# SAVARIA CORPORATION

# Management's Report

For the Three and Twelve-Month Periods Ended December 31, 2011

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## 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 twelve-month periods ended December 31, 2011 in comparison with those for the corresponding periods of fiscal 2010. It also provides a comparison of its statements of financial position as at December 31, 2011 and 2010. 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 for the period ended December 31, 2011. The CICA Handbook has been amended to include the International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board (the "IASB") and requires that publicly accountable enterprises apply these standards for annual periods beginning on or after January 1, 2011 and provide corresponding figures for 2010. Savaria's consolidated financial statements have therefore been prepared in accordance with IFRS. For further information, the reader is referred to Section 14, Future *Accounting changes*, of this management's report. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The financial statements prepared in accordance with IFRS and the 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 29, 2012. 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 International Financial Reporting Standards

The Corporation's financial statements have been prepared in accordance with IFRS. However, the Corporation uses non-IFRS such as EBITDA, EBITDA per share, working capital, current ratio, book value per share, cash 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, depreciation and amortization ("EBITDA") while EBITDA per share means EBITDA per average diluted number of common shares outstanding. A reconciliation between net income and EBITDA is provided in Section 9, *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 per share corresponds to the result of cash divided by the number of shares outstanding at the end of each period.

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 IFRS and should not be regarded as an alternative to financial information prepared in accordance with IFRS. 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 Vehicles.* Business in the first segment is conducted by four of the Corporation's subsidiaries. The subsidiary Savaria Concord Lifts Inc. ("Savaria Concord") designs, manufactures and distributes products meeting the needs of people with mobility problems, primarily stairlifts, vertical and inclined platform lifts and elevators for home and commercial use, whereas the subsidiaries Concord Elevator (London) Ltd ("Concord London") and Savaria Lifts Ltd ("Savaria Lifts") distribute and install products manufactured by Savaria Concord in addition to assembling certain components. The Chinese subsidiary Savaria (Huizhou) Mechanical Equipment Manufacturing Co., Ltd ("Savaria Huizhou") also assembles accessibility product components and finished products for the benefit of the Corporation's subsidiaries and for the sale of products on the Asian and European markets. 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 primarily in North America. Business in the second segment is conducted by the subsidiaries Van-Action (2005) Inc. ("Van-Action") and Freedom Motors Inc. ("Freedom"), which convert and adapt mini-vans, also for people with mobility problems. Annualized revenues for the *Accessibility* segment amount to $50 million ("M"), whereas those in the *Adapted Vehicles* segment amount to $15 M, bringing aggregate revenues to $65 M. Analyses in this report cover the two business segments unless expressly stated otherwise.

Headquartered in Laval, Quebec, Savaria has five other facilities, including one 220,000-square-foot plant in Brampton, Ontario and another covering 70,000 square feet in Montreal, Quebec, as well as one 35,000-square-foot plant in Huizhou, China.

During fiscal 2011, Savaria's revenues were recorded in the United States (41%), Canada (48%) and, to a lesser extent, outside North America (11%). The Corporation has some 400 employees and its shares are listed on the Toronto Stock Exchange under the 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 in July 2009.

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 per month.

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 now 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, Mission and Strategy

## Our Vision

Lead the North American market for personal mobility products with exceptional design, quality manufacturing and optimized distribution of the widest offering in the industry. Develop and maintain a customer-driven culture with customers, end-users and employees. Strategically expand around the world in order to grow revenues and optimize purchasing power.

### Our Mission

We design, engineer, manufacture and market high-quality reliable and customized accessibility products and elevators that improve personal well-being and mobility. We aspire to always provide a business culture and environment based on customer-driven principles, teamwork and mutual respect.

### Our Strategy

Savaria's strategy consisting in providing its 600 distributors and its Canadian direct sales centres with the most extensive product selection in the industry, while offering the most reliable and safest products ever.

The acquisition of the retailers Concord London and Savaria Lifts in 2010 enabled Savaria to increase its foothold in the Canadian direct sales market in the *Accessibility* segment. Today, Savaria has a direct presence in Montreal, Toronto, Calgary and Edmonton. Now that the integration phase of these acquisitions is almost complete, the focus is on increasing revenue in these markets. In addition, Savaria offers two new accessibility products, specifically platform lifts ─ Delta, for straight staircases, and Omega, for curved staircases ─ that will contribute to the achievement of this objective.

As for the *Adapted Vehicles* segment, the acquisition of Freedom and Liberty, also completed in 2010, expanded our offering of conversion models. A rear entry model is now available along with the side and dual entry models already offered through Van-Action.

Implementing this strategy will allow us to increase our revenue in North America.

## 7. Fourth Quarter and Fiscal 2011 Highlights

### EBITDA up 3.4% for the fourth quarter, down 6.3% for the year

The Corporation's EBITDA amounted to approximately $1.1 M for the fourth quarter of 2011 and 2010, and totalled $5.1 M for fiscal 2011, compared with $5.4 M for fiscal 2010.

