to which they correspond.

The restructured notes are classified as held-for-trading financial instruments.

Evaluation

The fair value estimate of the restructured notes has been calculated based on information provided by the Pan-Canadian Investor Committee, Ernst & Young Inc., the Monitor of the restructuring, and BlackRock Canada Ltd., the asset administrator.

Using this information, the Corporation was able to determine the key characteristics of each class of restructured notes received: face value, credit rating, interest rate, projected interest payments and maturity date. It then estimated the return that a prospective investor would require for each class of notes ("Required Yield"). Lastly, it calculated the net present value of the future cash flows for each class using the required yield as the discount factor.

During the year, the fair value of the restructured notes was positively and negatively affected by a number of factors.

General corporate credit conditions improved. This reduction in credit risk had a positive impact on the intrinsic value of the restructured notes due to a general lowering of default risk and a decrease in the likelihood that credit risks built into the notes will be exceeded. Accordingly, the required yield on the notes was reduced to reflect this easing in credit markets.

The MAV 2 Class A1 notes are scheduled to continue missing their interest payments as long as interest rates remain rather low. Considering the Bank of Canada's comments and the fact that the MAV 2 notes received sufficient inflows of funds to allow the full payment of accrued interest for the period ended October 7, 2009, the Corporation projects that the payment of interest will be missed for the next three quarters. The interest was originally scheduled to not be paid over a longer period; this improvement had a positive impact on the value of these notes.

Another influencing factor is the simple passage of time. As with all debt instruments, the value of the notes will approach par as the maturity date approaches providing that they do not default.

These positive factors were offset in part by several negative factors, including a downward shift in interest rates and an increase in the value of the Canadian dollar in relation to the U.S. dollar, which lowered the projected future cash flows from the restructured notes and therefore reduced their fair value. Another negative factor was the increase in the risk of default of the MAV 2 Class C notes due to the unexplained default of certain assets of this class of notes. Any default of these assets could cause the losses to exceed the value of the Class C notes.

Additionally, the net asset value underlying the MAV 2 ineligible asset-tracking notes declined from quarter to quarter. These notes are underpinned by a senior exposure to a portfolio of credit derivatives which is collateralized by a note with leveraged exposure to U.S. sub-prime assets. Both the assets and the collateral are distressed and have declined in value.

The net impact of these positive and negative factors was an increase in the fair value of the restructured notes during the period. As a result of this analysis, the Corporation estimated the fair value of these notes to be $1,309,568 (US$1,246,021) as at December 31, 2009. Accordingly, the Corporation recorded a $565,163 gain during fiscal 2009 as partial reversal of impairments recorded in prior years. Following this gain in value, there remains a balance of the reserve for impairment of $875,471 (US$832,989). It is to be pointed out that these notes are subject to uncertainty as to their eventual cash value. Although management believes that its valuation technique is appropriate under the circumstances, changes in significant assumptions could materially affect the value of the restructured notes in upcoming quarters. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates. These investments are presented on a long-term basis.

During fiscal 2009, the Corporation received a total of $1,035,722 (US$915,328) in repayment of certain restructured notes. The amounts received were used as a partial reimbursement on loans secured by the restructured notes. As at December 31, 2009, the face value of the remaining restructured notes amounted to $2.2 million (US$2.1 million), broken down as follows:

Restructured Categories (in thousands of US$)	Face Value	**Estimated Fair Value**	Expected Maturity Date
MAV 2 notes			
A1 (rated A)	$835.9	**$660.1**	July 15, 2056
C	25.9	**0.3**	July 15, 2056
Traditional asset-tracking notes			
MAV 3 – Class 14	51.1	**46.0**	January 1, 2021
Ineligible asset-tracking notes			
MAV 2 – Class 13	131.5	**1.3**	March 20, 2014
MAV 3 – Class 25	1,034.6	**538.3**	December 25, 2036
Total investments	$2,079	**$1,246**	

On October 15, 2007, the Corporation entered into a temporary financing agreement in the amount of $3,000,000 with its financial institution to ensure the sufficient availability of liquidity to meet its financial obligations while awaiting the settlement of the ABCP investments. Following the replacement of the ABCP by the restructured notes, the Corporation reimbursed this temporary financing and, on March 16, 2009, signed two new long-term financing agreements with its financial institution. The first agreement, having a balance of US$912,929 as at December 31, 2009, matures in March 2011 and is renewable for one-year periods up to a maximum of five renewal periods. The second agreement, having a balance of US$1,166,081 as at December 31, 2009, matures in March 2012 and is renewable for one-year periods up to a maximum of four renewal periods. Any renewal of these two agreements is subject to the financial institution's approval.

The Corporation holds an option to assign to the bank the ownership of its ineligible asset-tracking notes as well as any proceeds therefrom as payment of 75% of the principal on the related debt. As at December 31, 2009, the Corporation estimated the fair value of this option at $348,217 (US$331,320). The Corporation also holds an option to assign to the bank the ownership of its MAV 2 notes and traditional asset-tracking notes as well as any proceeds therefrom as payment of 45% of the principal on the related debt. As at December 31, 2009, the Corporation estimated the fair value of this option to be nil. Both loans, for which only the interest is payable on a monthly basis, bear interest at the U.S prime rate less 1% and are partially secured by the restructured notes.

21. Outlook

The slowdown in the U.S. real estate market is expected to continue affecting our sales in upcoming quarters, especially sales of elevators for residential use. However, management remains highly confident that the demand for accessibility products will undergo sustained growth in light of the aging population.

Savaria benefits from sufficient liquidity, a solid financial position and sources of financing. These various fundamentals, combined with the initiatives taken pursuant to its business strategy, will enable the Corporation to achieve further growth.

March 30, 2010