### Revenue down 5.8% for the fourth quarter, revenue for the year identical to 2010

Revenue decreased by 5.8% to $16.4 M for the fourth quarter of 2011, compared with $17.4 M for the fourth quarter of 2010, whereas it was stable at $65 M for fiscal 2011 in relation to fiscal 2010. The unfavourable impact of exchange rate fluctuations represented $1.2 M or 1.9% for the year.

## 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) | **2011** | 2010 | 2009 [3] |
|---|---|---|---|
| USD/CAD exchange rate, end of year | **1.017** | 0.9946 | 1.0510 |
| Average effective exchange rate[1] | **1.0645** | 1.1018 | 1.0725 |
| Revenue | **$65,274** | $65,236 | $55,172 |
| *Gross margin as a % of revenue* | ***27.9%*** | *27.9%* | *26.7%* |
| Operating costs | **$14,838** | $14,252 | $11,143 |
| *Operating costs as a % of revenue* | ***22.7%*** | *21.8%* | *20.2%* |
| Operating income | **$3,395** | $4,394 | $2,755 |
| *As a % of revenue* | ***5.2%*** | *6.7%* | *5.0%* |
| EBITDA [2] | **$5,076** | $5,415 | $4,121 |
| EBITDA per share – basic and diluted | **$0.22** | $0.24 | $0.16 |
| Gain (loss) on foreign change | **$137** | $(256) | $(393) |
| Net income | **$2,001** | $2,568 | $2,258 |
| Earnings per share – basic and diluted | **$0.09** | $0.12 | $0.09 |
| Dividends declared per share | **$0.102** | $0.084 | $0.03 |
| Weighted average number of common shares outstanding – diluted | **23,246** | 22,314 | 25,411 |
| Total assets | **$42,413** | $47,350 | $39,888 |
| Long-term debt (including non-current portion) | **$12,861** | $13,392 | $10,697 |
| Total liabilities | **$22,268** | $25,272 | $19,099 |
| Equity | **$20,145** | $22,078 | $20,789 |

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

[2] Reconciliation of EBITDA with net income provided in Section 9

[3] Presented in accordance with GAAP

The Corporation's revenue rose 18.2% in 2010. Of this growth, 15.1% is related to the acquisitions completed in 2010. Revenue for fiscal 2011 was similar to the 2010 level.

The gross margin increased by 1.2 percentage points between 2009 and 2010 thanks to expanse reduction, as well as the growth in purchases from China, which rose 31% between 2009 and 2010 and were stable in 2011. The gross margin held steady at 27.9% for 2010 and 2011.

Operating income also grew substantially between 2009 and 2010, reaching a ratio of 6.7% as a percentage of revenue for 2010, due mainly to the revenue growth and the improvement in the gross margin. Operating Income was down for 2011 due to higher operating costs.

Besides the above-mentioned factors, fluctuations in the gain (loss) on foreign exchange and changes in the valuation of restructured notes (formerly, ABCP investments) had a significant impact on net income over the past three years. The Corporation incurred losses on foreign exchange of $393,000 and $256,000 in 2009 and 2010 respectively, whereas it recorded a gain on foreign exchange of $137,000 in 2011. As for changes in the valuation of restructured notes, the Corporation recorded a gain of $565,000 in 2009, $90,000 in 2010 and $92,000 in 2011. In addition, a favourable fluctuation in fair value on a put option related to a loan at a concessional rate of $348,000 was recognized in 2009, whereas unfavourable fluctuations of $139,000 in 2010 and $28,000 in 2011 were recognized. Income tax expense also had a significant impact on net income due mainly to the fact that no tax expense was recognized in 2009 on the changes of the valuation of restructured notes and the put option as no deferred tax advantages were recorded on losses related to the initial valuation of restructured notes in 2008. Furthermore, the changeover to IFRS had a favourable impact on the effective tax rate for 2010 compare 2011. The effective tax rate thus stood at 22.2% in 2009, 25.8% in 2010 and 30.5% in 2011.

A substantial issuer bid that allowed the repurchase of 4.7 million shares in September 2009 had a significant impact on the average number of outstanding shares in 2010 compared with 2009.

Total assets grew considerably in 2010 as a result of the year's acquisitions, whereas they declined in 2011 due mainly to a decrease in trade and other receivables and cash. Total liabilities increased by $6.2 M in 2010 due primarily to a $1.6 M rise in deferred revenues attributable to the acquired subsidiaries as well as the recognition of notes payable related to such acquisitions, in the amount of $2.8 M. Total liabilities decreased by $3 M in 2011 due mainly to the partial payment of notes payable related to the 2010 acquisitions and the reduction in bank loans.

Lastly, equity rose from $20.8 M as at December 31, 2009 to $22.1 M as at December 31, 2010 due primarily to the recognition of share capital to be issued of $567,000 and net income for the year. The $1.9 M decrease in 2011 is due primarily to a reduction in accumulated other comprehensive income.

## 9. Summary of Quarterly Results

Selected financial information for the last eight quarters is presented in the following table. As mentioned previously, 2010 quarterly financial information have been converted to reflect IFRS.

| (in thousands, except per-share amounts, percentages and exchange rates – unaudited) | **2011** | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Quarter 4** | Quarter 3 | Quarter 2 | Quarter 1 | Quarter 4 | Quarter 3 | Quarter 2 | Quarter 1 |
| USD/CAD exchange rate, end of quarter | **1.017** | 1.0482 | 0.9645 | 0.9696 | 0.9946 | 1.0290 | 1.0646 | 1.0158 |
| Average effective exchange rate (1) | **1.0966** | 1.0392 | 1.0342 | 1.0879 | 1.1017 | 1.1270 | 1.0936 | 1.0849 |
| Revenue | **$16,358** | $17,394 | $16,008 | $15,514 | $17,372 | $17,681 | $16,940 | $13,243 |
| *Gross margin as a % of revenue* | ***28%*** | *29.5%* | *25%* | *29.1%* | *27.5%* | *28.1%* | *28.8%* | *27.1%* |
| Operating costs (2) | **$3,548** | $3,825 | $3,690 | $3,775 | $3,698 | $3,982 | $3,443 | $3,129 |
| *As a % of revenue* | ***21.7%*** | *22%* | *23.1%* | *24.3%* | *21.3%* | *22.5%* | *20.3%* | *23.6%* |
| Operating income | **$1,037** | $1,307 | $316 | $735 | $1,086 | $1,389 | $1,433 | $486 |
| *As a % of revenue* | ***6.3%*** | *7.5%* | *2%* | *4.7%* | *6.3%* | *7.9%* | *8.5%* | *3.7%* |
| EBITDA (3) | **$1,147** | $2,332 | $788 | $809 | $1,109 | $1,629 | $2,156 | $521 |
| EBITDA per share – diluted | **$0.05** | $0.10 | $0.03 | $0.03 | $0.05 | $0.07 | $0.09 | $0.02 |
| Gain (loss) on foreign exchange | **$(178)** | $513 | $51 | $(249) | $(302) | $(107) | $339 | $(186) |
| Net income | **$398** | $1,286 | $140 | $177 | $488 | $767 | $1,254 | $59 |
| Earnings per share – diluted | **$0.017** | $0.055 | $0.006 | $0.008 | $0.02 | $0.033 | $0.053 | $0.006 |
| Dividends declared per share | **-** | - | - | $0.102 | - | - | - | $0.084 |
| Weighted average number of common shares outstanding– diluted | **23,230** | 23,279 | 23,451 | 22,671 | 22,466 | 22,369 | 22,317 | 22,161 |

(1) Rate at which revenue is recognized, being the exchange rate calculated considering foreign exchange contracts applied to the periods in question

(2) "Operating costs" include administrative expenses, cost of sales, engineering and research and development expenses

(3) Reconciliation of EBITDA with net income for the period presented in the following table

Revenue was up as of the second quarter of 2010 due primarily to the contribution of the sales of the subsidiaries acquired in 2010, specifically Concord London, Savaria Lifts, Freedom and Liberty. Revenue for the second quarter of 2011 was down from the corresponding quarter of 2010, despite the acquisitions, on account of a reduction in orders and an unfavourable average effective exchange rate in comparison with the quarters of 2010. Revenue for the third quarter of 2011 returned to a similar level to the third and fourth quarters of 2010 in spite of an unfavourable average effective exchange rate, whereas revenue for the fourth quarter was down due primarily to a decline in orders in the *Adapted Vehicles* segment.

The average gross margin for 2011 was stable with the 2010 level of 27.9%.

Operating costs have increased since the first quarter of 2010 owing to the acquisitions completed in 2010. The changeover to IFRS also had an impact, increasing 2010 costs by $287,000 for the first quarter, $223,000 for the second quarter, $456,000 for the third quarter and $304,000 for the fourth quarter, primarily due to the reclassification of depreciation and amortization expenses that were presented elsewhere under GAAP, and a reclassification of costs related to business combinations that were, under GAAP, included in the cost related to the business combinations. Overall, average operating costs for 2011 were slightly higher than those for 2010, standing at 23%, compared with 22% in 2010.

## Reconciliation of EBITDA with Net Income

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

A reconciliation between net income and EBITDA is provided in the table below.

| (in thousands of dollars – unaudited) | **2011** | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Total** | **Q 4** | Q 3 | Q 2 | Q 1 | Total | Q 4 | Q 3 | Q 2 | Q 1 |
| Net income | **$2,001** | **$398** | $1,286 | $140 | $177 | $2,568 | $488 | $767 | $1,254 | $59 |
| Plus:<br>Interest on long-term debt | **569** | **139** | 149 | 138 | 143 | 532 | 162 | 192 | 88 | 90 |
| Interest expense and banking fees | **181** | **25** | 26 | 87 | 43 | 149 | 37 | 45 | 27 | 40 |
| Income tax expense | **877** | **237** | 488 | 40 | 112 | 892 | 39 | 244 | 492 | 117 |
| Depreciation of fixed assets | **688** | **150** | 185 | 183 | 170 | 507 | 139 | 140 | 117 | 111 |
| Amortization of intangible assets | **792** | **204** | 201 | 205 | 182 | 819 | 249 | 252 | 185 | 133 |
| Less:<br>Interest Income | **32** | **6** | 3 | 5 | 18 | 52 | 5 | 11 | 7 | 29 |
| EBITDA | **$5,076** | **$1,147** | $2,332 | $788 | $809 | $5,415 | $1,109 | $1,629 | $2,156 | $521 |

The following section provides a detailed analysis of operating results for the fourth quarter of 2011, in comparison with the same quarter of 2010, and of fiscal 2011 year-to-date in comparison with the previous year. The detailed analysis of prior quarters is provided in the interim reports for fiscal 2011 and 2010, available on SEDAR's website at www.sedar.com.

## 10. Operating Results

Certain data on results for the fourth quarter (three months) and the fiscal year ended December 31, 2011 (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 statement of financial position according to their maturity date. Unrealized gains and losses not recognized as net earnings are recorded in *Accumulated other comprehensive income*.

As at December 31, 2011, the Corporation held foreign exchange contracts totalling US$22.8 M for a hedging period extending until September 30, 2014, at an average rate of 1.0296. As at December 31, 2011, the unrealized gain on these foreign exchange contracts amounted to $127,000 and was recognized in *Accumulated other comprehensive income*. In addition, a $667,000 gain before taxes realized on the sale of foreign exchange contracts before maturity was recorded in *Accumulated other comprehensive income* and will be reversed to net income between now and June 2012 depending on the hedging period of each contract.

### Gross margin

| (in thousands of dollars, except percentages and exchange rate) | 3 Months (Unaudited) | | | 12 Months | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | % Change | **2011** | 2010 | % Change |
| Average effective exchange rate [(1)] | **1.0966** | 1.1017 | -% | **1.0645** | 1.1018 | (3.4)% |
| Revenue | **$16,358** | $17,372 | (5.8)% | **$65,274** | $65,236 | 0.1% |
| Cost of sales | **$11,773** | $12,595 | (6.5)% | **$47,041** | $47,024 | -% |
| Gross margin | **$4,585** | $4,777 | (4)% | **$18,233** | $18,212 | 0.1% |
| *As a % of revenue* | ***28%*** | *27.5%* | *n/a* | ***27.9%*** | *27.9%* | *n/a* |

[(1)] Rate at which revenue is recognized, being the exchange rate calculated considering foreign exchange contracts applied to the periods in question

Revenue for the fourth quarter of 2011 was down by $1 M or 5.8% from the revenue recorded for the fourth quarter of 2010. The fourth-quarter decrease is attributable to a reduction in orders, especially in the *Adapted Vehicles* segment, and the unfavourable impact of $104,000 of exchange rates on revenue. Revenue in the *Adapted Vehicles* segment declined by $611,000 or 13.8%, whereas the *Accessibility* segment's revenue fell 3.1% from $12.9 M for the fourth quarter of 2010 to $12.5 M for the fourth quarter of 2011. The Chinese subsidiary's revenue was down by $131,000 or 24.3% from revenue in the fourth quarter of 2010.

Revenue for the 2011 fiscal year posted a slight increase, rising 0.1% or $38,000 over 2010. The contribution of the subsidiaries acquired in 2010 accounted for 5.9% or $3.8 M of revenue growth on a consolidated basis. The rise in the Canadian dollar in relation to the U.S dollar had an unfavourable impact of $1.2 M on fiscal 2011 revenue. Without considering the impact of exchange rates, sales in the *Adapted Vehicles* segment grew by 4.5% or $642,000, whereas the *Accessibility* segment's revenue was down 1.2%, declining slightly from $50.9 M in 2010 to $50.3 M in 2011. Without the contribution of the subsidiaries acquired in 2010, the *Adapted Vehicles* segment would have recorded a revenue decrease of 16.9% or $2.4 M, whereas the *Accessibility* segment would have recorded a revenue decrease of 2.9% or $1.5 M.

The proportion of revenue from the United States declined as a percentage of total revenue for fiscal 2011 from 2010, from $27.6 M or 42.3% to $27 M or 41.3%. Canadian revenue rose slightly, from $31.2 M or 47.8% of revenue in 2010 to $31.3 M or 47.9% of revenue in 2011. The contribution of the subsidiaries acquired in 2010, whose sales are recorded primarily in Canada, had an impact on the breakdown as a percentage of revenue as well as the dollar amount of revenue in Canada. The proportion of revenue from outside North America increased from $6.5 M or 9.9% of revenue in 2010 to $7 M or 10.8% of revenue in 2011.

Gross margin was down by $192,000 for the fourth quarter of 2011 from the fourth quarter of 2010, whereas it was up slightly by $21,000, for the year. Conversely, the implementation of IFRS translated into an increase of $55,000 in the cost of sales for the fourth quarter and fiscal 2010, without considering the reclassifications.

Purchases from the subsidiary Savaria Huizhou and other suppliers located in Asia accounted for 28.9% of the material purchases of the subsidiary Savaria Concord for fiscal 2011, down slightly from 31.2% for the corresponding period of 2010. As a percentage of revenue, the gross margin rose from 27.5% for the fourth quarter of 2010 to 28% for the fourth quarter of 2011, whereas it stood at 27.9% for fiscal 2011 and 2010.

## Operating Income

| (in thousands of dollars, except percentages) | 3 Months (Unaudited) | | | 12 Months | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | % Change | **2011** | 2010 | % Change |
| Operating costs | **$3,548** | $3,698 | (4.1)% | **$14,838** | $14,252 | 4.1% |
| *As a % of revenue* | ***21.7%*** | *21.3%* | *n/a* | ***22.7%*** | *21.8%* | *n/a* |
| Other revenue | **$-** | 7 | (100)% | **$-** | $434 | (100)% |
| Operating income | **$1,037** | $1,086 | (4.5)% | **$3,395** | $4,394 | (22.7)% |
| *As a % of revenue* | ***6.3%*** | *6.3%* | *n/a* | ***5.2%*** | *6.7%* | *n/a* |

Operating costs decreased by $150,000 or 4.1% for the fourth quarter of 2011, whereas they increased by $586,000 or 4.1% for the year over 2010. The rise for the twelve-month period is due primarily to the addition of the expenses of the new subsidiaries acquired in 2010, which represented an amount of $655,000. Conversely, the implementation of IFRS translated into a net increase of $333,000 in operating costs for 2010, without considering the reclassification of depreciation and amortization expenses; this increase arises from the following items: business acquisition fees of $275,000, a $66,000 increase in amortization subsequent to the recognition of intangible assets and a $8,000 decrease in stock-based compensation expense.

Were it not for the additional expenses relating to acquisitions and the changes in presentation relating to the changeover to IFRS, operating costs would have increased by $264,000 for 2011 over 2010.

Operating income from the fourth quarter of 2011 was down by $49,000 or 4.5% from the same period of 2010 and down by $999,000 or 22.7% for the year. In addition to the other items previously described, this decline is attributable to a change in presentation of a profit on a business acquisition under advantageous conditions subsequent to the implementation of IFRS, representing an additional $398,000 in other revenues for 2010; this profit was previously deducted from business acquisition costs in accordance with GAAP. The changes in presentation resulting from the implementation of IFRS had an insignificant impact on income before income tax for 2010.

## Net Income

| (in thousands of dollars, except percentages) | 3 Months (Unaudited) | | | 12 Months | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | % Change | **2011** | 2010 | % Change |
| Net finance costs | **$(402)** | $(559) | (28.1)% | **$(517)** | $(934) | (44.6)% |
| Income before income tax | **$635** | $527 | 20.5% | **$2,878** | $3,460 | (16.8)% |
| Income tax expense | **$(237)** | $(39) | 508% | **$(877)** | $(892) | 1.7% |
| Net income | **$398** | $488 | (18.4)% | **$2,001** | $2,568 | (22.1)% |
| EBITDA | **$1,147** | $1,109 | 3.4% | **$5,076** | $5,415 | (6.3)% |

Net finance costs were down by $157,000 in the fourth quarter of 2011 from the fourth quarter of 2010. This decline is due primarily to a $124,000 reduction in the loss on foreign exchange, combined with a $35,000 decrease in interest expense and banking fees. For the twelve-month period, net finance costs were down by $417,000. This decline is due primarily to a favourable variation in the foreign exchange gain related to monetary items denominated in US dollars of $393,000, the fair value of restructured notes and put option of $113,000, and interest expense and banking fees of $69,000. Gains (losses) on foreign exchange are mostly attributable to the end-of-period translation of monetary items denominated in U.S dollars.

The effective tax rate for fiscal 2011 stood at 30.5%, compared with the combined corporate rate of 26.8% and the 25.8% rate for the corresponding period of 2010. Income tax expense for the fourth quarter and fiscal 2010 was lowered by $83,000 following the implementation of IFRS which reduced deferred income tax liabilities as at December 31, 2010. Were it not for this change, the effective rate for fiscal 2010 would have been 28.2%.

## 11. Financial Position

### Changes between Statements of Financial Position

The following table shows the key changes in the statements of financial position between December 31, 2011 and December 31, 2010, as presented in the financial statements as at December 31, 2011, along with the principal explanations of such changes:

| (in thousands of dollars, except percentages and explanations of changes) | December 31, | | Change | Explanation of Changes |
|---|---|---|---|---|
| | **2011** | 2010 | | |
| **Current assets** | | | | |
| Cash | **$3,931** | $6,041 | (34.9)% | Repayment of bank loans (-$1.9 M), payment of a dividend (-$2.4 M), new long-term debt cashed-in (+$2.6 M), repayment of long-term debt (-$3.4 M) and net cash flows from operating activities (+$4.1 M). |
| Trade and other receivables | **$9,120** | $10,444 | (12.7)% | Decrease in trade receivables (-$1.3 M) caused in part by a reduction in revenue during the fourth quarter from the same quarter of 2010 and increase in the exchange rate used to translate U.S. dollar denominated receivables (+$94 K). |
| No. of days in receivables | **59** | 53 | 11.3% | - |

| (in thousands of dollars, except percentages and explanations of changes) | December 31, | | Change | Explanation of Changes |
|---|---|---|---|---|
| | **2011** | 2010 | | |
| **Non-current assets** | | | | |
| Fixed assets | **$1,741** | $1,930 | (9.8)% | Acquisitions (+$515 K), depreciation (-$688 K) and disposals (-$29 K) and impact of fluctuations in exchange rates (+$13 K). |
| Intangible assets | **$2,797** | $3,194 | (12.4)% | Capitalized development expenses (+$383 K), addition of software (+$12 K) and amortization (-$792 K). |
| **Current liabilities** | | | | |
| Bank loans | **$75** | $1,990 | (96.2)% | Repayment during the year. |
| Current portion of long-term debt | **$4,877** | $4,236 | 15.1% | See explanations under "Long-term debt". |
| **Working capital** | **$16,377** | $18,962 | (13.6)% | Decrease in trade and other receivables (-$1.3 M), increase in the current portion of long-term debt (-$641 K) and other changes. |
| Current ratio | **2.19** | 2.24 | (2.2)% | - |
| **Non-current liabilities** | | | | |
| Long-term debt | **$7,984** | $9,156 | (12.8)% | New debt (+$2.6 M), normal repayment of debt (-$2.6 M), partial payment of notes payable related to 2010 acquisitions (-$669 K) and other minor changes. |

| (in thousands of dollars, except percentages and explanations of changes) | December 31, | | Change | Explanation of Changes |
|---|---|---|---|---|
| | **2011** | 2010 | | |
| **Equity** | **$20,145** | $22,078 | (8.8)% | Net income (+$2 M), share issue (+$164 K), dividend paid (-$2.4 M), share repurchase (-$418 K) and change in accumulated other comprehensive income (-$1.4 M). |

As at December 31, 2011, Savaria benefited from a sound financial position, with total assets of $42.4 M, compared with $47.4 M as at December 31, 2010, and total liabilities of $22.3 M, compared with $25.3 M as at December 31, 2010.

### Available Sources of Financing

| (in thousands of dollars) | December 31, | |
|---|---|---|
| | **2011** | 2010 |
| Credit facilities: | | |
| Authorized | **$2,500** | $3,500 |
| Loans | **(75)** | (1,990) |
| Unused credit | **2,425** | 1,510 |
| Cash | **3,931** | 6,041 |
| Total | **$6,356** | $7,551 |

As shown above, the Corporation had total available funds of $6.4 M as at December 31, 2011, providing it with the flexibility to meet its potential obligations in the near term.

In 2009, the Corporation entered into a $4 M financing agreement, of which one of the conditions stipulates that the Corporation must hold a minimum of 50% of the loan balance in cash. This amount, which stands at $1.1 M as at December 31, 2011, is presented as *Restricted cash* with a current portion of $400,000 and a non-current portion of $700,000, and is not included in available sources of financing in the above table.

On May 13, 2011, the Corporation entered into the following agreements with its financial institution:

- Long-term financing agreement of $2.5 M: The loan is amortized over a 36-month period and provides for monthly payments of $41,667 in principal plus interest for the first 24 months. The loan bears interest at prime rate plus 1% and is secured by surety bonds in the amount of $2.5 M by each of the subsidiaries Savaria Concord, Van-Action and Freedom.

- Line of credit of $500,000 for the subsidiary Van-Action: The line of credit is secured by a movable hypothec in the amount of $2 M on the overall assets of the subsidiary and by a guarantee pursuant to Section 427 of the *Bank Act* on inventories; it bears interest at prime rate plus 0.5%. Consequently, the $1.5 M line of credit previously held by the subsidiary has been cancelled.

Furthermore, the Corporation can expose itself to potential risks of loss on foreign exchange contracts up to a maximum of $2.3 M 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; beyond that amount, the bank could realize the collateralized security to hedge such risk. It also has an available line of treasury up to a maximum amount 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.

As at December 31, 2011, the Corporation's total net debt to invested capital ratio stood at 28% (26.2% as at December 31, 2010), providing it with financial leverage to finance any internal development project or strategic acquisition.

## Other Data and Ratios

| (in thousands of dollars, except per-share amounts – unaudited) | December 31, | | Change |
|---|---|---|---|
| | **2011** | 2010 | |
| Book value per share | **$0.88** | $1.00 | (12)% |
| Cash per share | **$0.17** | $0.27 | (37)% |
| Market capitalization | **$36,152** | $34,788 | 3.9% |

The book value per share and cash per share were down as at December 31, 2011 from December 31, 2010 due to the decline in cash and equity. Market capitalization rose 3.9% as a result of an increase in the number of shares outstanding between December 31, 2010 and December 31, 2011, from 22 million to 22.9 million shares, such increase being due primarily to the issue of 1,000,000 shares in connection with a business acquisition.

## 12. Cash Flows

The following table presents certain cash flow data for the fourth quarter and twelve-month period of the year.

| (in thousands of dollars) | 3 Months (Unaudited) | | 12 Months | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Net cash from operating activities | **$3,250** | $123 | **$4,145** | $3,267 |
| Net cash used in investing activities | **$(230)** | $(133) | **$(381)** | $(213) |
| Net cash (used in) from financing activities | **$(891)** | $1,193 | **$(5,874)** | $(1,836) |

The Corporation's cash flows from operating activities were up by $3.1 M for the fourth quarter of 2011 over the corresponding period of 2010. The difference is due mainly to a $2.6 M favourable change in the net changes in non-cash operating items stemming primarily from a favourable change in inventories as well as trade and other payables, partly offset by an unfavourable change in deferred revenues. For the year, the Corporation's cash flows from operating activities were up by $878,000. This difference is mainly due to a $3.1 M favourable change in non-cash operating items stemming from a favourable change in trade and other payables as well as trade and other receivables, offset by a $2.6 M unfavourable change related to foreign exchange contracts cashed in advance in 2011.

The Corporation's cash flows used in investing activities were up by $97,000 in the fourth quarter of 2011 and up by $168,000 for the twelve-month period compared to 2010. This increase is due primarily to a $3.9 M favourable change related the 2010 business acquisitions, offset by a $4.1 M unfavourable change in long-term investments cashed-in.

In regard to financing activities, Savaria's cash flows used in financing activities were up by $2.1 M in the fourth quarter of 2011 over the same quarter of 2010, due mainly to a $1.9 M unfavourable change in the repayment of bank loans. For the year, the Corporation's cash flows used in financing activities were up by $4 M due primarily to an unfavourable change in the repayment of bank loans ($2.8 M), long-term debt ($1.2 M) and dividends paid ($499,000), partly offset by an increase in new long-term debt cashed-in ($587,000).

## 13. Significant Accounting Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are the measurement of the fair value of financial instruments, including derivatives and investments in restructured notes, the goodwill and the inventory obsolescence provisions.

These estimates are based on management's knowledge of current events and on the measures the Corporation could take in the future. Actual results may differ from these estimates.

## 14. New Accounting Policies

### (A) Changes in Accounting Policies: Transition to IFRS

The Corporation has established its consolidated financial statements in accordance with IFRS applying to the preparation of annual financial statements. The first application date of IFRS was January 1, 2010. In accordance with IFRS, the Corporation has:

- provided comparative financial reporting;
- applied the same accounting policies throughout all financial reporting periods;
- applied retrospectively all IFRS that were effective as at December 31, 2011, as required; and
- applied certain optional exemptions and certain mandatory exceptions concerning first-time adopters of IFRS.

The Corporation's consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differ from IFRS in certain respects. When preparing these financial statements in accordance with IFRS, management made changes to certain recognition, measurement and consolidation methods that it previously applied to prepare its financial statements according to Canadian GAAP. Note 31 to the financial statements presents the impact of the transition to IFRS on the Corporation's financial position and financial performance. This note includes reconciliations of equity as at January 1, 2010 and December 31, 2010 and of comprehensive income for the comparative twelve-month periods ended December 31, 2010, as well as a description of the impact of the changeover from Canadian GAAP to IFRS on these items.

### (B) Future Accounting Changes

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing the consolidated financial statements at this date. None of these is expected to have a significant effect on the Corporation's consolidated financial statements, except for IFRS 9 (2010), *Financial Instruments*, which becomes mandatory for the Corporation's 2015 consolidated financial statements and is expected to affect the classification and measurement of financial assets. The extent of the impact has not yet been determined.

**IFRS 9 - Financial Instruments**

IFRS 9 (2009) replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

Financial assets will be classified in one of two categories on initial recognition:

- financial assets measured at amortized cost;

  or

- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in net income, except for an investment in an equity instrument which is not held-for-trading, IFRS 9 (2010) provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income. This election is available on an individual share-by-share basis. Amounts presented in other comprehensive income will not be reclassified to net income at a later date.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39, except as described below.

Under IFRS 9 (2010), for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the change recognized in net income. However, if this requirement creates or enlarges an accounting mismatch in net income, the entire change in fair value will be recognized in net income. Amounts presented in other comprehensive income will not be reclassified to net income at a later date.

IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Corporation intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015.

**IFRS 10 - Consolidated Financial Statements**

IFRS 10 replaces the guidance in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purposes Entities*. IAS 27 (2008) becomes IAS 27 (2011), *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that are currently special purpose entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Corporation intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adopting IFRS 10 has not yet been determined.

**IFRS 13 - Fair Value Measurement**

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for fair value measurement and sets out disclosure requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on net income or other comprehensive income.

IFRS 13 explains "how" to measure fair value when it is required or permitted by other IFRS. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicality exceptions to fair value measurements that currently exist in certain standards.

The Corporation intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adopting IFRS 13 has not yet been determined.

## 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, 2011 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, 2011, 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 IFRS.

### Changes to Internal Control over Financial Reporting

No changes in the Corporation's internal control over financial reporting occurred during fiscal 2011 that 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 statement of financial position, the Corporation has concluded lease agreements for the rental of certain premises and entered into operating leases for rolling stock and office equipment for a total of $1,827,000 ($3,507,000 in 2010).

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

| (in thousands of dollars) | **Total** | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Long-term debt obligations | **$13,302** | $5,003 | $5,054 | $2,857 | $381 | $7 |
| Capital leases | **118** | 38 | 37 | 28 | 15 | - |
| Operating leases | **1,827** | 1,508 | 169 | 79 | 64 | 7 |
| Total contractual obligations | **$15,247** | $6,549 | $5,260 | $2,964 | $460 | $14 |

## 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 2011.

## 18. Related-Party Transactions

The Corporation recorded an amount of $84,000 ($58,000 in 2010) for services rendered by an entity whose officer is a director 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) | Assets Presented at Fair Value | Assets and Liabilities Presented at Amortized Cost | **Total** | **Fair Value** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | $ - | $3,931 | **$3,931** | **$3,931** |
| Restricted cash | - | 1,100 | **1,100** | **1,100** |
| Trade and other receivables | - | 8,515 | **8,515** | **8,515** |
| Foreign exchange forward contracts | 127 | - | **127** | **127** |
| Long-term loans | - | 675 | **675** | **627** |
| Long-term investments in restructured notes | 1,282 | - | **1,282** | **1,282** |
| Put option | 181 | - | **181** | **181** |
| Total financial assets | $1,590 | $14,221 | **$15,811** | **$15,763** |
| **Financial liabilities** | | | | |
| Bank loans | $ - | $75 | **$75** | **$75** |
| Trade and other payables | - | 6,123 | **6,123** | **6,123** |
| Long-term debt | - | 12,861 | **12,861** | **12,843** |
| Total financial liabilities | $ - | $19,059 | **$19,059** | **$19,041** |

### 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 certain risk exposures. 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 50% (52% in 2010) of its revenues 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 revenue 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 fluctuations in the Canadian dollar against foreign currencies 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. Changes 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. As at December 31, 2011, the Corporation posted a positive amount of other comprehensive income of $593,000 (positive amount of $2.1 M as at December 31, 2010). The amount of gain or loss actually realized on 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 finance income (costs). Major exchange rate fluctuations could have a material impact on the translation of these U.S. dollar denominated monetary items and, accordingly, on finance income (costs) and net income.

**(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 its long-term loans, long-term investments, bank loans and long-term debt. Borrowings issued at variable rates expose the Corporation to cash flow interest rate risk, whereas investments and borrowings issued at fixed rates expose the Corporation to fair value interest rate risk.

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

Interest income and expenses are recognized in finance income (costs). A major change in interest rates could therefore have a significant impact on finance income and costs and, accordingly, on net income.

**(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 is 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.

**(e) Liquidity Risk**

Liquidity risk represents 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 2011, Savaria concluded a $2.5 M financing agreement. Although the Corporation conducted this financing transaction during the year, 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 takes measures to control its expenses and to adjust it personnel 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 three (3) to thirty-six (36) months, depending on the product. 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 as well as apprenticeship tax credits. These could be affected by any legislative change.

## Deferred Tax Assets

Subsequent to the acquisition of Liberty in 2010, deferred tax assets were recognized as it is more likely than unlikely that Liberty's loss carry-forwards will be utilized. A significant reduction in the expected revenue for the *Adapted Vehicles* segment 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 2011, the percentage of Savaria's revenue recorded in the United States totalled 41% (42% in 2010). 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 expanding its sales territory in Canada and gradually extending it 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.

The Corporation has received a claim with respect to the non-payment of a note payable related to the acquisition of Freedom. The Corporation has instituted a counter-claim with respect to this same transaction. The outcome of these claims cannot be determined at this time.

### Measurement Uncertainty

The Corporation holds investments in restructured notes subsequent to the conversion of asset-backed commercial paper ("ABCP"). Such investments undergo a year-end valuation.

There is uncertainty as to their potential encashment value. Although management deems its valuation technique appropriate under the circumstances, changes to the principal assumptions used could have a material impact on the value of the restructured notes in upcoming quarters. The resolution of these uncertainties could be such that the definitive value of these investments could differ considerably from management's current best estimates.

For further details about risk factors, the reader is also referred to the Annual Information Form available on SEDAR's website at www.sedar.com.

## 21. Outlook

As the U.S. economy is still struggling to recover in the area of home construction and a large proportion of our revenue come from this region, and in addition, the increase in the Canadian dollar against the U.S dollar is not in our favour, we do not expect an increase in sales of residential elevators in 2012. However, thanks to new product launches in the *Accessibility* segment, specifically platform lifts – Delta, for straight staircases, and Omega, for curved staircases – sales of accessibility products should rise in 2012. Finally, revenue in the *Adapted Vehicles* segment should also grow in 2012 as we now offer a more complete portfolio of vehicles, including a rear access model.

March 29, 2012